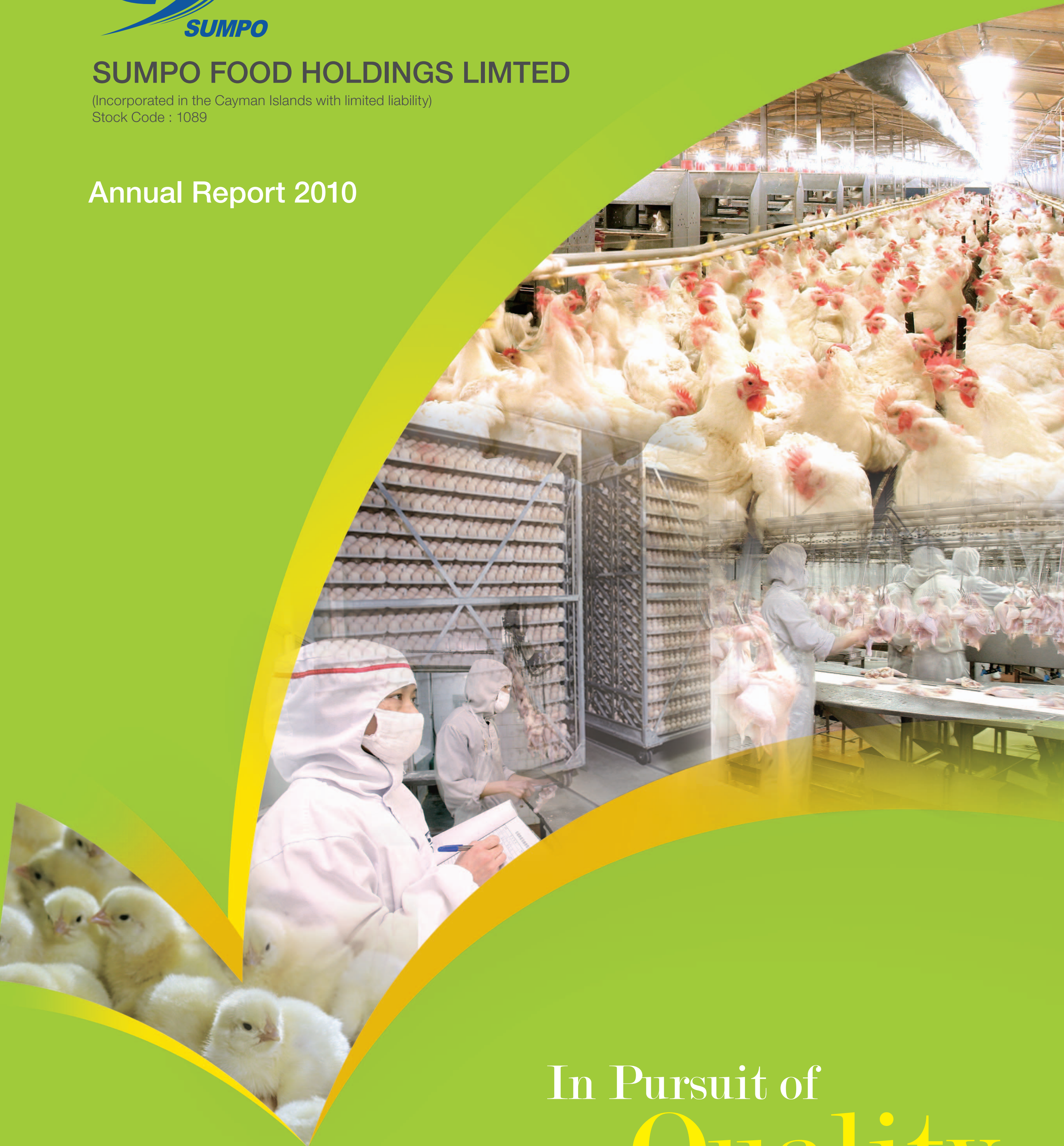
SUMPO FOOD HOLDINGS LIMTED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1089

Annual Report 2010



In Pursuit of
Quality

SUMPO FOOD

The Group is principally engaged in the production of chicken meat products from white-feathered broilers through its own production facilities. We are one of the well-known chicken meat products suppliers and ranked 44th out of 90 amongst the competitive enterprise of meat products in the PRC in 2008 according to the China Meat Association(中國肉類協會).

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Corporate Information

Directors

Executive Directors
Mr. Lin Qinglin *(Chairman)*
Mr. Wu Shiming
Mr. Yin Shouhong

Independent Non-Executive Directors
Mr. Hu Chung Ming
Mr. Liao Yuan
Mr. Chau On Ta Yuen
Mr. Wei Ji Min

Audit Committee

Mr. Hu Chung Ming *(Committee Chairman)*
Mr. Liao Yuan
Mr. Chau On Ta Yuen
Mr. Wei Ji Min

Remuneration Committee

Mr. Liao Yuan *(Committee Chairman)*
Mr. Hu Chung Ming
Mr. Wei Ji Min
Mr. Lin Qinglin

Company Secretary

Mr. Ng Kin Sun *CPA, CPA (Aust.)*

Legal Advisor

Cheung, Tong & Rosa

Compliance Advisor

Kingston Corporate Finance Limited

Auditors

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Principal Bankers

China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
Agricultural Development Bank of China
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.

Registered Office in Cayman Islands

Cricket Square, Hutchins Drive, PO Box 2681,
Grand Cayman, KY1-1111, Cayman Islands

Place Of Business in Hong Kong

Suite 1906, Nanyang Plaza, 57 Hung To Road,
Kwun Tong, Kowloon, Hong Kong

Head Office and Principal Place of Business in the PRC

No.688, Denggao East Road, Xinluo District,
Longyan, Fujian, PRC

Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House,
68 Fort Street,
P.O. Box 609,
Grand Cayman KY1-1107,
Cayman Islands

Hong Kong Share Registrar

Tricor Investor Services Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

Company Website

www.sumpofood.com

Promoting the **Enterprise Sound and Fast Development** with **Market-Oriented View**

Lin Qinglin

Chairman, executive Director & Chief Executive Officer

Dear Shareholders,

I am pleased to present the annual results of Sumpo Food Holdings Limited ("Sumpo" or the "Company") and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2010 for the shareholders' consideration.

TURNOVER AND PROFIT

For the year ended 31 December 2010, the aggregate turnover of the Group amounted to approximately RMB633.3 million (2009: approximately RMB569.2 million), representing an increase of approximately 11.2%. Our profit attributable to the owners of the Company arrived at approximately RMB61.9 million (2009: approximately RMB57.0 million), representing an increase of approximately 8.7%.

BUSINESS REVIEW

On 11 January 2011, the Company was successfully listed on the main board of the Stock Exchange of Hong Kong Limited, which opened the door to the international capital market and signified Sumpo's desire of rapid growth. In this regard, the staff of the Group and each of the intermediaries have made great efforts in the listing work, for which it was much facilitated and made a success. The successful listing of the Company was not only the outcome of the support from the vast majority of investors, but also the recognition of the product quality of the Group and the management of the Company.

In the past year of 2010, through the dedication of all the staff, the Company maintained its production, steadily increased its market share, methodically performed the management work, consistently improved the management standard, and vigorously built up teamwork and business culture. The production procedure of the animal feeds production facility was strictly operated and monitored in respect of quality control of raw materials, formula adjustment and quality assurance in order to make sure the various specifications of the products were fully in compliance with qualification standards. Each breading farm focused on prevention of animal-borne epidemic diseases and conscientiously took the reins over the vaccination program alteration and bio-security management to leading to a year of smooth breeding free from major animal diseases and a steady growth was also achieved. By implementing diversification of production management measures, proper detail management and effective cost control, the slaughtering and processing teams have improved their management skill and enhanced the quality control resulting in a smooth completion of their annual work task.

PROSPECTS

In the coming year, bearing in mind the guiding principles for enterprise development of "Promoting the Enterprise Sound and Fast Development with Market-oriented view, marketing as the flagship, centering on efficiency, by means of incentive mechanism, ensured by stabilizing the production and operation, depending on scientific development strategy and sharing the vision of creating a harmonious enterprise", we shall work together toward an arduous task under the leadership of the board of directors which comprises professionals who are dedicated towards the aim of strengthening and expanding by putting emphasis on broilers chain.

