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Tianyun International Holdings Limited **天韵國際控股有限公司**

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 6836)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

HIGHLIGHTS	Unaudited			
	For the six months ended 30 June			
	2022		2021	
	Excluding deconsolidation losses	Including deconsolidation losses	Excluding deconsolidation losses	Including deconsolidation losses
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Key financial data				
Revenue	328.7	328.7	400.9	400.9
Gross profit	87.2	87.2	110.4	110.4
Gross profit margin	26.5%	26.5%	27.5%	27.5%
Net profit/(loss)	53.3	53.3	79.1	(69.2)

- Revenue decreased by 18.0% to RMB328.7 million as compared with the corresponding period in 2021
- Gross profit decreased by 21.0% to RMB87.2 million as compared with the corresponding period in 2021
- Gross margin slightly decreased to 26.5%
- Net profit before losses in relation to deconsolidation decreased by 32.6% to RMB53.3 million as compared with the corresponding period in 2021

The board of directors (the “Directors” or the “Board”) of Tianyun International Holdings Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022, together with the unaudited comparative figures for the corresponding period in 2021, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Note</i>	RMB'000	(Restated) RMB'000
Revenue	4	328,741	400,923
Cost of sales		(241,546)	(290,513)
Gross profit		87,195	110,410
Other income		167	2,261
Other gains, net		–	2,963
Selling and distribution expenses		(4,714)	(11,291)
Research and development expenses		(10,811)	(7,380)
General and administrative expenses		(16,579)	(10,726)
Loss on deconsolidation of Yichang Tiantong Group		–	(135,265)
Impairment loss on amount due from Yichang Tiantong Group		–	(13,017)
Operating profit/(loss)		55,258	(62,045)
Finance income		8,311	8,494
Finance costs		27	(1,518)
Finance income – net		8,338	6,976
Profit/(loss) before income tax		63,596	(55,069)
Income tax expense	5	(10,255)	(14,124)
Profit/(loss) and total comprehensive income/ (expense), net of tax for the period		53,341	(69,193)
Profit and total comprehensive income/(expense) attributable to equity holders of the Company for the period		53,341	(69,193)
Earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company for the period (expressed in RMB dollar)			
– Basic and diluted earnings/(loss) per share	6	0.05	(0.07)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June 2022	31 December 2021
		(Unaudited)	(Audited)
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		129,663	130,698
Property, plant and equipment		308,101	306,025
Investment properties		30,100	30,100
Prepayments	8	96,003	99,358
		<hr/>	<hr/>
Total non-current assets		563,867	566,181
		<hr/>	<hr/>
Current assets			
Inventories		60,306	74,451
Trade and other receivables	8	177,889	164,501
Cash and cash equivalents		565,947	490,106
		<hr/>	<hr/>
Total current assets		804,142	729,058
		<hr/>	<hr/>
Total assets		1,368,009	1,295,239
		<hr/>	<hr/>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	9	158,929	158,929
Reserves		927,349	874,008
		<hr/>	<hr/>
Total equity		1,086,278	1,032,937
		<hr/>	<hr/>

		30 June	31 December
		2022	2021
		(Unaudited)	(Audited)
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		128	302
Deferred tax liabilities		7,051	6,481
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Total non-current liabilities		7,179	6,783
		-----	-----
Current liabilities			
Trade payables	<i>10</i>	44,893	17,641
Accruals and other payables		29,257	34,649
Amount due to a substantial shareholder		113,389	104,000
Bank borrowings		75,131	92,286
Lease liabilities		371	347
Current income tax liabilities		11,511	6,596
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Total current liabilities		274,552	255,519
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Total equity and liabilities		1,368,009	1,295,239
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards and has been prepared under the historical cost convention as modified by the valuation of investment properties and contingent consideration payable, which are stated as fair value.

2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

3 SEGMENT INFORMATION

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

The chief operating decision-maker assesses the performance of the 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 sales of processed fruit and beverage products, and trading of fresh fruits, and segment information are not presented.

