普甜
PUTIAN

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01699)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue decreased to approximately RMB517,257,000 for the year ended 31 December 2018, representing a decrease of 3.7% as compared with approximately RMB537,079,000 for the year ended 31 December 2017.
- Gross profit decreased by 43.8% to approximately RMB54,736,000 for the year ended 31 December 2018 as compared with approximately RMB97,325,000 for the year ended 31 December 2017.
- Loss for the year was approximately RMB32,128,000 for the year ended 31 December 2018 as compared with approximately RMB7.9 million in profit for the year ended 31 December 2017.

The board of directors (the "Board") of China Putian Food Holding Limited (the "Company") is hereby to announce the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 (the "Reporting Period") together with the comparative figures for the corresponding period in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**517,257**	537,079
Cost of sales		**(462,521)**	(439,754)
Gross profit		**54,736**	97,325
Other income	6	**34,199**	3,289
Gain arising from change in fair value less costs to sell of biological assets		**8,990**	15,904
Selling and distribution expenses		**(34,327)**	(39,035)
Administrative expenses		**(44,423)**	(42,986)
Finance costs	7	**(53,542)**	(48,965)
Equity-settled share-based payment expense		**—**	(3,764)
Gain arising from fair value change of derivative financial liability		**2,239**	26,132
(Loss)/profit before taxation		**(32,128)**	7,900
Taxation	8	**—**	—
(Loss)/profit for the year	9	**(32,128)**	7,900
Other comprehensive (loss)/income for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(14,080)**	17,719
Other comprehensive (loss)/income for the year, net of income tax		**(14,080)**	17,719
Total comprehensive (loss)/income for the year		**(46,208)**	25,619
(Loss)/profit for the year attributable to the owners of the Company		**(32,128)**	7,900
Total comprehensive (loss)/income for the year attributable to the owners of the Company		**(46,208)**	25,619
(Loss)/earnings per share			
Basic and diluted (RMB cents per share)	11	**(1.93)**	0.49

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**571,644**	570,020
Prepaid lease payments		**76,629**	81,007
Biological assets		**18,883**	16,234
Deposits paid for property, plant and equipment		**10,000**	12,553
		677,156	679,814
Current assets			
Inventories		**68,302**	103,761
Biological assets		**149,262**	116,733
Trade receivables	*13*	**100,574**	97,008
Deposits paid, prepayments and other receivables		**125,781**	74,512
Prepaid lease payments		**4,378**	4,378
Pledged bank deposits		**4,275**	4,290
Cash and bank balances		**9,091**	7,475
		461,663	408,157
Current liabilities			
Trade and bills payables	*14*	**18,031**	11,918
Accruals, deposits received and other payables		**18,174**	18,801
Borrowings	*15*	**275,094**	257,469
Convertible bonds		**137,850**	104,763
Derivative financial liability		**8,812**	10,584
Bank overdrafts		**—**	4,132
Deferred revenue		**253**	253
		458,214	407,920
Net current assets		**3,449**	237
Total assets less current liabilities		**680,605**	680,051

	Notes	**2018** **RMB'000**	2017 RMB'000
Non-current liabilities			
Borrowings	15	**5,500**	—
Other payables		**24,509**	—
Obligation under finance lease		**24,293**	35,000
Amount due to a shareholder		**5,136**	12,261
Deferred revenue		**2,427**	2,680
		61,865	49,941
Net assets		**618,740**	630,110
Equity			
Share capital		**77,894**	65,178
Share premium and reserves		**540,846**	564,932
Total equity		**618,740**	630,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The principal activity of the Company is investment holdings. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 July 2012. The directors considered that the immediate and ultimate holding company is Zhan Rui Investments Limited, a company incorporated in British Virgin Islands.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (RMB'000) except otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis except for biological assets, which are measured at their fair values.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Application of new and revised HKFRSs — effective on 1st January 2018

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1st January 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

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

Except as described below, the application of the New and Amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the consolidated financial statements.

The above new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

(a) *Impact on the consolidated financial statements*

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below:

Consolidated statement of financial position (extract)	**31 December 2017**	**HKFRS 9**	**1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Trade receivables	97,008	(274)	96,734
Net current assets/(liabilities)	237	(274)	(37)
Total assets less current liabilities	680,051	(274)	679,777
Net assets	630,110	(274)	629,836
Capital and reserves			
Reserves	564,932	(274)	564,658
Total equity	630,110	(274)	629,836

(b) *HKFRS 9 Financial instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts at 1 January 2018 are recognised in the opening retained earnings, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

(i) Classification and measurement

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39 's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

- FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVPL, if the investment does not meet the criteria for being measured at amortise cost or FVOCI (recycling). Changes in the fair value of the investment (including) interest are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

There is no impact on the Group's accounting for financial liabilities. The Group accounts for the accruals, deposits received and other payables at financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Group's financial liabilities previously carried at amortised costs remained to be measured at amortised costs under HKFRS 9.

There is no reclassification or remeasurement of the financial assets, including trade receivables, deposit and other receivables, bank deposit and cash balances for the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at the date of initial application have not been impacted by the initial application of HKFRS 9.

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including deposits paid and other receivables pledged bank deposits, cash and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follow.

All loss allowances, of trade receivables, deposits paid and other receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables *RMB'000*
At 31 December 2017 — HKAS 39	—
Amounts re-measured through opening — retained earnings	(274)
At 1 January 2018 — HKFRS 9	(274)

(c) ***HKFRS 15 Revenue from Contracts with Customers and the related amendments***

As a result of the changes in the Group's accounting policies, HKFRS 15 was generally adopted without restating any other comparative information. The adoption of HKFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information.

HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under HKFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition on sale of goods is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

New and revised HKFRSs that have been issued but are not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[3]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HKFRS (Amendments)	Annual Improvements to HKFRSs 2015–2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1st January 2019.
2 Effective for business combination and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020.
3 Effective for annual periods beginning on or after 1st January 2020.
4 Effective for annual periods beginning on or after 1st January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for biological assets, which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

There were no transfer between level 1, 2 and 3 in both years.

Going Concern

The Group incurred net loss of approximately RMB32,128,000 for the year ended 31 December 2018 (2017: profit RMB7,900,000). In addition, as at 31 December 2018, the Group's convertible bonds and non-convertible notes of approximately RMB137,850,000 and RMB96,382,000 respectively were due on 15 October 2018. The extension of the maturity date of the Group's convertible bonds and non-convertible notes would be no more than six months from 15 October 2018. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of the going concern basis is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

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

(i) The Group is taking measures to tighten cost control over various costs with an aim to attain profitable and positive cash flow operations;

(ii) The Group is in the process of negotiating with its bankers to secure necessary facilities to meet the Group's working capital and financial requirements in the near future;

(iii) The Directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, seek new investment and business opportunities, private placements, open offers or rights issue of new shares of the Company; and

(iv) The substantial shareholder of the Company, Mr. Cai Chenyang is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due.

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

4. SEGMENT INFORMATION

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

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

Segment revenue

For the year ended 31 December 2018, revenue from the sales of pork decreased to approximately RMB517,257,000 (2017: approximately RMB537,079,000).

Furthermore, revenue of approximately RMB74,092,000 (2017: approximately RMB48,937,000) arose from sales to the Group's largest customer.

Information about the largest customer

Revenue from customer contributing over 10% of the total revenue of the Group for the year ended 31 December 2018 and 2017 are as follows:

	2018	2017
	RMB'000	*RMB'000*
Customer A *(note)*	**74,092**	Nil
Customer B *(note)*	**70,908**	Nil

Note: Both customers contributed less than 10% of the Group's revenue for the year ended 31 December 2017.

Geographical Information

During the years ended 31 December 2017 and 2018, the Group mainly operated in the PRC and most of the Group's revenue was derived from the PRC, and most of non-current assets of the Group were located in the PRC as at 31 December 2017 and 2018. No analysis of the Group's result and assets by geographical area is disclosed.

5. REVENUE

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

	2018	2017
	RMB'000	*RMB'000*
Recognition at a point in time		
— Retail of pork	**289,290**	311,734
— Wholesale of pork	**182,753**	200,349
— Retail of frozen pork	**38,507**	15,832
— Wholesale of commodity hogs	**6,707**	9,164
	517,257	537,079

6. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income on:		
— bank deposits	**75**	90
— amortisation of deferred revenue	**253**	253
Total interest income	**328**	343
Gain on disposal of property, plant and equipment	**20,743**	—
Gain on disposal of hog droppings	**66**	64
Consultancy fee income	**2,419**	—
Gain on disposal of biological assets	**5,678**	1,145
Gain on bargain purchase	**—**	188
Government grants *(Note)*	**4,193**	1,386
Exchange gain, net	**11**	—
Sundry income	**761**	163
	34,199	3,289

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

7. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interests on:		
— Borrowings wholly repayable within five years	**14,237**	15,664
— Bank overdrafts wholly repayable within five years	**72**	141
— Other borrowings wholly repayable within five years	**2,974**	—
— Imputed interest charged on convertible bonds	**33,829**	32,787
— Finance lease	**2,430**	373
	53,542	48,965

8. TAXATION

	2018	2017
	RMB'000	*RMB'000*
Income tax expenses	**—**	—

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI during the Reporting Period.

(b) For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits. On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 ("Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax during the year ended 31 December 2018 and 2017.

(c) Pursuant Pursuant to the Enterprise Income Tax Law ("EIT LAW") of the PRC, the statutory tax rate of Enterprise Income Tax (the "EIT") for both domestic enterprises and foreign investment enterprises is 25%. Income derived by an enterprise from engaging in the raising of livestock and poultry shall be exempted from EIT.

Meat processing of primary produce is on the list of The Range of Processing of Primary Agricultural Produces to Be Given Preferential Enterprise Income Tax Treatment (Trial Implementation) (2008 version) (享受企業所得稅優惠政策的農產品初加工範圍(試行)(2008年版)) promulgated by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) on 20 November 2008. Tianyi (Fujian) Modern Agriculture Development Co.,Ltd and Putian (Beijing) Food Limited meet the required standard for preferential PRC EIT treatment.

According to the prevailing tax rules and regulations, Tianyi (Fujian) Modern Agriculture Development Co., Ltd and Putian (Beijing) Food Limited operating in the business of primary processing of agricultural products were exempted from the PRC EIT during the years ended 31 December 2017 and 2018.

(d) According to the EIT LAW and implementation of the regulations issued by the State Council, income tax at the rate of 5% is applicable to any dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Tianyi (Fujian) Modern Agriculture Development Co., Ltd. and 莆田市鄉里香黑豬開發有限公司 (Putian Xianglixiang Black Pig Development Co., Ltd.*) are considered as "resident enterprise" by the Chinese government, and those are required to pay withholding tax on the dividend payable to the foreign shareholders and foreign shareholders also have to pay PRC income tax on gain on transfer of shares.