To prepare for the new project of slaughtering 36 million broilers annually, the Group will properly arrange the work assignment and collaboration for the new broiler project, focus on suitable selection work of new farmers and methodically undertake the civil engineering and equipment installation of new breeder farms and hatching facility as well as the training and reserve of skilled technicians, and at the same time, it will gradually improve the breeding standard and increase the benefit of breeding farms and the confidence of farmers in breeding broilers.

We will seize the opportunities in and take advantage of the listing in Hong Kong to standardize and improve the post-listing management, further optimize the system establishment of procuring, animal feeds production, slaughtering and processing and sales, consolidate our management work, broaden distribution channel and achieve a higher profile among domestic and foreign enterprises, striving to achieve a new development stage in respect of broilers chain and lead the Company to a golden age of fast growth in 2011.

ACKNOWLEDGEMENT

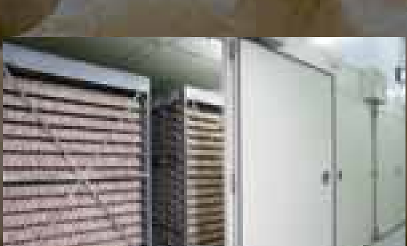
I would like to take this opportunity to express my heartfelt gratitude to our shareholders, members of the Board of Directors, senior management and all our staff for their dedication and contribution and also to our clients, suppliers and business partners for their relentless support and trust!

Lin Qinglin
Chairman

23 March 2011

Vertically Integrated Operation

The Group's production process is highly vertically integrated. We have our own breeder farms, animal feed production facility, broiler breeding farms and slaughtering and processing facility.



Safety and hygiene of our chicken meat products are crucial to the success of our Group. We have established a comprehensive food safety and hygiene system and quality control system in order to guarantee the quality of our chicken meat products.

Business Review

We are one of the well-known chicken meat products suppliers in the Fujian Province of the PRC and we sell our chicken meat products under the "森寶 (Sumpo)" brand. According to the China Meat Association （中國肉類協會）, we ranked 44th out of 90 amongst the Competitive Enterprises of Meat Products Industry in the PRC （中國肉類食品行業強勢企業） in 2008. The assessment was based on the total sales of those enterprises during the year ended 31 December 2007, and with reference to their respective asset values, equipment, sizes of main business, sales, taxes paid, amount of exports, etc. We are currently capable of slaughtering and processing up to approximately 18,000,000 broilers per year. We are the supplier of chicken meat to KFC, Dicos and Mckey and other retail and quick-service restaurants. We also sell some of our products through a number of distributors.

We have our own production facilities. We currently have 3 breeder farms, 1 hatching facility, 5 broiler breeding farms, 1 animal feeds production facility and 1 slaughtering and processing facility. Our Group owns the land which our animal feeds production facility, slaughtering and processing facility and head office are erected while we lease the land on which our breeder farms, hatching facility and broiler breeding farms are located.

In addition to our own production facilities, we also have Contract Farming arrangement with approximately 160 Contract Farmers. We sell the chicken breeds and animal feeds to the Contract Farmers for the purpose of breeding the chicken breeds.

Financial Review

Revenue

Our revenue derived from the sales of chicken meat products, animal feeds and chicken breeds represented approximately 68.7%, 25.6% and 5.7% of our total revenue for the year ended 31 December 2010 respectively.

The following table sets out a breakdown of our revenue by product categories and their relative percentage of our total revenue during the reporting period:

	For the year ended 31 December			
	2010 RMB'000	**% of total revenue**	2009 RMB'000	% of total revenue
Revenue				
Chicken meat products	**434,786**	**68.7**	364,395	64.0
Animal feeds	**162,180**	**25.6**	166,260	29.2
Chicken breeds	**36,289**	**5.7**	38,587	6.8
Total	**633,255**	**100.0**	569,242	100.0

Our total revenue increased from approximately RMB569.2 million for the year ended 31 December 2009 to approximately RMB633.3 million for the year ended 31 December 2010, primarily due to the increase in sales volume and average selling price in the chicken meat products resulting from the recovery of economic condition.

Chicken meat products

Revenue from sales of our chicken meat products business increased by approximately 19.3%, from approximately RMB364.4 million for the year ended 31 December 2009 to approximately RMB434.8 million for the year ended 31 December 2010, primarily as a result of the increase in the average selling price by approximately 14.3% and sales volume by approximately 4.4% of our chicken meat products resulting from the recovery of economic condition.

Animal feeds

Revenue from sales of our animal feeds business decreased by approximately 2.5% from approximately RMB166.3 million for the year ended 31 December 2009 to approximately RMB162.2 million for the year ended 31 December 2010, primarily as a result of the termination of production of other feeds (e.g. duck feeds and yellow-feathered chicken feeds) in June 2009.

Chicken breeds

Revenue from sales of our chicken breeds business decreased by approximately 6.0%, from approximately RMB38.6 million for the year ended 31 December 2009 to approximately RMB36.3 million for the year ended 31 December 2010, primarily due to the decrease in the proportion of broilers sold to the Contract Farmers as some Contract Farmers had temporarily ceased their broiler breeding business during the long holiday period for the Chinese New Year in January 2010.

Gross Profit and Gross Profit Margin

The following table sets out our total gross profit and gross profit margin by major product categories during the reporting period:

	For the year ended 31 December			
	2010 RMB'000	**% of total gross profit**	2009 RMB'000	% of total gross profit
Gross Profit				
Chicken meat products	**94,740**	**75.2**	50,768	52.5
Animal feeds	**6,908**	**5.5**	21,269	22.0
Chicken breeds	**24,327**	**19.3**	24,660	25.5
Total	**125,975**	**100.0**	96,697	100.0

	For the year ended 31 December	
	2010 %	2009 %
Gross Profit Margin		
Chicken meat products	**21.8**	13.9
Animal feeds	**4.3**	12.8
Chicken breeds	**67.0**	63.9
Overall	**19.9**	17.0

Gross profit increased from approximately RMB96.7 million for the year ended 31 December 2009 to approximately RMB126.0 million for the year ended 31 December 2010. Our overall gross profit margin increased from approximately 17.0% for the year ended 31 December 2009 to approximately 19.9% for the year ended 31 December 2010, primarily due to the increase in gross profit of chicken meat products business as a result of the increase in the average selling prices of chicken meat products.

Chicken meat products

Gross profit from our chicken meat products business increased by approximately 86.6%, from approximately RMB50.8 million for the year ended 31 December 2009 to approximately RMB94.7 million for the year ended 31 December 2010. The gross profit margin for our chicken meat products business increased from approximately 13.9% for the year ended 31 December 2009 to approximately 21.8% for the year ended 31 December 2010. This was primarily due to the increase in the average selling price of our chicken meat products by approximately 14.3% as a result of the recovery of economic condition in 2010.

Animal feeds
Gross profit from our animal feeds business decreased by approximately 67.5%, from approximately RMB21.3 million for the year ended 31 December 2009 to approximately RMB6.9 million for the year ended 31 December 2010. The gross profit margin for our animal feeds business decreased from approximately 12.8% for the year ended 31 December 2009 to approximately 4.3% for the year ended 31 December 2010. This was primarily due to the increase in the unit cost of major raw materials of animal feeds, namely corn and wheat, while our average selling price of animal feeds remained stable during both years. Since the Contract Farmers purchase animal feeds from us at an agreed price fixed at the beginning of 2010, the effect of the increase in the cost of major raw materials of animal feeds was not passed to the Contract Farmers.

Chicken breeds
The gross profit and gross profit margin for our chicken breeds business remained relatively stable for both years.

Other Revenue and Gains
Other revenue and gains increased by approximately 68.6%, from approximately RMB13.7 million for the year ended 31 December 2009 to approximately RMB23.1 million for the year ended 31 December 2010, primarily as a result of the reimbursement of withholding tax from a shareholder and the amortization of financial guarantee contract that was derecognized during the year ended 31 December 2010.

Selling and Distribution Expenses
Selling and distribution expenses increased by approximately 14.8%, from approximately RMB9.3 million for the year ended 31 December 2009 to approximately RMB10.7 million for the year ended 31 December 2010, primarily as a result of an increase in the transportation expenses related to the sales of our products.