The Company is domiciled in the British Virgin Islands (“BVI”) while the Group operates its business in the People’s Republic of China (“PRC”). For the six months ended 30 June 2022, the Group’s revenue of approximately RMB311,305,000 (for the six months ended 30 June 2021: approximately RMB379,997,000 (restated)) was generated from domestic and overseas customers which are based in the PRC and the Group’s revenue of approximately RMB17,436,000 (for the six months ended 30 June 2021: approximately RMB20,926,000 (restated)) was generated from direct sales to overseas customers.

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 six months ended 30 June 2022 (2021: Nil).

4 REVENUE

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
		(Restated)
	RMB'000	RMB'000
Revenue recognised at a point in time		
Domestic sales	311,305	379,997
Direct overseas sales	17,436	20,926
	<u>328,741</u>	<u>400,923</u>
Total revenue	<u>328,741</u>	<u>400,923</u>

5 INCOME TAX EXPENSE

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

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit generated in Hong Kong for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

PRC corporate income tax has been provided at the rate of 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the PRC corporate income tax purpose. Shandong Tiantong Food Co., Ltd., one of the subsidiaries of the Group, has been approved as High and New Technology Enterprise and is entitled to a preferential corporate income tax rate of 15% for the three years commencing from 2020.

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 Mainland China. 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 Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% (six months ended 30 June 2021: 5%). The Group is therefore liable for withholding taxes on any dividends distributable by its subsidiaries established in the Mainland China.

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 of these subsidiaries on or before 2018 will not be distributed in the foreseeable future. Therefore the retained earnings before 2017 would be retained for future development of its subsidiaries in the Mainland China. The Group has recognised PRC withholding tax for the profit of its subsidiaries in the Mainland China since 2018.

As 30 June 2022, deferred tax liabilities related to the undistributed profit of the Group's subsidiaries in the PRC amounted to approximately RMB7,051,000 (31 December 2021: approximately RMB6,481,000) has been recognised in the consolidated statement of financial position.

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
		(Restated)
	RMB'000	RMB'000
Current income tax		
PRC corporate income tax	<u>9,685</u>	<u>13,226</u>
Withholding tax relating to PRC subsidiaries		
Provision for the period	<u>570</u>	<u>898</u>

6 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of approximately RMB53,341,000 (for the six months ended 30 June 2021: loss attributable to equity holders of the Company of approximately RMB69,193,000 (restated)) and the weighted average of approximately 988,243,000 ordinary shares after adjusting for weighted average shares held under the share award scheme (for the six months ended 30 June 2021: 988,189,000 ordinary shares after adjusting for weighted average number of issuable shares of which conditions are satisfied under the contingent consideration scheme arrangement and weighted average shares held under share award scheme).

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to equity holders of the Company of approximately RMB53,341,000 (for the six months ended 30 June 2021: loss attributable to equity holders of the Company of approximately RMB69,625,000 (restated) after adjusting for the fair value change of the respective issuable shares under the contingent consideration scheme arrangement and the weighted average number of ordinary shares of approximately 988,243,000 (for the six months ended 30 June 2021: 989,084,000 ordinary shares after adjusting (1) the effect of deemed issuance of issuable shares from the beginning of the period; and (2) the number of shares that would have been issued assuming the exercise of the options less the number of shares that could have been acquired at fair value (according to the average market price of the shares of the Company) based on the monetary value of the subscription rights attached to the outstanding share options).

7 DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (2021: same).

8 TRADE AND OTHER RECEIVABLES

	<i>Note</i>	As at	
		30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade receivables		146,054	128,909
Less: loss allowance of trade receivables	(b)	(1,668)	(1,668)
Trade receivables, net	(a)	144,386	127,241
Prepayments and deposit	(c)	96,149	132,340
Other receivables	(c)	33,357	4,278
		273,892	263,859
Less: non-current portion			
Prepayments for property, plant and equipment		(3)	(3,358)
Deposit for land use right		(96,000)	(96,000)
Current portion		177,889	164,501

(a) Trade receivables

The Group's credit terms granted to wholesale customers were generally 60 days (as at 31 December 2021: 30 to 60 days). The ageing analysis of the trade receivables, net of loss allowance, based on invoice date is as follows:

	As at	
	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Less than 30 days	73,691	51,259
31 to 60 days	69,874	74,394
61 to 90 days	635	815
91 to 180 days	136	773
181 to 365 days	59	–
	144,386	127,241

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

(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 arising from the expected credit loss model.