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

9. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
Allowance for expected credit loss on trade receivables	**2,491**	—
Depreciation of property, plant and equipment	**27,238**	24,985
Amortisation of prepaid lease payments	**4,378**	4,378

10. DIVIDENDS

The directors of the company do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

11. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

(Loss)/earnings	**2018**	2017
	RMB'000	*RMB'000*
(Loss)/earnings attributable to owners of the Company for the purpose of calculating basic earnings per share	**(32,128)**	7,900

Number of shares	**2018**	2017
	'000	*'000*
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**1,661,759**	1,600,000

The calculation of basic loss per share for the year is based on the loss attributable to the owners of the Company for the year ended 31 December 2018 of approximately RMB32,128,000 (2017: earnings attributable to the owner of the Company of approximately RMB7,900,000) and the weighted average number of approximately 1,661,759,000 (2017: 1,600,000,000) ordinary shares in issue for the year ended 31 December 2018.

* *For identification purposes only*

12. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2018, the Group incurred cost for (i) buildings, (ii) plant and machinery, (iii) motor vehicle; (iv) office equipment and (v) construction in progress of approximately RMB12,530,000, RMB1,964,000, RMB408,000, RMB373,000 and RMB20,829,000 respectively.

13. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**101,542**	97,008
Less: Allowance for credit loss	**(968)**	—
	100,574	97,008

The fair values of trade receivables approximate their carrying amount.

The Group normally allows a credit period ranging from cash upon delivery to 60–90 days depending on the customer's creditworthiness and the length of business relationship with the customers. The ageing analysis of trade receivables based on the invoice date as at 31 December 2018 and 2017 is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**22,864**	33,633
31 to 90 days	**77,834**	63,375
91 to 180 days	**591**	—
Over 180 days	**253**	—
	101,542	97,008

As at 31 December 2017, there was no trade receivables that are past due but not impaired.

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

14. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**7,631**	5,518
Bills payables	**10,400**	6,400
	18,031	11,918

The ageing analysis of trade payables is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within 30 days	**2,291**	2,009
31 to 90 days	**1,392**	1,784
91 to 180 days	**3,948**	1,725
	7,631	5,518

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

The Group normally obtains credit terms within 60 days from its suppliers. The bills payables are matured within twelve months (2017: twelve months) from the end of the reporting period.

15. BORROWINGS

	2018 *RMB'000*	2017 *RMB'000*
Borrowings — secured	**255,094**	257,469
Borrowings — unsecured	**25,500**	—
	280,594	257,469

	2018 *RMB'000*	2017 *RMB'000*
Borrowings at:		
— bank borrowings at floating interest rate	**158,712**	167,446
— Other unsecured borrowings at fixed interest rate	**25,500**	—
— non-convertible note at fixed interest rate	**96,382**	90,023
	280,594	257,469

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

	2018 *%*	2017 *%*
Floating rate	**3.22–5.47**	3.42–4.89
Fixed rate	**6.00–10.00**	6.00

EXTRACT FROM INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's audited consolidated financial statements for the year ended 31 December 2018:

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 2018, 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.

Emphasis of Matters

We draw attention to Note 3, which indicates that the Group incurred net loss of approximately RMB32,128,000 for the year ended 31 December 2018. In addition, as at 31 December 2018, the Group's convertible bonds and non-convertible notes of approximately RMB137,850,000 and RMB96,382,000 respectively were due on 15 October 2018. The extension of the maturity date of the Group's convertible bonds and non-convertible notes, would be no more than six months from 15 October 2018. As stated in Note 3, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION & ANALYSIS

The national large-scale vertically integrated pork products supply service of the Group ranges from hog farming, hog slaughtering to pork distribution with a well-developed operation model. The Group owns a slaughterhouse in Fujian Province that meets national "5-star" standard and two hog farms in Xuanhua, Hebei and Shiti and Xianglixiang, Putian, respectively. The major physical sales markets of the Group are Fujian, Beijing, Shanghai and Hong Kong. The Group also has e-commerce sales channels in place. The main pork products of the Group include chilled whole hog carcasses, separated pork, frozen pork (for retail), and by-product of internal organs etc. The Group intends to focus on the development of black hog products in the future.

Industry Review

During the Reporting Period, affected by various international political and economic factors, the global economy experienced fluctuation. During the Reporting Period, however, the gross world product maintained a healthy growth rate of 3.7%, up 0.1% as compared to the previous year. According to the National Bureau of Statistics of China, the annual gross domestic production (GDP) for 2018 is RMB90,030.9 billion with a growth rate of 6.6%. The per capita annual disposable income of urban residents throughout the country is RMB39,251, representing year-on-year increase of 5.6%. The per capita disposable income of urban residents in Fujian Province, the business base of the Group, continued to increase significantly by 8.0% to RMB42,121 as compared to the previous year. Rising income continues to drive up the demand and level of consumption. People begin to pursue more diversified and personalised products in addition to the pursuit of quality.

In hog sector, according to the National Bureau of Statistics of China, during the Reporting Period, the production volume of pork increased to 54.04 million tonnes and the pork price decreased by 8.1% in the PRC as compared with the previous year. In Fujian Province, both price and production volume of pork showed signs of decline: the consumer price of pork decreased by 8.2% and the production volume of pork in the province decreased by 11.9% to 1,131,200 tonnes as compared with the previous year.