Administrative Expenses
Administrative expenses increased by approximately 86.5%, from approximately RMB22.4 million for the year ended 31 December 2009 to approximately RMB41.8 million for the year ended 31 December 2010. The increase was mainly the result of the listing expenses recognized for the year ended 31 December 2010, the increase in staff costs in connection with improvement in our chicken meat business and the withholding tax paid in respect of the distributable profits of the Group's subsidiaries.

Other Operating Expenses
Other operating expenses increased by approximately 24.9%, from approximately RMB15.5 million for the year ended 31 December 2009 to approximately RMB19.3 million for the year ended 31 December 2010, mainly due to the increase in the feeding cost of mature breeders.

Finance Costs
Finance costs increased by approximately 12.8%, from approximately RMB8.9 million for the year ended 31 December 2009 to approximately RMB10.0 million for the year ended 31 December 2010, primarily as a result of an increase in interest paid on bank borrowings.

Taxation
Income tax decreased by approximately 62.1%, from approximately RMB5.6 million for the year ended 31 December 2009 to approximately RMB2.1 million for the year ended 31 December 2010, primarily as a result of the decrease in taxable profit attributable to the sale of animal feeds for the year ended 31 December 2010.

Prospects

Increasing market coverage

The Group are determined to continue to increase our market share. In order to increase our market coverage, we believe that increasing the supply of chicken meat products and maximizing sales will play a key role in our future expansion. We have started the construction of a new slaughtering and processing plant in Lungyan adjacent to our existing production base. With a production capacity of slaughtering and processing approximately 36,000,000 broilers per year, the new slaughtering and processing plant is expected to be completed by the end of 2011. The increase in our production capacity will help our Group meet the increase in the demand for our products.

In addition to increasing our production capacity, we aim specifically at maximizing our sales and profitability. We will focus on maintaining a close relationship with our customers with a view of boosting our growth and consolidating our position in the market.

Enhancing marketing and distribution and exploring new opportunities

The Group plans to enhance our marketing efforts and sales network and expand our market coverage to other parts of the PRC, including, inter alia, Guangxi, Chongqing, Sichuan, Hunan, Hubei and Zhejiang. We also plan to explore new business opportunities in the future by increasing our cooperation with other reputable production enterprises in the PRC. We will continue to solidify our relationships with our distributors in marketing our products and brands. In addition, we also plan to develop different seasoned chicken meat products to meet our customers' demands. With respect to our major customers, including KFC, Dicos and Mckey, we will continue to strengthen our customer services by providing more customized services, such as establishing an efficient distribution network for the delivery of our chicken meat products to our customers with fast food chains in the southern part of the PRC and improving the tastes of our chicken meat products, to satisfy needs of different customers.

Enhancing our brand image and recognition

The Group believes that brand names and image are among the key factors in consumers' purchasing decision. We will continue to build our brand names and image. High level of hygiene and sanitation are important to the safety of our chicken meat products. We implement strict and comprehensive measures at our chicken meat production facilities to reinforce occupational health protection and the importance of hygiene at the production site. All our staff are required to wear uniform and undergo a comprehensive cleansing and sterilisation process before entering into the production site. There is strict temperature control at the production site throughout the entire production process to maintain the freshness of the chicken meat. Movements of our staff between different areas of the production sites are restricted in order to avoid cross-contamination.

Contract Farmer's Permit and Certificate

In order to carry out contract farming, the Contract Farmers are required to obtain the Pollutant Discharge Permit（排污許可證）and the Animal Epidemic Prevention Qualification Certificate（動物防疫條件合格證）according to the Administrative Measures on Prevention and Cure of Pollution Caused by Breeding of Livestock and Poultry（畜禽養殖污染防治管理辦法）and the Law of Animal Epidemic Prevention of the PRC（中華人民共和國動物防疫法）respectively. Details of which were disclosed in the section headed "Quality Assurance" sub-headed "Licensing" in the Company's Prospectus dated 30 December 2010 (the "Prospectus").

Our aim is that not less than 30% of the Contract Farmers will have obtained such permit and certificate by 31 December 2011 and an additional of not less than 40% to 45% of our Contract Farmers will have obtained such permit and certificate by 31 December 2012. The Directors are of the view that, even if some Contract Farmers are unable to satisfy the requirement of obtaining the said permit and certificate and thus cannot continue to provide contact farming services to us, we will still be able to find alternative Contract Farmers who can satisfy such requirements to provide contract farming services to us.

Liquidity and Financial Resources

Financial Resources

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital requirements. As at 31 December 2010, cash and cash equivalents and pledged bank deposits amounted to approximately RMB104.4 million (2009: approximately RMB61.3 million), all of which were denominated in Renminbi.

Borrowings and Pledged Assets

As at 31 December 2010, the total amount of interest-bearing bank borrowings was approximately RMB106.2 million (2009: approximately RMB178.1 million), all of which was denominated in Renminbi, with interest rates ranged from 2.4% to 5.6% per annum.

As at 31 December 2010, the bank borrowings was secured by the Group's properties, plant and equipment and prepaid lease payments with total carrying value of approximately RMB13.5 million (2009: approximately RMB27.4 million).

Gearing Ratio

As at 31 December 2010, the gearing ratio of the Group was approximately 25.3% (2009: approximately 31.9%). This was calculated by dividing interest-bearing bank borrowings with the total assets of the Group as at 31 December 2010. The decrease in the gearing ratio was mainly due to repayment of bank borrowings during the year.

Foreign Exchange Risk

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

Material Acquisitions and Disposal of Subsidiaries

Details of acquisition of a subsidiary and disposal of subsidiary are set out in notes 17 and 18 to the consolidated financial statements respectively.

Contractual and Capital Commitments

As at 31 December 2010, the Group had operating lease commitments of approximately RMB6.3 million (2009: approximately RMB9.1 million).

As at 31 December 2010, the Group had capital commitments of approximately RMB114.0 million (2009: approximately RMB0.2 million).

Contingent Liabilities

As at 31 December 2010, the Group had no contingent liabilities.

Reorganization and use of Proceeds

Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 20 December 2010.

As part of the preparation for listing of the shares of the Company, the Company implemented a capitalization issue of 1,200,000,000 shares and an issue of 400,000,000 new shares during the share offer for listing (the "Share Offer") on 11 January 2011. All such shares issued were ordinary shares and the 400,000,000 new shares were issued at HK$0.68 per share. On 28 January 2011, the lead manager of the Share Offer fully exercised the over-allotment option and the Company issued an additional 60,000,000 new shares at HK$0.68 per share. The net proceeds of the Share Offer and from the exercise of the over-allotment option received by the Company were approximately HK$244.1 million and HK$39.8 million respectively. These proceeds are intended to be applied is accordance with the proposed application set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Human Resources

At 31 December 2010, the Group had 1,168 employees. Employee costs, excluding directors' emoluments, totalled approximately RMB11.6 million for the year (2009: approximately RMB10.2 million). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals based on suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

The Company also adopted a share option scheme on 11 January 2011. As at the date of this report, no share option was granted.

Corporate Governance Practices

The Company believes that good corporate governance will not only improve management accountability and investor confidence, but will also lay a good foundation for the long-term development of the Company. Therefore the Company will strive to develop and implement effective corporate governance practices and procedures. The Company and the Board have adopted the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). However, as the Company was not yet listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the period under review, the CG Code was not applicable to the Company for the said period. Throughout the period since our listing on the Main Board of the Stock Exchange on 11 January 2011, the Company has complied with the CG Code save as disclosed in the paragraph headed "Chairman and Chief Executive Officer" below.

Model Code for Securities Transactions by Directors

Since 17 December 2010, 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 Listing Rules. Upon specific enquiries of all Directors of the Company, each of them confirmed that they have complied with the required standards set out in the Model Code from 11 January 2011 (the "**Listing Date**") and up to the date of this report.

Board of Directors

Board Composition

The Board currently comprises a combination of three executive Directors and four independent non-executive Directors.

Executive Directors:

Mr. Lin Qinglin *(Chairman and Chief Executive Officer)*
Mr. Wu Shiming
Mr. Yin Shouhong

Independent non-executive Directors:

Mr. Hu Chung Ming
Mr. Liao Yuan
Mr. Chau On Ta Yuen
Mr. Wei Ji Min

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

The biographical information of Directors is set out on pages 24 to 26 of this annual report.