(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.

9 SHARE CAPITAL

Authorised ordinary shares

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 shares

	Number of ordinary shares	Share capital <i>HK\$'000</i>	Equivalent share capital <i>RMB'000</i>
As at 31 December 2021 (audited) and 30 June 2022 (unaudited)	<u>990,512,000</u>	<u>209,649</u>	<u>158,929</u>

10 TRADE PAYABLES

	As at	
	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade payables	<u>44,893</u>	<u>17,641</u>

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

	As at	
	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Less than 30 days	35,432	13,663
31 to 90 days	3,762	1,718
91 to 180 days	3,304	1,902
181 to 365 days	2,302	358
Over 365 days	<u>93</u>	<u>–</u>
	<u>44,893</u>	<u>17,641</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2022 (the “Review Period”), the fundamentals of the Group remained stable and healthy with the production and operation on the right track despite the on-going challenges. The Group further expanded its scale of operation to enhance the popularity and awareness of its own brand. The market responded positively towards the Group’s natural and quality food and beverage products as well as diversified packaging and promotional strategies. Meanwhile, the Group proceeded to the release of new production capacity to drive the long-term development of the enterprise. Despite the difficult market environment during the Review Period, the Group recorded revenue, gross profit and net profit of RMB328.7 million, RMB87.2 million and RMB53.3 million respectively. In addition, the Group was awarded several national accolades, continued to improve its governance and internal control and influential power in the industry, and made constant contribution to the high quality development of the industry.

Own Brand and OEM Business

During the Review Period, as an important development tactic, the Group continued to focus on the research and development, manufacturing and sales of diversified fruit products and specialty beverages with fashionable images to meet the rapidly increasing demand of customers for healthy food and products. The Group’s own brands, “天同時代(Tiantong Times)”, “繽果時代(Bingo Time)” and “果小懶(fruit zz)”, kept launching new products to cater for consumers’ pursuit of novelty of fruit products.

Meanwhile, the Group’s own brand “享派 Shiok Party” vitamin sports drink, centred around sports and healthiness, offered another healthy and safe option for consumer and gained high popularity among distributors and customers in the market. In addition, the Group’s proprietary developed chunky fruit beverage “妖果季”, containing fruit chunks, fruit juice and vitamins, also attracted attention from the market and distributors, and more flavors will be launched gradually.

In recent years, with the vigorous development of the e-commerce industry, the demand for the Group’s products in the vast rural market has been continuously released, and it is expected that the scale of online fruit retail users will continue to expand in the future. The Group also organised offline and online promotional activities with different themes, and was actively involved in the sales on popular online shopping platforms and short video live streaming platforms. With the in-depth expansion of the Group’s marketing layout, products under its own brands were sold in 27 provinces, direct municipalities and autonomous regions across China, with a sales network covering numerous renowned chain supermarkets and stores.

The OEM business continued to contribute stable revenue to the Group. At present, the relevant business scope covers renowned international brands in those regions across the five continents, including the United Kingdom, Europe, Canada, the United States, Australia, New Zealand, Southeast Asia and Japan. As economies around the world recover and consumer sentiment and demand increase, the demand for various processed fruit products made in China has increased. The Group will continue to explore more business partnership opportunities around the world to further promote the sustainable development of our OEM business.

Trading of Fresh Fruits and Others

The Group continued to develop domestic and cross-border fresh fruit sales channels, while looking for regional business partners of reputable Chinese brands associated with fresh fruits, in order to promote more sales, processing and trading of fresh fruits from different origins of both domestic and overseas markets, and also bring a richer and more diversified variety of quality fruits and processed fruits to the consumers at large.