The PRC has been one of the largest pork products consumers country. With increase in income and improvement in quality of life, the industry has moved toward the development of high-end products for recent years. Quality, safety and green are basic concern for the mid-class food consumers. In the second half of 2018, the industry was challenged by the outbreak of African Swine Fever. Each of the affected enterprises, along with the government, acted promptly to prevent and control the disease to ensure the health and stable supply of hogs. Putian, Fujian, one of the Group's production base, suspended operations and sales of hogs for 6 weeks as required by the People's Government of Putian, Fujian Province and recovered operation in December 2018 upon stringent monitor and assessment.

As a vertically integrated pork products supplier holding an entrenched position with its high-end pork brand near the coastal regions in Fujian and Beijing, the Group has gradually become well known for its capital, equipment, and technology strength. Meanwhile, the Group focuses on the development of nutritious and delicious high-end black hog products in conjunction with the "National Production and Development Plan of Hog (2016-2020)" promulgated by the Ministry of Agriculture in 2016, the "New Environment Protection Law" issued in 2015 and the development direction of "southern hog farms relocating to northern China" (南豬北養) and "upgrading quality, enhancing efficiency, stabilising supply, ensuring safety and improving the ecology" under No. 1 Document of the Central Government for 2019 (2019年中央一號文件).

Business Review

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB517,257,000, representing a decrease of approximately 3.7% as compared with approximately RMB537,079,000 for the year ended 31 December 2017, and the loss for the year was approximately RMB32,128,000; whilst the profit for the year ended 31 December 2017 was approximately RMB7,900,000. The decrease in net profit was mainly because (i) the decrease of gross profit of approximately 43.8% mainly resulting from the decrease in selling price of white pork products as the market price of white pork decreased in the first half of the year 2018 in the PRC; (ii) the impact from the suspension of operations and sales (including the Group's slaughterhouses and breeding farms located in Chengxiang district even though no outbreak of African Swine Fever pandemic was found such slaughterhouses and breeding farms), during the surveillance period which sustains for 6 weeks, imposed by the government's policy on hog industry overhaul during the occurrence of African Swine Fever pandemic in Chengxiang district, Putian city of Fujian Province. No live hogs therein have been culled owing to African Swine Fever; (iii) the increase in finance costs of the finance lease and other borrowings; (iv) the decrease in gain arising from the change in fair value less costs to sell of biological assets and (v) the decrease in gain arising from fair value change of derivative financial liability.

"Putian Black Pearl", the Group's black hog brand, continued to develop in a stable manner. The black hog farm in Xuanhua, Hebei has maintained a good operation and production condition with rising capacity and capacity utilization rate and approximately 4,463 black hogs were ready for slaughter, with a capacity utilisation rate of approximately 29% during the Reporting Period. Approximately 13,690 black hogs were ready for slaughter in the Shiti (石梯) and Xianglixiang (鄉里香) farms in Putian, Fujian, representing a capacity utilisation rate of approximately 46% during the Reporting Period. Two new black hog farms are still at the early stage of introducing boars for reproduction and it takes time to produce commodity hogs from boars. As a result, the current capacity utilisation rate is still low.

For sales business, the Group set a direct sales store in Shanghai and added 19 retail points in supermarkets to its portfolio, including CSF Market, Carrefour, Hualian and Wal-mart, during the year. Besides, sales channels have been diversified and expanded from supermarkets, distributors to franchisee, VIP, gift companies and e-commerce. The Group has also diversified its forms of products available for sale in supermarkets by introducing separated pork package, in addition to the existing fresh-keeping package, gift package and frozen products. The market penetration rate of "Putian Black Pearl", the high-end brand of the Group, has been further improved. During the year, products under "Putian Black Pearl" were well-received in key markets including Fujian, Beijing, Shanghai and Hong Kong, among which, the particularly outstanding sales in Fujian and Beijing were related to the Group's on-line and off-line promotion. Currently, revenue from the sales of "Putian Black Pearl", which covers various channels, contributed approximately 36.8% to the total revenue during the Reporting Period.

Financial Review

1. *Revenue*

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

	For the year ended 31 December			
	2018		2017	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
Revenue				
Retail of pork	**289,290**	**55.9**	311,734	58.0
Wholesale of Pork	**182,753**	**35.3**	200,349	37.3
Retail of Frozen Pork	**38,507**	**7.5**	15,832	3.0
Wholesale of Commodity Hogs	**6,707**	**1.3**	9,164	1.7
	517,257	**100**	537,079	100

The total revenue of the Group decreased by 3.7% from approximately RMB537,079,000 for the year ended 31 December 2017 to approximately RMB517,257,000 for the year ended 31 December 2018. During the Reporting Period, the decrease in total revenue was attributable to the selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC. However, the Group failed to realise a portion of product sales due to the government's policy on forbidding hog allocation and delivery during the second half of the year. Despite the gradual materialisation of the Group's "White to Black" strategy in respect of product sales, the Group will continue to implement its new strategy of sales in order to further penetrate its products under the brand of "Putian" into the pork market.

Revenue from Retail of Pork

The Group's revenue from retail of pork decreased by around 7.2% from approximately RMB311,734,000 for the year ended 31 December 2017 to approximately RMB289,290,000 for the year ended 31 December 2018. Such decrease in revenue was mainly affected by the sales strategy of "White-to-Black" currently implemented by the Group to adjust the proportion of black pork and white pork. The selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC. The government's policy on forbidding hog allocation and delivery to prevent African Swine Fever was another factor affecting sales, though no facilities of the farms under the Group were directly affected during the Reporting Period.