The Company has appointed four independent non-executive Directors representing more than half of the Board. Mr. Hu Chung Ming, who is one of the independent non-executive Directors, has a professional qualification in accountancy. The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provides adequate checks and balances to safeguard the interests of the Group and its shareholders, including the review of continuing connected transactions described in the other sections of this annual report. The Board confirms that the Company has received from each of the independent non-executive Directors a confirmation of independence for the year ended 31 December 2010 pursuant to Rule 3.13 of the Listing Rules and considers such directors to be independent.

Functions of the Board

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

Delegation by the Board of Directors

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration Committee and the senior management. On 17 December 2010, the Board approved the forming of the Audit Committee and Remuneration Committee upon the listing of the Company's shares on the Stock Exchange.

The Board delegates the authority and responsibility of the daily operations, business strategies and day-to-day management to the Managing Director and senior management. The final decision(s) are still under the control of the Board unless otherwise provided for in the terms of reference of the two committees.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer are separate and are not performed by the same individual. Mr. Lin Qinglin is the Chairman and Chief Executive Officer of the Company. The Board believes that the serving by the same individual as Chairman and Chief Executive Officer during the rapid development of the business is conducive to building a strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. Also, the Board considers that this structure will not impair the balance of power and authority between the Board and 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 operations of the Company. The Board has full confidence in Mr. Lin and believes that having Mr. Lin performing the roles of Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

Non-Competition Undertakings

In order to avoid any possible future competition between our Group on the one hand, and Mr. Lin Qinglin and Mr. Lin Genghua (the son of Mr. Lin Qinglin) (the "Controlling Shareholders") on the other hand, the Controlling Shareholders executed a deed of non-competition ("Deed of Non-competition") on 17 December 2010 in favour of our Company (for itself and for the benefit of each member of our Group). Pursuant to the Deed of Non-Competition, the Controlling Shareholders have jointly and severally, irrevocably and unconditionally undertaken with our Company (for itself and for the benefit of each member of our Group) that with effect from the Listing Date and for as long as the shares remain listed on the Stock Exchange and the Controlling Shareholders are, either individually or collectively with their respective associates, directly or indirectly interested in not less than 30% of the issued share capital of our Company, the Controlling Shareholders and their respective associates (other than members of our Group) shall not directly or indirectly be engaged, invest, be interested or otherwise be involved in any chicken-related business and any other business which is carried out by our Group (the "Restricted Activity") in the PRC save for the holding of not more than 5% shareholding interests (individually or with other executive Directors and/or their respective associates) in any company which is engaged or interested in the Restricted Activity, provided that (a) that company is listed on a recognized stock exchange; or (b) the Controlling Shareholders do not have any right to appoint any person to the board of directors of that company and there is at least one other shareholder having shareholding in that company which is larger than the aggregate shareholding of the Controlling Shareholders in that company; or (c) the obtaining of our Company's approval.

The Company received a declaration from the Controlling Shareholders of their compliance with the terms of the Deed of Non-Competition during the period from 11 January 2011 to the date of this report.

Directors' Appointments, Re-election and Removal

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years from commenced from the date of appointment (i.e. 17 December 2010). Each of the independent non-executive Directors has signed an appointment letter with the Company for an initial term of two years commenced from 17 December 2010. Each of these service agreements and appointment letters may be terminated by either party by giving to the other not less than three months' prior notice in writing.

The Articles of Association (the "Articles") of the Company provide that any Director appointed by the Board, either to fill a casual vacancy in the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Also under the Company's Articles, one-third of all Directors (whether executive or non-executive) are subject to retirement by rotation and re-election at each annual general meeting provided that every Director shall be subject to retirement at least once every three years, and a retiring Director shall be eligible for re-election.

Members of the Company may, at any general meeting convened and held in accordance with Company's Articles to remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in the Company's Articles or in any agreement between the Company and such Director.

Board Meetings and Board Practices

Under code provision A.1.1 of the CG Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. The Board has scheduled to meet at least four times a year in approximately quarterly intervals in accordance with the Company's Articles. As the Company was listed only recently on 11 January 2011 and hence the CG Code has not been applicable to the Company until 11 January 2011. During the year ended 31 December 2010, two meetings had been held by the Board and were attended by all the members of the board.

According to the current Board practice, notices of the Board meetings are usually served to all Directors before the meeting. Generally, at least 14 days' notice is given for regular Board meetings by the Company to all Directors. Reasonable notice is given for all other Board meetings. The company secretary of the Company (the "Company Secretary") assists the Chairman to prepare board meeting agenda and papers together with all appropriate, complete and reliable information. Each Director may request the Company Secretary to include any matters in the agenda during the Board meetings. All substantive agenda items together with comprehensive briefing papers will be sent to all Directors before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions at least 3 days before each Board meeting.

Supply of and access to information

All Directors may access to the advice and services of the Company Secretary. Minutes of the Board and meetings of the board committees are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable notice by the Directors. Any Director may request the Company to provide independent professional advice at the Company's expense to discharge his duties to the Company.

Important matters are usually dealt with by way of written resolutions so that all Directors (including independent non-executive Directors) can note and comment on, as appropriate, the matters before approval is granted. Moreover, a Director must declare his interest in matters or transactions to be considered and approved by the Board. If a substantial shareholder or a Director has an interest in a matter to be considered by the Board which the Board has determined to be material, the Company will not deal with the matter by way of written resolution. The independent non-executive Directors shall take an active role and make an independent judgement on all issues relating to such matter. If any Director or his associates have any material interest in any proposed Board resolutions, such Director shall not vote (nor shall be counted in the quorum) at a meeting of the Directors on any resolutions approving any contract or arrangement or concerning a matter in which he or any of his associates has directly or indirectly a material interest (save as provided under the Company's Articles).

Responsibilities of Directors

The Company ensures that every newly appointed director has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

The independent non-executive Directors take an active role in Board meetings and make independent judgment on issues relating to matters or transactions of a material nature. They will take lead where potential conflicts of interest arise. In compliance with Rule 3.10(1) of the Listing Rules, there are four independent non-executive Directors representing over half of the Board. Among the four independent non-executive Directors, Mr. Hu Chung Ming has appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Audit Committee

The Company established an Audit Committee on 17 December 2010 in compliance with Rule 3.21 of the Listing Rules. The Audit Committee comprises four independent non-executive Directors, with Mr. Hu Chung Ming as the chairman. Other three members are Mr. Liao Yuan, Mr. Chau On Ta Yuen and Mr. Wei Ji min. Mr. Hu Chung Ming, the chairman of the Company's Audit Committee, has considerable experience in accounting and financial management, which is in line with the requirement in Rule 3.10(2) of the Listing Rules.

The Audit Committee reports to the Board and is authorized by the Board to assess matters relating to the accounts of financial statements. The Audit Committee oversees all financial reporting procedures and the effectiveness of the Company's internal controls, to advise the board on the appointment and re-appointment of external auditor, and to review and oversee the independence and objectivity of external auditor.

As the Audit Committee was set up on 17 December 2010, it had not held any meeting during the year under review. The Audit committee held one meeting after the Listing Date and up to the date of this report. The attendance of each member of the Audit Committee is contained in the following table:

	Number of attendance/Total
Mr. Hu Chung Ming	1/1
Mr. Liao Yuan	0/1
Mr. Chau On Ta Yuen	1/1
Mr. Wei Ji Min	1/1

Remuneration Committee

The Company established the Remuneration Committee on 17 December 2010 in compliance with Appendix 14 of the Listing Rules. The Remuneration Committee is chaired by Mr. Liao Yuan. Other members are Mr. Hu Chung Ming, Mr. Wei Ji Min and Mr. Lin Qinglin.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's structure for remuneration of Directors and senior management and on the establishment of formal and transparent procedures for developing such remuneration policy. In determining the remuneration of the Directors, the Remuneration committee would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, performance and contributions of the Directors and the change in market conditions.