Production Capacity Expansion

The construction of the Group's integrated production base located in Honghe Prefecture, Yunnan Province, the PRC has commenced in the first half of 2022, with a site area of over 130,000 square metres in Mile Green Food Processing Park of Honghe Prefecture and total designed annual production capacity of 90,000 tonnes. Facilities such as a research centre, processing centre, grading centre, sales and trading centre, and storage and logistics centre will be established, covering the production, processing and sales of products including canned fruits and vegetables, specialty beverages and jellies. With the goal of building green food brand and establishing a demonstration production base, it will leverage on the strengths of Yunnan Province including climate diversity, superior location, good natural ecological environment and abundant specialty fruits to introduce more fruit varieties sourced from tropical and sub-tropical climate regions, while also benefit from tariff concessions of the Regional Comprehensive Economic Partnership to facilitate the reduction in the costs of raw materials procured from the surrounding areas.

Research & Development and Innovation

As a national high-tech enterprise, and adhering to the vision of promoting corporate development with innovative technology, the Group has been accelerating breakthroughs in production technology, and constantly improving production facilities to enhance automation and production efficiency. In addition, the Group has actively invested in the development and improvement of various processed fruit products and specialty beverages offering, in order to expand production categories and diversify brand portfolio, while reducing average production cost and continuously achieving deseasonalisation, with the commitment to producing products in different categories around the clock for the whole year.

Merger and Acquisition and Strategic Partnership

As domestic and international economies have gradually returned to the track of growth from the new normal of pandemic, the Group is actively seeking opportunities for mergers and acquisitions and strategic partnerships to enhance our existing business, expand our business network, explore new technology, new products and new markets, and strengthen the Group's overall competitiveness.

Outlook

Looking ahead, as the pandemic continues, it is expected that, under the orderly pandemic prevention and control measures of China, the domestic economic growth will continue to remain stable in the second half of the year and take advantages of its vast market and potential in domestic demand. With the trend of increasing fruit consumption in China, the market demand of specialty beverages and processed fruit products will continue to grow. The Group will actively introduce more diversified specialty beverages and snack food to satisfy the demand of customers, and cater to younger generation by integrating elements that highlight personalized lifestyle, portability and environmental protection.

In the future, the Group will thoroughly implement the development concept driven by innovation to promote the R&D innovation of the products, and further improve the food production techniques. The Group will also introduce high-quality products with different categories and flavors and strengthen the food safety management system to further expand the domestic and overseas markets. Meanwhile, in view of the prospect that the scale of online fruit retail users continues to expand in the future, the Group will boost its transformation to step into the new retailing business and drive its progress through innovation. The Group will also actively expand the online and offline markets and focus on R&D of high-quality products.

In addition, the new production base in Yunnan will achieve synergies with the production base in Shandong to increase the overall production capacity, and assist the Group in R&D, production and sales of temperate, subtropical and tropical processed fruit products and specialty beverages as well as the trading of fresh fruits. The Group will enrich the variety of processed fruits and fresh fruits for sale, enhance level of the industrial intelligence and expand its market coverage in China, thereby laying a solid foundation for the Group's future development, and increasing its market share in China for sustainable development.

FINANCIAL REVIEW

Revenue

During the Review Period, our revenue decreased to approximately RMB328.7 million from approximately RMB400.9 million (restated) for the six months ended 30 June 2021, representing a decrease of approximately RMB72.2 million or 18.0%. The Group continued to sell its processed fruit and beverage products under its own brand and on an OEM basis, and engaged in trading of fresh fruits. The decrease in revenue during the Review Period was mainly attributable to the decrease in the sales of our own brand products of approximately RMB77.2 million.