The Group continued to expand its sales network to improve its retail market share. During the year, the Group set 5 new direct sales outlets in Fujian and Shanghai and 21 new retail points in the supermarkets in Beijing, Quanzhou and Xiamen, Fujian, including CSF Market, Carrefour, Hualian and Wal-mart. As at 31 December 2018, the Group had 78 retail counters, mainly in supermarkets and department stores with regional influence over places such as New Huadu, Wal-mart, China Resources Vanguard, Century Lianhua, RT-Mart, etc. In Beijing, the Group launched retail sales through certain influential counters in supermarkets or department stores such as New World, C.P. Lotus Corporation and Ella Supermarket (小象生鮮). The Group had 16 direct sales outlets located in Putian, Fuzhou, Shanghai and Hong Kong. During the Reporting Period, the Group proactively developed online business, reflected by the opening of e-commerce channel in Beijing and Putian in addition to 9 off-line retail points of fresh products. The Board of the Group is of the view that "Putian" has gradually gained confidence of consumers and aims to boost sales through publicity campaigns, improvement of brand affinity and customer loyalty, along with multi-channel distribution in the future.

Revenue from Wholesale of Pork

For the year ended 31 December 2018, revenue from the wholesale of pork of the Group was approximately RMB182,753,000, representing a decrease of approximately 8.8% as compared to RMB200,349,000 for the year ended 31 December 2017. Such change in revenue was mainly because the Group was reducing the proportion of white pork products to promote black pork products. The selling price of white pork products as market price of white pork decreased in the first half of the year 2018 in the PRC. The government's policy on forbidding hog allocation and delivery to prevent African Swine Fever was another factor affecting sales, though no facilities of the farms under the Group were directly affected during the Reporting Period.

Revenue from Retail of Frozen Pork

Sales revenue from frozen pork products increased by 143.2% from approximately RMB15,832,000 for the year ended 31 December 2017 to approximately RMB38,507,000 for the year ended 31 December 2018. Our frozen pork products are mainly sold to renowned meat processors in Fujian Province. The revenue from retail of frozen pork increased significantly over the last year, mainly due to the Group's targeted promotion for the black pork products, thereby increasing sales of high-end black pork products.

Revenue from Wholesale of Commodity Hogs

Revenue from wholesale of commodity hogs decreased by 26.8% from approximately RMB9,164,000 for the year ended 31 December 2017 to approximately RMB6,707,000 for the year ended 31 December 2018. The Group continued to optimize the high-end pork products, diversify products and expand distribution channels to improve the market awareness of its brands.

2. *Gross Profit and Gross Profit Margin*

	For the year ended 31 December			
	2018		2017	
		Gross Profit Margin		*Gross Profit Margin*
	RMB'000	***(%)***	*RMB'000*	*(%)*
Gross Profit and Gross Profit Margin				
Retail of pork	**28,109**	**9.7**	56,929	18.3
Wholesale of pork	**18,629**	**10.2**	35,722	17.8
Retail of frozen pork	**6,859**	**17.8**	1,729	10.9
Wholesale of commodity hogs	**1,139**	**17.0**	2,945	32.1
	54,736	**10.6**	97,325	18.1

The overall gross profit of the Group notched a decrease of approximately 43.8% from approximately RMB97,325,000 for the year ended 31 December 2017 to approximately RMB54,736,000 for the year ended 31 December 2018. The overall gross profit margin of the Group decreased from approximately 18.1% for the year ended 31 December 2017 to approximately 10.6% for the year ended 31 December 2018. The decrease of gross profit was attributable to the fact that the selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC.

Gross Profit and Gross Profit Margin for the Retail of Pork

Gross profit for the retail of pork decreased from approximately RMB56,929,000 for the year ended 31 December 2017 to approximately RMB28,109,000 for the year ended 31 December 2018. Gross profit margin of the retail of pork decreased from approximately 18.3% for the year ended 31 December 2017 to approximately 9.7% for the year ended 31 December 2018. The decrease in gross profit and gross profit margin of the retail of pork was mainly due to the impact owing to the government's policy on hog sector overhaul during the occurrence of the African Swine Fever and the decrease in selling price of white pork products as market price of white pork decreased in the first half of the year 2018 in the PRC.

Gross Profit and Gross Profit Margin for the Wholesale of Pork

Gross profit for the wholesale of pork decreased from approximately RMB35,722,000 for the year ended 31 December 2017 to approximately RMB18,629,000 for the year ended 31 December 2018. Gross profit margin of the wholesale of pork decreased from approximately 17.8% for the year ended 31 December 2017 to approximately 10.2% for the year ended 31 December 2018. The drop in gross profit and gross profit margin for the wholesale of pork was due to the impact owing to the government's policy on hog sector overhaul during the occurrence of the African Swine Fever and the decrease in selling price of white pork products as market price of white pork in the first half of the year 2018 in the PRC.

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

Frozen food business is relatively new to the Group. Gross profit of frozen pork products increased from approximately RMB1,729,000 for the year ended 31 December 2017 to approximately RMB6,859,000 for the year ended 31 December 2018. Gross profit margin of frozen pork products increased from approximately 10.9% for the year ended 31 December 2017 to approximately 17.8% for the year ended 31 December 2018. The increase in gross profit and gross profit margin of frozen products was due to the Group's targeted promotion for the black pork products, thereby increasing sales of high-end black pork products.