As the Remuneration Committee was set up on 17 December 2010, it had not held any meeting during the year under review. The Remuneration Committee held one meeting after the Listing Date and up to the date of this report. The attendance of each member of the Remuneration Committee is contained in the following table:

	Number of attendance/Total
Mr. Liao Yuan	0/1
Mr. Hu Chung Ming	1/1
Mr. Wei Ji Min	1/1
Mr. Lin Qinglin	1/1

Nomination of Directors

The Board has not established a Nomination Committee, and the selection and approval of new directors is undertaken by the Board. When there is a nomination to directorship, the Board will assess the suitability of the nominee and decide whether to accept the nomination. A director appointed by the Board is subject to re-election by shareholders of the Company at the first general meeting after the appointment.

Under the Company's Articles, one-third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the annual general meeting in each year. A retiring director is eligible for re-election.

None of the Directors for re-election at the forthcoming general meeting has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation.

The Board adopted a "Procedure and Criteria for Nomination of Directors" in March 2011, the details of which are set out below:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an Independent non-executive Director).

2. Prepare a description of the role and capabilities required for the particular vacancy.

3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.

5. Conduct verification on information provided by the candidate.

6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. *Common Criteria Applicable to All Directors*

   (a) Character and integrity

   (b) The willingness to assume broad fiduciary responsibility

   (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

   (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company

   (e) Significant business or public experience relevant and beneficial to the Board and the company

   (f) Breadth of knowledge about issues affecting the company

   (g) Ability to objectively analyse complex business problems and exercise sound business judgment

   (h) Ability and willingness to contribute special competencies to Board activities

   (i) Fit with the company's culture

2. *Criteria Applicable to Independent non-executive Directors*

   (a) Willingness and ability to make a sufficient time commitment to the affairs of the company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings

   (b) Accomplishments of the candidate in his/her field

   (c) Outstanding professional and personal reputation

   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

Compliance Advisor

Pursuant to the compliance advisor agreement dated 29 December 2010 entered into between the Company and Kingston Corporate Finance Limited ("**Kingston**"), Kingston has been appointed as the compliance advisor as required under the Listing Rules for the period from the Listing Date to the date on which the Company dispatched its annual report in respect of its financial results for the first full financial year after the Listing Date. Kingston has received a fee for acting as the Company's compliance advisor during the period. Pursuant to Rule 3A.23 of the Listing Rules, the Company shall consult with and, if necessary, seek advice from Kingston on the following matters:

- the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction is contemplated including share issues and share repurchase;
- where the Company proposes to use the proceeds of the share offer in a manner different from that detailed in the prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate or other information in the prospectus; and
- where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the securities of the Company.

Accountability and Audit

Directors' and Auditors' Acknowledgement

The Audit Committee and the Board have reviewed the Group's consolidated financial statements for the year ended 31 December 2010. The Directors acknowledge their responsibilities for preparing accounts, the financial statements, performance position and prospects of the Group. Management has provided information and explanation to the Board to enable it to make an informed assessment of the financial and other information put before the Board for approval. The Directors believed that they have selected suitable accounting policies and applied them consistently, made judgment and estimates that are prudent and reasonable and ensured the financial statements are prepared on a "going concern" basis.

HLB Hodgson Impey Cheng, the auditor of the Company, acknowledged their reporting responsibilities in the Independent Auditors' Report on the consolidated financial statements for the year ended 31 December 2010.

Internal Control and Risk Management

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

During the year ended 31 December 2010, the Audit Committee assessed the internal control environment of the Group and reviewed the internal control procedural manual of the Group and concluded that the internal control systems are effective and efficient.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, Messrs HLB Hodgson Impey Cheng, up to the date of this report is set out as follows:

	Services rendered **Fee paid/payable** RMB'000
Audit Services	500
As reporting accountants for the Company's initial public offering	3,340
Total	3,840

Executive Directors

Lin Qinglin, aged 56, is the Chairman and the Chief Executive Officer of our Company. He is responsible for formulation of the overall development and business strategies of our Group at a strategic level and oversee major management decisions of our Group.

Mr. Lin has received many honourable titles, including, inter alia," Most Influential Entrepreneur in China" awarded by the China Economic Development Research Centre (中國經濟發展研究中心), China Reform Forum Magazine (中國改革論壇雜誌社) and the Organizing Committee of the Summit of China's most Influential Entrepreneurs" (中國最具影響力企業家峰會組委會) and" Top 10 Outstanding Management Individuals of China in 2006-2007" (2006-2007年度中國十大傑出管理人物) awarded by the China Institute of Management Science (中國管理科學研究院), the China Future Research Institution (中國未來研究會) and the Future and Development Magazine Press (未來與發展雜誌社). Mr. Lin is also a representative of the Fujian Province People's Congress and a substantial shareholder of the Company.

Wu Shiming, aged 35, is an executive Director and deputy chief executive officer of our Company. He is responsible for overseeing the financial and operational performance of the Group. He is a qualified intermediate accountant and he obtained such qualification after he has passed the national examination jointly organized by the Ministry of Finance and the Ministry of Personnel of the PRC. Mr. Wu has over 14 years of experiences in accounting and financial management. Mr. Wu graduated from a course in foreign economic enterprise financial accounting at Jimei University (集美大學) in 1995.

Yin Shouhong, aged 43, is an executive Director of our Company. Mr. Yin has had over 20 years of experience in the food industry. Mr. Yin has been the assistant to chief executive officer and deputy chief executive officer, responsible for managing the broilers business department and production unit. He commenced his career in the food industry in Anhui Hua Feng Meat and Poultry Joint Venture Company (安徽華豐肉禽聯營公司) as the head of quality control and director of the processing plant from July 1988 to October 2001. Mr. Yin joined Fujian Sumpo in November 2001 as factory manager of the broilers processing plant.

Mr. Yin graduated from a course in animal husbandry and veterinary hygiene inspection organized by Anhui Agricultural Technical Education Institute (安徽農業技術師範學院) in 1988 and obtained a manager qualification from the Occupational Skills Appraisal Centre of the Ministry of Labour and Social Security (勞動和社會保障部職業技能監定中心) in 2005.

Independent non-executive Directors

Hu Chung Ming, aged 38, became an independent non-executive Director of our Company on 17 December 2010. Mr. Hu has been a certified practising accountant of the Australian Society of Certified Practising Accountants since 10 March 2000 and a fellow of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Hu worked in Ernst & Young Certified Public Accountants as an accountant from January 1997 to September 1999, and as a senior accountant from October 1999 to March 2000. Mr. Hu has been the chief financial officer of certain other companies, namely Lankom Electronics Limited from 2000 to 2003, China Flexible Packaging Holdings (中國軟包裝控股有限公司) Limited from 2003 to 2007, Yunnan Junfa Real Estate Company Limited (雲南俊發房地產有限責任公司) from 2007 to 2008 and Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (Stock Code: 1938) since 2009 respectively.

Mr. Hu graduated from the University of Queensland with a bachelor's degree in commerce in December 1996.

Liao Yuan, aged 36, became an independent non-executive Director of our Company on 17 December 2010. Mr. Liao has over 13 years of experience in financial management. Mr. Liao was the branch manager assistant of the Xinyuan Branch of the Shenzhen Ping An Bank（平安銀行深圳分行新園支行）from July 1997 to May 2007. He then became the general manager of Shenzhen Kaishuo Investment Company Limited（深圳市凱碩投資有限公司）in September 2007. In 2008, Mr. Liao also became a director of Shenzhen Ahtong Electricity Holdings Co. Ltd（深圳亞通光電股份有限公司）and Shenzhen Yingfengyuan Investment Company Limited（深圳市盈豐源投資有限公司）respectively. He subsequently became the supervisor of Shenzhen Kangmei Biotechnology Holdings Limited（深圳康美生物科技股份有限公司）in April 2009. Mr. Liao also became a director of Dachen Yinlei Gaoxin (Beijing) Entrepreneurial Investment Limited（達晨銀雷高新（北京）創業投資有限公司）in February 2009.

Mr. Liao graduated with a bachelor's degree in economics from Hunan Institute of Finance（湖南財經學院）in 1997. He obtained an intermediate economics and finance qualification in 2003.