Breakdown of the revenue by business segments for the six months ended 30 June 2022 and the comparative unaudited figures in 2021 is set out as follows:

	Unaudited			
	For the six months			
	ended 30 June			
	2022	2021	Changes	
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	%
		(Restated)		
Revenue				
Own Brand Sales	174.7	251.9	(77.2)	(30.6)
OEM Sales	134.7	125.3	9.4	7.5
Fresh Fruits Sales and others	19.3	23.7	(4.4)	(18.6)
Total	328.7	400.9	(72.2)	(18.0)

During the Review Period, revenue from our sales of processed fruits and beverage products under our own brand accounted for 53.1% (2021: 62.8% (restated)) of the total revenue and represented the largest business segment of the Group. Our own brand sales decreased from approximately RMB251.9 million (restated) for the six months ended 30 June 2021 to approximately RMB174.7 million for the six months ended 30 June 2022, representing a decrease of approximately RMB77.2 million or 30.6%. During the Review Period, the COVID-19 pandemic caused temporary lock-down in a number of cities and counties in the PRC. The consumption, commercial and tourism activities in these cities and counties were slow down. Our sales in both processed fruit and beverage products dropped.

Revenue from sales of processed fruit products on an OEM basis continued to contribute a significant portion of the total revenue of the Group and represented 41.0% (2021: 31.3% (restated)) of the total revenue during the Review Period. Our processed fruit products are mainly sold to international and well-known brand owners either by the Group directly to overseas brand owners or trading entities, or through local import and export entities based in the PRC. During the Review Period, revenue from OEM sales increased by RMB9.4 million or 7.5% from approximately RMB125.3 million (restated) for the six months ended 30 June 2021 to approximately RMB134.7 million for the six months ended 30 June 2022. During the Review Period, many overseas countries relaxed the control measures in respect of the pandemic and the import demand for processed fruit products has increased.

We continued to trade a small portion of our fresh fruits to fresh fruits wholesalers during the Review Period. Revenue contributed by fresh fruit sales and others represented 5.9% of the total revenue for the six months ended 30 June 2022 (2021: 5.9% (restated)). Revenue from fresh fruit sales and others during the Review Period decreased by RMB4.4 million or 18.6% to approximately RMB19.3 million. The drop in revenue of fresh fruits sales followed the decrease in revenue from the sales of processed fruit products.

Gross profit and gross profit margin

	Unaudited			
	For the six months			
	ended 30 June			
	2022	2021	Changes	
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	%
		(Restated)		
Gross profit				
Own Brand Sales	47.9	74.2	(26.3)	(35.4)
OEM Sales	36.7	32.5	4.2	12.9
Fresh Fruits Sales and others	2.6	3.7	(1.1)	(29.7)
Total gross profit	87.2	110.4	(23.2)	(21.0)

Gross profit for the six months ended 30 June 2022 decreased to approximately RMB87.2 million from approximately RMB110.4 million (restated) for the six months ended 30 June 2021, representing a period-on-period decrease of RMB23.2 million, or 21.0%. The decrease was mainly due to the decrease in revenue from own brand sales.

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
		(Restated)
Gross profit margin		
Own Brand Sales	27.4%	29.5%
OEM Sales	27.2%	25.9%
Fresh Fruits Sales and others	13.5%	15.6%
Overall gross profit margin	26.5%	27.5%

During the Review Period, the overall gross profit margin slightly decreased from 27.5% (restated) for the six months ended 30 June 2021 to 26.5% for the six months ended 30 June 2022. The decrease in overall gross margin was mainly due to the drop in gross margin on own brand sales which was partially offset by the increase in gross margin of OEM sales.

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 six months ended 30 June 2022, the selling and distribution expenses decreased from approximately RMB11.3 million (restated) for the six months ended 30 June 2021 to approximately RMB4.7 million, representing a period-on-period decrease of approximately RMB6.6 million, or 58.4%. The decrease was mainly due to the decrease in promotion and advertising expenses, and fewer marketing activities held during the Review Period.

Research and development expenses

Research and development expenses mainly include raw materials, staff costs and overhead expenses related to the R&D activities. The amount of research and development expenses increased from RMB7.4 million (restated) for the six months ended 30 June 2021 to RMB10.8 million for the six months ended 30 June 2022, representing a period-on-period increase of approximately RMB3.4 million, or 45.9%.