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

For the year ended 31 December 2018, gross profit of wholesale of commodity hogs was approximately RMB1,139,000, representing a decrease of approximately 61.3% as compared with approximately RMB2,945,000 for the year ended 31 December 2017. Gross profit margin decreased to approximately 17.0% for the year ended 31 December 2018 from approximately 32.1% for the year ended 31 December 2017. The decrease in gross profit and gross profit margin for the wholesale of commodity hogs was mainly due to the decrease of price of hogs in the prevailing market during the year.

3. ***Loss for the year***

For the year ended 31 December 2018, the Group recorded a loss of approximately RMB32,128,000 (profit for the year ended 31 December 2017: approximately RMB7,900,000) due to the following reasons: (i) the Group was in the transition period of "White to Black" strategy; (ii) the decrease of gross profit of approximately 43.8% mainly resulting from the decrease in selling price of white pork products as the market price of white pork decreased in the first half of the year 2018 in the PRC; (iii) the impact from the suspension of operations and sales (including the Group's slaughterhouses and breeding farms located in Chengxiang district even though no outbreak of African Swine Fever pandemic was found such slaughterhouses and breeding farms), during the surveillance period which sustains for 6 weeks, imposed by the government's policy on hog industry overhaul during the occurrence of African Swine Fever pandemic in Chengxiang district, Putian city of Fujian Province; (iv) the increase in finance costs of the finance lease and other borrowings; (v) the decrease in gain arising from the change in fair value less costs to sell of biological assets and (vi) the decrease in gain arising from fair value change of derivative financial liability.

Liquidity and Financial Resources

Financial Resources

The Group primarily finances the capital requirements of our operations by internally generated cashflow and bank facilities. As at 31 December 2018, cash and cash equivalents amounted to approximately RMB9,091,000 (2017: approximately RMB7,475,000). As of 31 December 2018, the net cash used generated from operating activities amounted to approximately RMB30,314,000 (2017: net cash used in operating activities of approximately RMB17,016,000).

Redemption of Convertible Bond and Note

On 28 September 2016, the Company, Vandi Investments Limited (the "Investor"), a limited liability company incorporated in the BVI indirectly and wholly-owned by CCB International (Holdings) Limited and Mr. Cai Chenyang, chairman of the Board, chief executive officer of the Company and the sole shareholder of Zhan Rui Investments Limited (展瑞投資有限公司) ("Zhan Rui"), a controlling shareholder of the Company, entered into a subscription agreement (the "Subscription Agreement") in respect of the issuance of (i) the convertible bond in a principal amount of HK$150,000,000 due 2018 ("Convertible Bond due 2018") with an annual interest rate of 5.0%, payable semi-annually and an administrative fee of 2.0% per annum which was deducted in a lump sum from the issue price at the closing of subscription and issuance of the Convertible Bond due 2018 on 13 October 2016; and (ii) the non-convertible note in the principle amount of HK$110,000,000 due 2018 (the "Note") with an annual interest rate of 6% payable semi-annually in arrears and an administrative fee of 2% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of the Note on 13 October 2016.

The information regarding the Convertible Bond due 2018 and the Note is set out in the Company's announcements dated 28 September 2016 and 13 October 2016. The Convertible Bond due 2018 and the Note were issued to the Investor on 13 October 2016 pursuant the Subscription Agreement. Under the terms of the Convertible Bond and the Note, the Convertible Bond and the Note were due on 15 October 2018.

On 15 October 2018, the Company announced it was in negotiation with the Investor on the extension and amendment of terms of the Convertible Bond due in 2018 and the Note. It has been confirmed that the extension of the maturity date of both the Group's convertible bonds and non-convertible notes, if any, would be no more than six months from 15 October 2018, subject to the execution of an amendment deed poll.

Subscription and Allotment of New Shares under Specific Mandate involving Connected Person

On 30 July 2018, the Company announced to enter into the subscription agreements with Zhan Rui and BCAG International (HK) Limited ("BCAGI", an independent third party and a wholly-owned subsidiary of Beijing Capital Agribusiness Group), pursuant to which Zhan Rui and BCAGI has conditionally agreed to subscribe for 190,000,000 and 99,000,000 new shares of the Company respectively (each as "Zhan Rui Subscription Shares" and "BCAGI Subscription Shares") at a subscription price of HK$0.140 per subscription share. The aggregate gross proceeds of the subscription are HK$40,460,000, and the aggregate net proceeds of the subscription (after deducting all applicable costs and expenses reasonably incurred in relation to the entering of the subscription agreements) are HK$39,900,000. The net proceeds were used to repay that (i) approximately HK$26,600,000 has been utilized for partial settlement of the amount due to Mr. Cai Chenyang, chairman of the Board, chief executive officer of the Company, by the Company; (ii) approximately HK$12,300,000 has been utilized for partial settlement of the bank borrowing in the principal amount of RMB18,000,000 (equivalent to approximately HK$21,600,000) due in December 2018; and (iii) approximately HK$1,000,000 for settlement of the bank borrowing in the principal amount of HK$1,000,000.

Zhan Rui Subscription Shares and BCAGI Subscription Shares in aggregate represent:

(i) approximately 18.06% of the existing issued share capital of the Company as at 30 July 2018; and

(ii) approximately 15.30% of the issued share capital of the Company as enlarged by the proposed allotment and issue of Zhan Rui Subscription Shares and BCAGI Subscription Shares as at 15 October 2018.

Zhan Rui Subscription Shares and BCAGI Subscription Shares were allotted and issued on 15 October 2018 under specific mandate granted by the shareholders of the Company (other than Mr. Cai Chenyang and its associates) at the extraordinary general meeting of the Company and rank *pari passu* in all respects among themselves and with the issued Shares of the Company on 5 October 2018.