Chau On Ta Yuen, aged 63, became an independent non-executive Director of our Company on 17 December 2010. Mr. Chau currently holds directorship in many other companies. In respect of companies listed in Hong Kong, Mr. Chau was an executive director of Everbest Energy Holdings Limited（恒發世紀控股有限公司）(Stock Code: 0578, the name of that company was subsequently changed to Dynamic Energy Holdings Limited（合動能源控股有限公司）on 23 November 2007), a company listed on the Main Board of the Stock Exchange, from March 2000 to November 2006; an independent non-executive director of Everpride Biopharmaceutical Company Limited（中遠威生物製藥有限公司）(Stock Code: 8019, the name of that company was subsequently changed to Hao Wen Holdings Limited（皓文控股有限公司）in March 2010), a company listed on the Growth Enterprise Market of the Stock Exchange, from June 2003 to August 2009; and an independent non-executive director of Buildmore International Limited（建懋國際有限公司）(Stock Code: 0108) from December 2008 to September 2010. Mr. Chau is currently the chairman of China Ocean Shipbuilding Industry Group Limited（中海船舶重工集團有限公司）(Stock Code: 0651) where his directorship commenced in September 2007. Mr. Chau has also been an independent non-executive director of (i) Good Fellow Resources Limited（金威資源控股有限公司 (Stock Code: 0109) since July 2007 and (ii) Come Sure Group (Holdings) Limited（錦勝集團（控股）有限公司）(Stock Code: 0794) since February 2009, all of which are companies listed on the Main Board on the Stock Exchange.

Mr. Chau completed a course in Chinese literature at Xiamen University（厦門大學）in August 1968. Mr. Chau is currently a member of the 11th National Committee of the Chinese People's Political Consultative Conference 11（中國人民政治協商會議第11屆全國委員會委員）. He is also the vice chairman of the 7th board of directors of the Hong Kong Fujian Association（香港福建社團聯會董事會）.

Wei Ji Min, aged 63, became an independent non-executive Director of our Company on 17 December 2010. Mr. Wei has over 32 years of experience in the agricultural and livestock industry. Mr. Wei was the deputy head of the Changting Animal Husbandry and Fishery Bureau (長汀縣畜牧水產局) from November 1982 to January 1983. He was appointed as the deputy county head of the Changting County People's Government (長汀縣人民政府) in April 1985. He was appointed as the deputy head of the Longyan District Animal Husbandry and Fishery Bureau (龍岩地區畜牧水務局) in September 1987. From June 1994 to July 1997 and from July 1997 to June 2007, he was the head of Longyan District Animal Husbandry and Fishery Bureau (龍岩地區畜牧水產局) and the Longyan City Animal Husbandry and Fishery Bureau (龍岩市畜牧水產局) respectively.

Mr. Wei graduated from a livestock veterinarian professional course from Fujian Agricultural College (福建農學院) in 1975. He obtained a senior livestock technician qualification from the Longyan Professional Qualification Management Office (龍岩市職稱管理辦公室) in 1990. He was a member of the Longyan Political Consultative Committee (龍岩市政協委員會) from 1997 to 2007.

Senior Management

Ke Mingxing, aged 55, is the deputy chief executive officer of Fujian Sumpo. Mr. Ke first joined our Group as an executive director of Fujian Sumpo in 1998. Mr. Ke is also the chairman of the labour union of Fujian Sumpo, a committee member of The 3rd Longyan Chinese People's Political Consultative Conference (中國人民政治協商會議第三屆龍岩委員會), a standing committee member of the Longyan Chambers of Commerce and Industry (龍岩市工商業聯合會), an officer of the Longyan Society of Ideological and Political Work (龍岩市思想政治工作研究會), a member of the Longyan Professional and Social Club (龍岩市專家聯誼會) and a committee member of the Longyan Intermediate Professional and Technical Qualification Assessment Committee (economics stream) (龍岩市非公有制企業專業技術人員中級職務評審委員會(經濟系)). Mr. Ke has been awarded the National Labour Prize (全國五一勞動獎章) by the Chinese National Trade Union (中華全國總工會) in April 2009. He is also a senior economist. Mr. Ke graduated from a course in business administration from Sichuan University in 2005.

Zhang Xiangyang, aged 39, is the deputy general manager and executive director of Fujian Sumpo. Mr. Zhang is responsible for the Group's operation and business development. Mr. Zhang has over 14 years of managerial experiences. He jointed the Group in November 2009. Prior to joining the Group, he was the deputy general manager of Xiamen Sumpo Electronic Technology Group Limited from 2008 to 2009. Before that, he held various positions in Xiamenn Sumpo Group Limited. Mr. Zhang graduated from Wuhan University (武漢大學) with a bachelor's degree in electrical automation.

Chen Dongpei, aged 40, is the chief financial officer and the secretary of the board of directors of Fujian Sumpo. Mr. Chen joined the Group in March 1993 and is responsible for all finance and accounting matters of the Group's PRC subsidiaries. Mr. Chen has over 19 years of working experience in accounting and financial management. Mr. Chen is a senior economist, professional manager and elementary accountant. He has also been a supervisor of professional ethics and efficacy, the State Administration of Taxation of the Xiuluo district (新羅區國家税務局) since 2009 and the social ethics supervisor of the first Longyan branch of China Construction Bank (中國建設銀行龍岩第一支行) since 2009. Mr. Chen is also a supervisor of the in-depth study and practice of science and development activities (深入學習實踐科學發展活動監督員) of the branch committee of the State Administration of Taxation of Longyan Economic Technology Development Region (福建省龍岩經濟技術開發區國家税務局支部委員會). He graduated from the law school of East China Institute of Political Science and Law (華東政法學院) in 2003 and an accounting professional distance learning course from Zhejiang University Distant Learning College (浙江大學遠程教育學院) in 2007.

Company Secretary

Ng Kin Sun, aged 41, is the chief financial officer and company secretary of the Company. Mr. Ng is primarily responsible for the financial management of the Company. Mr. Ng has over 16 years experience in auditing and financial management gained from various international accounting firms and listed companies. Prior to joining the Group in March 2010, he was the financial controller of a company listed on the New York Stock Exchange. Mr. Ng graduated from University of Western Sydney – Nepean of Australia with a bachelor degree in Commerce in 1994. Mr. Ng has been member of Hong Kong Institute of Certified Public Accountant and CPA Australia since April 1998 and August 1997 respectively.

The directors of the Company ("Directors") are pleased to present this annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

Corporate Information

The Company was incorporated with limited liability in the Cayman Islands on 22 February 2010. On 11 January 2011, the shares of the Company ("Shares") successfully commenced dealing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), by offering initially 400,000,000 shares at the offer price of HK$0.68 per share. The Company issued additional 60,000,000 shares pursuant to the exercise of the over-allotment option granted by the Company to Kingston Securities Limited (the "Lead Manager") (for itself and on behalf of the other placing underwriters) in connection with the initial public offering on 1 February 2011.

Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 11 January 2011 and after the exercise of the over-allotment option on 28 January 2011, amounted to approximately HK$283.9 million, which are intended to be or have been applied in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The net proceeds is temporarily placed in short term deposits with licensed institutions in Hong Kong and the PRC.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are trading and manufacturing of chicken meat products, animal feeds and chicken breeds. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 45. The Directors do not recommend the payment of a final dividend.

Summary of Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the audited consolidated financial statements and restated/reclassified as appropriate, is set out on pages 109 to 110 of this report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 19 to the consolidated financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in Note 37 to the consolidated financial statements.

A share option scheme (the "Share Option Scheme") was conditionally approved by a written resolution of the shareholder of the Company passed on 17 December 2010. The Share Option Scheme shall be valid and effective for a period of ten years commencing from 11 January 2011. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Share Option Scheme is to recognize and motivate the contribution of any participant (the "Participant") which includes any full time or part time employee (including any executive and non-executive Director or proposed executive and non-executive Director), advisor, consultant, agent, contractor, client and supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group, and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

An offer for grant of options must be accepted within 20 business days from the offer date. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00. The subscription price for the share under the Share Option Scheme will be a price determined by the Board at its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the five trading days immediately preceding the date of the grant; or (iii) the nominal value of a share.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

As at the date of this report, the Company has not granted any option under the Share Option Scheme.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity.