General and administrative expenses

General and administrative expenses mainly include salary expenses and related staff costs for management and administrative departments, professional fees, depreciation and amortisation, foreign exchange differences, and various taxes with regard to the use of land and buildings. The amount of general and administrative expenses increased from RMB10.7 million (restated) for the six months ended 30 June 2021 to RMB16.6 million for the six months ended 30 June 2022, representing a period-on-period increase of approximately RMB5.9 million, or 55.1%. The increase was mainly due to the increase in professional fees during the Review Period.

Income tax expenses

Income tax expenses represent mainly the PRC enterprise income tax payable by our PRC subsidiaries. For the six months ended 30 June 2022, our income tax expenses decreased by RMB3.8 million, or approximately 27.0%, to RMB10.3 million from RMB14.1 million (restated) for the six months ended 30 June 2021. The decrease in the income tax expenses was primarily due to the decrease in our assessable income in the PRC.

Net profit/loss and net profit/loss margin

During the Review Period, the Group changed from a net loss of RMB69.2 million (restated) for the six months ended 30 June 2021 to a net profit of approximately RMB53.3 million for the six months ended 30 June 2022. The turnaround from loss into profit making position for the six months ended 30 June 2022 was attributable to the absence of one-off losses resulting from the deconsolidation of Tiantong Food (Yichang) Limited (天同食品(宜昌)有限公司) and Tiantong Food and Beverages (Yuanan) Limited (天同食品飲料(遠安)有限公司) (the “Yichang Tiantong Group”) recorded for the Review Period. The net profit margin for the Review Period was 16.2% (2021 of the net loss margin: 17.3%).

Without taking into account the losses resulting from the deconsolidation of Yichang Tiantong Group, the net profit for the six months ended 30 June 2022 would decrease by approximately RMB25.8 million or 32.6% to approximately RMB53.3 million as compared to approximately RMB79.1 million (restated) for the six months ended 30 June 2021.

Liquidity, financial resources and capital resources

The Group principally meets 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 30 June 2022	As at 31 December 2021
Gearing ratio (%)	6.92%	8.93%
Current ratio	2.93	2.85
Cash and cash equivalent (<i>RMB million</i>)	565.9	490.1
Net current assets (<i>RMB million</i>)	529.6	473.5
Quick ratio	2.71	2.56

The gearing ratio of the Group as at 30 June 2022 was 6.92% (31 December 2021: 8.93%). Gearing ratio was calculated based on total debts divided by total equity. The amount of total debts was calculated by aggregating the bank borrowings and 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 30 June 2022 was 2.93 (31 December 2021: 2.85).

As at 30 June 2022, our cash and cash equivalents amounted to approximately RMB565.9 million (31 December 2021: RMB490.1 million). Our net current assets was approximately RMB529.6 million as at 30 June 2022, as compared to approximately RMB473.5 million as at 31 December 2021.

The quick ratio (calculated based on total current assets (excluding inventory) divided by total current liabilities) of the Group as at 30 June 2022 was 2.71 (31 December 2021: 2.56). 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 Review Period.

Capital structure

The Group's total equity and liabilities amounted to approximately RMB1,086.3 million and RMB281.7 million, respectively as at 30 June 2022 (31 December 2021: RMB1,032.9 million and RMB262.3 million).

Bank borrowings, and net finance income

As at 30 June 2022, the total amount of interest-bearing bank borrowings was approximately RMB75.1 million (31 December 2021: RMB92.3 million).

Net finance income of the Group represents finance income less finance costs. Net finance income increased from approximately RMB7.0 million (restated) for the six months ended 30 June 2021 to approximately RMB8.3 million for the six months ended 30 June 2022, representing an increase of approximately RMB1.3 million or 18.6%.

Pledged assets

The Group has pledged its right-of-use assets and buildings as collaterals for the bank borrowings. As at 30 June 2022, the net book value of pledged right-of-use assets and buildings amounted to approximately RMB77.3 million (31 December 2021: RMB89.6 million).

Capital expenditure

During the Review Period, approximately RMB7.8 million were expended in relation to construction in progress, upgrading works and addition of facilities and machineries.