Proposed Subscription and Allotment of New Shares under General Mandate and Lapse of Subscription

On 17 September 2018 (after trading hours), the Company announced that it entered into a subscription agreement with Best Tower Holdings Limited (”Best Tower”) (“Subscription Agreement (Best Tower)”), pursuant to which Best Tower has conditionally agreed to subscribe 79,840,000 new shares of the Company (“Best Tower Subscription Shares”) at a subscription price of HK$0.281 per subscription share. The gross proceeds of the subscription are HK$22,435,040, and the net proceeds of the subscription, after deducting all related fees and expenses, are estimated to be approximately HK$22,085,000. Information related to Best Tower Subscription Shares is set out in the announcements of the Company dated 17 September 2018.

On 30 November 2018 (after trading hours), the Company announced that it entered into a supplemental agreement to the Subscription Agreement (Best Tower) pursuant to which parties agreed to extend the Long Stop Date (as defined in the Subscription Agreement (Best Tower)) from 30 November 2018 to 31 December 2018 (or such other date as may be mutually agreed). The extension of the Long Stop Date was primarily because additional time was required for the fulfilment of the conditions precedent (ii) and (v) set out in the Subscription Agreement (Best Tower) for completion. Parties were of the belief that all conditions precedent to the Subscription Agreement (Best Tower) shall be fulfilled on or before 31 December 2018. Information related to the extension of Long Stop Date and the entry of the supplemental agreement to the Subscription Agreement (Best Tower) is set out in the announcements of the Company dated 30 November 2018 and 10 December 2018.

On 31 January 2019, the Company announced that as of 31 December 2018, conditions precedent (ii) and (v) set out in the Subscription Agreement (Best Tower) had not been satisfied and parties to the Subscription Agreement (Best Tower) could not reach any further agreements. The Subscription Agreement (Best Tower) and all rights and obligations thereunder have therefore ceased and terminated accordingly and none of the parties thereto shall have any claim against the other (without prejudice to the rights of the parties in respect of any antecedent breaches). Information related to lapse of subscription is set out in the announcements of the Company dated 31 January 2019.

Bank borrowings, Bank Overdrafts and Pledged Assets

As at 31 December 2018, the total amounts of interest-bearing bank borrowings and bank overdrafts were approximately RMB158,712,000 and RMBNil respectively (31 December 2017: bank borrowings and bank overdrafts of approximately RMB167,446,000 and RMB4,132,000 respectively), all of which were denominated in RMB and bore a floating interest rate. As at 31 December 2018, the bank borrowings of approximately RMB149,950,000 were secured by pledge/charge over the Group's property, plant and equipment and land with total carrying value of approximately RMB103,220,000 (31 December 2017: approximately RMB113,230,000), and secured by guarantees provided by the Company and Mr. Cai Chenyang, bank borrowing of RMB8,762,000 was only secured by guarantee of Mr. Cai Chenyang, Mr. Cai Chenyang was chairman of the Board, chief executive officer, executive director and controlling shareholder of the Company.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group was 74.4% (31 December 2017: 65.6%). This was calculated by dividing interest-bearing borrowings, amount due to a shareholder, bank overdrafts, obligation under finance lease and convertible bonds by the total equity of the Group as at 31 December 2018.

Foreign Exchange Risk

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

Material Acquisitions and Disposals of Subsidiaries

Save as disclosed herein, the Group had no material acquisitions and disposals of subsidiaries during the year.

Disposal of Interest in a Joint Venture Company

On 13 June 2018, the Company and Beijing Heiliu Muye Keji Company Limited* (北京黑六牧業科技有限公司) (the "JV Partner") entered into a transfer agreement, pursuant to which, the Company agreed to transfer all of its 40% equity interest in Hebei Shoulong Heiliu Putian Muye Company Limited* (河北首農黑六普甜牧業有限公司) (the "JV Company") to the JV Partner and the JV Partner assumed the obligations of the Company to contribute RMB40,000,000 to the JV Company. Upon completion of the disposal, the Company no longer held any equity interest in the JV Company.

In order to focus on strengthening and developing the Group's self-operated pig industry chain business and the existing indigenous black pig breeding business, and to seize opportunities for core business growth, the board of Directors resolved that the Company would withdraw from the JV Company, so as to reallocate assets to self-operated businesses relating to pig farming and trading of the Group and to use and distribute the Group's resources and working capital more effectively.

Establishment of the Fund

On 29 January 2018, the Company, Xinyi Investment Fund Management (Beijing) Co., Ltd* (新毅投資基金管理（北京）有限公司), Hebei Ji Cai Industry Guidance Equity Investment Fund Limited* (河北省冀財產業引導股權投資基金有限公司) ("JICAI Fund") and Xinyi Holdings Limited* (新毅控股有限公司) entered into a partnership agreement, pursuant to which, the partners agreed to establish a fund and proposed to name it "Zhangjiakou Xinyi Putian Green Ecological Agricultural Development Equity Investment Fund (Limited Partnership)* (張家口新毅普甜綠色生態農業發展股權投資基金（有限合夥）)" (the "Fund"). The term of the Fund is 5 years from its establishment date and is subject to adjustment with unanimous approval of all partners. The total amount of the capital commitment of all the partners to the Fund would be RMB200,000,000 (equivalent to approximately HK$240,000,000). The capital commitment of the Company to the Fund would be 15% thereof, i.e. RMB30,000,000 (equivalent to approximately HK$36,000,000).