Major Customers and Suppliers

For the year ended 31 December 2010, sales to the Group's largest and five largest customers accounted for approximately 9.6% and approximately 20.6% of the Group's total sales respectively. For the year ended 31 December 2010, the largest and five largest suppliers of the Group accounted for approximately 14.8% and approximately 34.0% of the Group's total purchases respectively.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year ended 31 December 2010.

Directors and Directors' Service Contracts

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Lin Qinglin *(Chairman and Chief Executive Officer)*	(appointed as Director on 22 February 2010 and as Chairman and Chief Executive Officer on 17 December 2010)
Mr. Wu Shiming	(appointed on 17 December 2010)
Mr. Yin Shouhong	(appointed on 17 December 2010)

Independent non-executive Directors:

Mr. Hu Chung Ming	(appointed on 17 December 2010)
Mr. Liao Yuan	(appointed on 17 December 2010)
Mr. Chau On Ta Yuen	(appointed on 17 December 2010)
Mr. Wei Ji Min	(appointed on 17 December 2010)

In accordance with Article 84 of the Articles of Association, Messrs. Lin Qinglin, Hu Chung Ming and Liao Yuan will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 24 to 27 of this report.

Directors' Service Contracts

Each of the executive Directors of the Company namely, Mr. Lin Qinglin, Mr. Wu Shiming and Mr. Yin Shouhong, has entered into a service contract with the Company for a term of three years commencing from 17 December 2010 and is subject to termination by either party giving not less than three months' written notice.

The Company has issued an appointment letter to each of Mr. Hu Chung Ming, Mr. Liao Yuan, Mr. Chau On Ta Yuen and Mr. Wei Ji Min, being the independent non-executive Directors of the Company for an initial term of two years commencing from 17 December 2010.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Directors' Remuneration

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the remuneration committee pursuant to the Company's Articles with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the date of this report, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Capacity/nature of interest	Number of ordinary shares held	Approximate percentage of issued share capital
Mr. Lin Qinglin	Beneficial owner	642,000,000	38.67%

Save as disclosed above, none of the Directors or chief executives had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at the date of this report, the interests or short positions of the persons (other than the Directors or chief executives of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions:

Name of shareholder	Capacity/nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Lin Genghua	Beneficial owner	167,280,000	10.08%
Golden Prince Group Limited (Note 1)	Corporate interest	108,000,000	6.51%
Mr. Ng Leung Ho	Beneficial owner	108,000,000	6.51%
King & Queen International Limited (Note 2)	Corporate interest	108,000,000	6.51%
Mr. Ho Kam Hung	Beneficial owner	108,000,000	6.51%
Success Dragon International Limited (Note 3)	Corporate interest	96,000,000	5.78%
Mr. Chau Gam Jaak	Beneficial owner	96,000,000	5.78%

Notes:

1. Golden Prince Group Limited is wholly owned by Mr. Ng Leung Ho.

2. King & Queen International Limited is wholly owned by Mr. Ho Kam Hung.

3. Success Dragon International Limited is wholly owned by Mr. Chau Gam Jaak.

Save as disclosed above, as at the date of this report, no person, (other than the Directors or chief executives of the Company) had any interests or short positions in the shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Sufficiency of Public Float

Based on information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float since the Company's share listing on the Stock Exchange on 11 January 2011.

Connected Transactions and Continuing Connected Transactions

The companies now comprising the Group had entered into a number of transactions with parties which, upon the listing of the Company's shares on the Stock Exchange, became connected persons of the Company under the Listing rules. These transactions are considered to be continuing connected transactions under the Listing Rules, which need to be disclosed herein compliance with the requirements under Chapter 14A of the Listing Rules or the waivers previously granted by the Stock Exchange. Details of the continuing connected transactions are as follows:

1. On 3 June 2010, the Group entered into two supply agreements in respect of agricultural products (each of them had been amended by the supplemental deeds dated 15 December 2010) (collectively, the "Supplemented Supply Agreements (Side Products)") with Fujian Sumhua Enterprise Limited ("Fujian Sumhua"), an associate of Mr. Lin Qinglin, pursuant to which the Group agreed to supply to Fujian Sumhua:

    (i) All chicken blood produced during the slaughtering process;

    (ii) All chicken feathers produced during the slaughtering process.

    The quoted prices of the chicken blood and chicken feathers were determined based on market prices, which were not less favourable than those available from or offered by independent third parties. The Supplemented Supply Agreements (Side Products) shall be for a term of 3 years and had been commenced from 1 January 2010 (i.e. it will expire on 31 December 2012) and may be renewable upon expiry by way of agreement between the parties. Detail of the Supplemented Supply Agreements (Side Products) was disclosed in the section headed "Connected Transactions" in the Prospectus.

It was expected that the aggregate amount of purchase price payable by Fujian Sumhua per year will not exceed RMB918,000, RMB1,836,000 and RMB2,754,000 for the years ending 31 December 2010, 2011 and 2012, respectively.

For the year ended 31 December 2010, the aggregate amount of purchase price paid by Fujian Sumhua was approximately RMB777,000.

2. On 31 May 2010, the Group entered into a supply agreement (as amended by a supplemental deed dated 15 December 2010) in respect of chicken meat products (the "Supply Agreement (Oporto)") with Xiamen Oporto Catering Management Co., Limited ("Xiamen Oporto"), an associate of Mr. Lin Genghua (a substantial shareholder of the Company and the son of Mr. Lin Qinglin), pursuant to which the Group agreed to supply to Xiamen Oporto the chicken meat products manufactured by the Group. The quoted price of the products was determined with reference to the prevailing market price and the agreed unit price in the last transaction immediately before the relevant transaction, provided that appropriate adjustment to the selling prices shall be made if the production costs change. The Supply Agreement (Oporto) shall be for a term of 3 years and had been commenced from 1 January 2010 (i.e. it will expire on 31 December 2012) and may be renewable upon expiry by way of agreement between the parties. Detail of the Supply Agreement (Oporto) was disclosed in the section headed "Connected Transactions" in the Prospectus.

   It was expected that the aggregate amount of purchase price payable by Xiamen Oporto per year will not exceed RMB516,000, RMB2,123,000 and RMB5,291,000 for the years ending 31 December 2010, 2011 and 2012, respectively.

   For the year ended 31 December 2010, the aggregate amount of purchase price paid by Xiamen Oporto was approximately RMB476,000.

3. On 16 May 2010, the Group entered into a supply agreement (as amended by a supplemental deed dated 15 December 2010) in respect of frozen chicken meat products (the "Supply Agreement (Frozen Chicken)") with Fujian Sumhua, an associate of Mr. Lin Qingling, pursuant to which the Group agreed to supply to Fujian Sumhua frozen chicken meat products. The quoted prices of the frozen chicken meat products were determined with reference to the prevailing market prices. The Supply Agreement (Frozen Chicken) shall be for a term of 3 years and had been commenced from 1 January 2010 (i.e. it will expire on 31 December 2012) and may be renewable upon expiry by way of agreement between the parties. Detail of the Supply Agreement (Frozen Chicken) was disclosed in the section headed "Connected Transactions" in the Prospectus.

   It was expected that the aggregate amount of purchase price payable by Fujian Sumhua per year will not exceed RMB1,430,000, RMB1,770,000 and RMB2,810,000 for the years ending 31 December 2010, 2011 and 2012, respectively.

   For the year ended 31 December 2010, the aggregate amount of purchase price paid by Fujian Sumhua was approximately RMB1,289,000.

Annual Review of Continuing Connected Transactions

The independent non-executive Directors have reviewed the above continuing connected transactions numbered 1 to 3 for the year ended 31 December 2010 and have confirmed that these continuing connected transactions are:

1. entered into in the ordinary and usual course of business of the Group;

2. entered into on normal commercial terms; and

3. in accordance with the terms of respective agreements governing the transactions that are fair and reasonable and in the interests of the Company and shareholders of the Company as a whole.

In accordance with Rule 14A.38 of the Listing Rules, the Company engaged the auditors of the Company to perform certain agreed upon procedures on the continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported to the board of directors of the Company that the transactions:

1. have been approved by the board of directors of the Company;

2. have been entered into in accordance with the relevant agreements governing such transactions; and

3. have not exceeded the caps disclosed in the Prospectus.