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 borrowings 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 Review Period, the bank and other borrowings of the Group at variable rates and fixed rates were all denominated in Renminbi or Hong Kong Dollars (“HKD”). The cash deposits placed with banks generate interest at the prevailing market interest rate.

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 HKD. Foreign exchange risk also arises from sales transactions in foreign currencies with overseas customers which have mostly been conducted in United States dollars. The monetary assets of the Group were denominated in HKD, 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 30 June 2022, the number of employees of the Group was 596 (31 December 2021: 670). The total staff costs, including Directors' emoluments, amounted to approximately RMB17.3 million for the Review Period (30 June 2021: approximately RMB19.1 million (restated)). The emoluments payable to the Directors are subject to their respective terms of engagement approved by the Remuneration Committee of the Company having regard to the operating results of the Group, the performance of individual Directors and comparable market statistics. The Group implements a remuneration policy which offers or has in place bonus, a share option scheme and a 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 30 June 2022, the Group did not have material capital commitments. In addition, the Group did not have any material outstanding contingent liabilities. The capital commitments contracted for but not yet incurred and provided for as of 30 June 2022 amounted to approximately RMB4.9 million (31 December 2021: RMB4.4 million).

Material acquisitions and disposals

During the six months ended 30 June 2022 and up to the date of this announcement, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

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

During the six months ended 30 June 2022, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Under code provision C.2.1 of the CG Code, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yang Ziyuan is our chief executive officer, and he also acts as the chairman of our Board as he has considerable experience in the fruit processing industry. The Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group.

Besides, all major decisions have been made in consultation with other 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. Therefore, the Board is 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.

Save for the aforesaid, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code during the Review Period and up to the date of this announcement.

COMPLIANCE WITH THE MODEL CODE

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

AUDIT COMMITTEE

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

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2022 have been reviewed by the Audit Committee. Based on this review and discussions with the management, the Audit Committee was satisfied that the unaudited condensed consolidated interim financial information was prepared in accordance with the applicable accounting standards and fairly presents the Group's financial position and results for the six months ended 30 June 2022.

SUBSEQUENT CHANGE AFTER 30 JUNE 2022

The Investigation Committee had on 18 May 2022 engaged Mazars Certified Public Accountants LLP (the "Forensic Accountant") as the Company's forensic accountant to conduct an independent forensic investigation into the unauthorized transaction(s). On 29 July 2022, the Company received a forensic investigation report from the Forensic Accountant with a summary of key findings. On 24 August 2022, the Investigation Committee resolved to mandate the Forensic Accountant to conduct further investigation into the electronic data and other matters. On 23 September 2022, the Forensic Accountant issued to the Investigation Committee a supplemental report on the key findings. Please see announcements of the Company dated 29 July 2022 and 3 October 2022 for details.

The Company engaged Elite Partners Risk Advisory Services Limited on 18 May 2022 to conduct an internal control review and to prepare a report on the findings (“IC Review Report”) covering internal control systems for the period from 1 July 2021 to 30 June 2022. On 5 August 2022, the Audit Committee reported the results of the internal control review to the Board. The Board has reviewed and approved the IC Review Report. Please see announcement of the Company dated 5 August 2022 for details.

Save for the above, there were no significant changes in the Group’s financial position or from the information disclosed in this announcement subsequent to 30 June 2022 and up to the date of this announcement.

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

This announcement are published on the websites of the Stock Exchange and the Company (<http://www.tianyuninternational.com>). The interim report for the six months ended 30 June 2022 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

ACKNOWLEDGEMENT

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

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

Hong Kong, 24 October 2022

As at the date of this announcement, the Board of the Company comprises (i) Mr. Yang Ziyuan, Mr. Sun Xingyu and Mr. Yeung Wan Yiu as the executive Directors; (ii) Ms. Chu Yinghong and Mr. Wong Yim Pan as the non-executive Directors; and (iii) Mr. Liang Zhongkang, Mr. Shiu Shu Ming and Prof. Ye Xingqian as the independent non-executive Directors.