The principal business of the Fund would be investments in unlisted companies and unlisted shares of listed corporations regarding agricultural area in Hebei Province of the PRC. The objective of the Fund is to invest in agricultural area in Hebei Province of the PRC to facilitate the integration of the agricultural resources and the development of the agricultural product market in the region. It is expected that the Group's hog business, in particular in Hebei province, would benefit from such development. In addition, other partners of the Fund have extensive experience in investment and JICAI Fund is an investment platform under the financial department of Hebei Province, the PRC. The Directors believe that joint venturing with the other partners would foster business relationships between the Group and other partners and benefit the future development of the Group.

Information on the establishment of the Fund is set out in the announcement of the Company dated 29 January 2018.

Operating Lease Commitments

As at 31 December 2018, the Group had operating lease commitments of approximately RMB18,403,000 (31 December 2017: approximately RMB49,511,000). The relevant expenses were mainly for the leases of direct sales outlets and Beijing and Hong Kong offices.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: Nil).

Capital Commitments

As at 31 December 2018, the Group had capital commitments of approximately RMB75,781,000 (31 December 2017: approximately RMB73,639,000), which mainly comprised commitments for the construction in process at Hebei and Fujian.

Human Resources

As at 31 December 2018, the Group had 562 (31 December 2017: 608) employees. Staff costs (including share option scheme, sales commission, staff salaries and welfare expenses, contributions to retirement benefit schemes and staff and workers' bonus and welfare fund) amounted to approximately RMB32,345,000 (31 December 2017: approximately RMB43,947,000) during the Reporting Period. All the Group's companies treat all their employees equally, with the selection and promotion of individuals based on their suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits scheme for our employees in Hong Kong, and provides our PRC employees with various welfare schemes as required by the applicable laws and regulations in the PRC.

Prospects

1. *Expand sales network and concentrate on high-end market promotion*

In richer areas, health of pork, natural rearing and safety of package and storage are all important considerations of consumers. The Group has established the brand of "Putian" in many tier-1 cities including Beijing, Shanghai and Hong Kong, as well as in each district of Fujian, where the Group's production base lies. In the future, the Group targets to improve its brand image through publicity campaigns, promote diversified products to attract different consumers and mature customer loyalty. Next, the Group will focus on Fuzhou and Xiamen as key high-end markets and is committed to boost the sales of "Putian Black Pearl" in the following year and improve revenue generated by high-end products with higher profit margin. In 2019, the Group intends to expand its retail points into Sam's Club under Wal-mart, Hema Xiansheng and China Resource Ole' and over open 10 new direct sales outlets.

2. *Diversify product lines and improve product awareness*

The production capacity of Xuanhua, Hebei and Shiti and Xianglixiang, Putian, the Group's target business areas has progressed well by now. In particular, the operation of Xuanhua farm in Hebei has gradually improved. In the following year, the Group will focus on maintaining stable supply of black pork, developing new products with in-house capacity, such as cooked food, leisure products and intensive processing products under "Putian Black Pearl", further leveraging on the "White to Black" strategy and improving its brand competitive edge, along with both on-line and off-line publicity and promotion. In addition to traditional stores and retail points in supermarket, the Group will also expand its distribution channel from high-end products to e-commerce, community store and family package membership. By means of multi-channel promotion and diversified products catering to different needs, the Group will develop "Putian" into a high-end brand with a view to foster deeper customers' loyalty exploring customers' base.

3. *Promote "Putian" online and boost sales on e-commerce platform*

The Group has expanded its WeChat Mall system into a comprehensive internet sales platform, which enlarging its sales coverage and enabling intense promotion. The product information on the e-commerce platform generates an indirect effect of publicity, allowing the Group to promote the nutrition and healthiness of pork products and the culture of "Putian" to the public, boost brand affinity and improve product transparency. The Group will further invest to attract more visits to each platform, improve the ranks of its store and boost consumers' confidence and interest in the brand. The Group targets to enter into various e-commerce platforms, including but not limited to JD.com in the form of a direct sales outlet, Miss Fresh (每日優鮮), womai.com (我買網) and YiGUO.COM. The Group expected that sales from e-commerce channel will growth in 2019.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch register of members of the Company will be closed from Monday, 24 June 2019 to Friday, 28 June 2019, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Friday, 28 June 2019, all share transfer documents accompanied by the relevant share certificates must be lodged not later than 4:30 p.m. on Friday, 21 June 2019 with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") consists of three independent non-executive Directors, namely, Mr. Wu Shiming, Mr. Cai Zirong and Mr. Wang Aiguo. Mr. Wu Shiming is the chairman of the Audit Committee. During the Reporting Period, the Audit Committee has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control, risk management and reporting matters. The audited annual results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Upon specific enquiries of all the Directors, each of them confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company has adopted the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules. Save as disclosed below, none of the Directors is aware of any information which would reasonably indicate that the Company has not, during the 12 months ended 31 December 2018, complied with all applicable code provisions of the Code.

Code Provision A.2.1

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

PUBLICATION OF FINANCIAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement is available for viewing on the websites of the Stock Exchange of Hong Kong Limited (the"Stock Exchange") and the Company. The annual report for the year ended 31 December 2018 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
China Putian Food Holding Limited
Cai Chenyang
Chairman

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises Mr. Cai Chenyang, Mr. Cai Haifang and Ms. Ma Yilin as executive Directors; Mr. Cai Zirong, Mr. Wu Shiming and Mr. Wang Aiguo as independent non-executive Directors.