Directors' Interests in a Competing Business

No Directors of the Company are considered to have interests in any business which is likely to compete directly or indirectly with that of the Group.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

Code on Corporate Governance Practices

The Company was listed on the Main Board of the Stock Exchange on 11 January 2011. The Directors consider that the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules on the Stock Exchange since its listing on the Listing Date.

Donations

Charitable and other donations made by the Group during the year ended 31 December 2010 amounted to approximately RMB850,000.

Auditors

HLB Hodgson Impey Cheng will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

Lin Qinglin
Chairman

Hong Kong, 23 March 2011

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
SUMPO FOOD HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sumpo Food Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 108, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do no assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 23 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	**2010** **RMB'000**	2009 RMB'000
Continuing operations			
Revenue	5	**633,255**	569,242
Cost of sales		**(507,280)**	(472,545)
Gross profit		**125,975**	96,697
Other revenue and gains	7	**23,102**	13,700
Change in fair value less costs to sell of biological assets	24	**2,429**	3,388
Fair value of agricultural produce on initial recognition	23	**58,340**	57,952
Reversal of fair value of agricultural produce due to hatch and disposals	23	**(55,983)**	(60,083)
Selling and distribution expenses		**(10,674)**	(9,295)
Administrative expenses		**(41,786)**	(22,406)
Finance costs	8	**(10,045)**	(8,906)
Other operating expenses		**(19,315)**	(15,470)
Profit before taxation		**72,043**	55,577
Taxation	9	**(2,103)**	(5,553)
Profit for the year from continuing operations	12	**69,940**	50,024
Discontinued operation			
Profit for the year from discontinued operation	11	**–**	9,371
Profit for the year		**69,940**	59,395
Other comprehensive (loss)/income			
Exchange differences on translating foreign operations		**(83)**	131
Other comprehensive (loss)/income for the year, net of tax		**(83)**	131
Total comprehensive income for the year		**69,857**	59,526

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	**2010** **RMB'000**	2009 RMB'000
For continuing and discontinued operations			
Profit attributable to:			
Owners of the Company		**61,919**	56,985
Non-controlling interests		**8,021**	2,410
		69,940	59,395
For continuing operations			
Profit attributable to:			
Owners of the Company		**61,919**	47,614
Non-controlling interests		**8,021**	2,410
		69,940	50,024
Dividends	15	**75,000**	60,000
Earnings per share	16		
For continuing and discontinued operations			
Basic and diluted (RMB cents)		**3.87**	3.56
For continuing operations			
Basic and diluted (RMB cents)		**3.87**	2.98

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	**2010** **RMB'000**	2009 RMB'000
Non-current assets			
Property, plant and equipment	19	**141,236**	104,734
Investment property	20	**1,067**	1,103
Biological assets	24	**12,572**	12,015
Prepaid lease payments	21	**54,545**	9,566
Held-to-maturity investment	29	**1,000**	–
Deferred tax assets	10	**870**	901
		211,290	128,319
Current assets			
Inventories	23	**46,264**	38,835
Biological assets	24	**7,135**	5,096
Trade and other receivables	25	**49,276**	68,247
Prepaid lease payments	21	**1,298**	290
Amount due from a shareholder	26	**–**	17,854
Amounts due from related parties	27	**–**	232,715
Financial assets at fair value through profit or loss	28	**122**	115
Held-to-maturity investment	29	**–**	6,000
Pledged bank deposits	30	**63,951**	–
Cash and bank balances	30	**40,421**	61,259
		208,467	430,411
Current liabilities			
Trade and other payables	31	**114,870**	67,742
Amount due to a shareholder	32	**–**	23,994
Amounts due to related parties	33	**–**	9,997
Financial guarantee liabilities	34	**–**	1,612
Bank borrowings	35	**104,950**	136,850
Dividend payable		**–**	60,000
Current tax liabilities		**260**	3,801
		220,080	303,996
Net current (liabilities)/assets		**(11,613)**	126,415
Total assets less current liabilities		**199,677**	254,734

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Equity			
Share capital	37	**–**	34
Reserves	38	**172,076**	194,994
Equity attributable to owners of the Company		**172,076**	195,028
Non-controlling interests		**21,864**	13,843
Total equity		**193,940**	208,871
Non-current liabilities			
Bank borrowings	35	**1,260**	41,260
Deferred revenue	36	**4,477**	4,603
		5,737	45,863
Total equity and non-current liabilities		**199,677**	254,734

The consolidated financial statements on pages 39 to 42 were approved and authorised for issue by the Board of Directors on 23 March 2011 and are signed on its behalf by:

Lin Qinglin
Executive Director

Wu Shiming
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Equity attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000 Note 38(a)	Statutory reserve RMB'000 Note 38(b)	Other reserve RMB'000 Note 38(c)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2009	1	–	17,423	5,147	12,836	2,424	124,313	162,144	13,344	175,488
Profit for the year	–	–	–	–	–	–	56,985	56,985	2,410	59,395
Other comprehensive income for the year	–	–	–	131	–	–	–	131	–	131
Total comprehensive income for the year	–	–	–	131	–	–	56,985	57,116	2,410	59,526
Issue of shares	33	35,735	–	–	–	–	–	35,768	–	35,768
Transfer to statutory reserve	–	–	–	–	4,968	–	(4,968)	–	–	–
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	(1,911)	(1,911)
Dividend paid	–	–	–	–	–	–	(60,000)	(60,000)	–	(60,000)
As at 31 December 2009 and 1 January 2010	34	35,735	17,423	5,278	17,804	2,424	116,330	195,028	13,843	208,871
Profit for the year	–	–	–	–	–	–	61,919	61,919	8,021	69,940
Other comprehensive loss for the year	–	–	–	(83)	–	–	–	(83)	–	(83)
Total comprehensive income for the year	–	–	–	(83)	–	–	61,919	61,836	8,021	69,857
Transfer to statutory reserve	–	–	–	–	12,015	–	(12,015)	–	–	–
Effect of Group Reorganisation	(34)	(35,735)	–	–	–	35,769	–	–	–	–
Dividend paid to a minority shareholder of a subsidiary	–	–	–	–	–	–	(9,788)	(9,788)	–	(9,788)
Dividend paid	–	–	–	–	–	–	(75,000)	(75,000)	–	(75,000)
As at 31 December 2010	–	–	17,423	5,195	29,819	38,193	81,446	172,076	21,864	193,940

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before taxation:		
– Continuing operations	**72,043**	55,577
– Discontinued operation	**–**	9,371
Adjustments for:		
Interest income	**(825)**	(878)
Interest expenses	**10,045**	17,058
Net foreign exchange loss	**–**	12
Loss on disposal of property, plant and equipment	**25**	71
Gain on disposal of subsidiaries	**–**	(34,969)
(Gain)/loss on issue of financial guarantee	**(1,612)**	1,612
Loss on disposal of biological assets	**–**	741
Loss on disposal of prepaid lease payments	**–**	6
Depreciation and amortisation	**15,525**	26,501
Gain on disposal of financial assets at fair value through profit or loss	**–**	(7)
Impairment loss on goodwill	**16**	–
Impairment losses recognised on trade receivables	**125**	–
Reversal of impairment loss recognised on other receivables	**–**	(47)
Fair values of agricultural produce on initial recognition	**(58,340)**	(57,952)
Reversal of fair value of agricultural produce due to hatch and disposals	**55,983**	60,083
Change in fair values of financial assets at fair value through profit and loss	**(7)**	(49)
Change in fair value less costs to sell of biological assets	**(2,429)**	(3,388)
Operating cash flows before movements in working capital	**90,549**	73,742
(Increase)/decrease in biological assets	**(167)**	1,913
Decrease/(increase) in trade and other receivables	**18,846**	(81,653)
(Increase)/decrease in inventories	**(7,429)**	5,573
Decrease/(increase) in amounts due from related parties	**232,715**	(130,251)
(Decrease)/increase in amounts due to related parties	**(19,785)**	141,639
Increase in trade and other payables	**47,128**	12,289
Decrease in deferred revenue	**(126)**	(126)
Cash generated from operations	**361,731**	23,126
Interest paid	**(10,045)**	(17,058)
Income tax paid	**(5,613)**	(91)
Net cash generated from operating activities	**346,073**	5,977

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Investing activities		
Interest received	**825**	344
Proceeds from disposal of property, plant and equipment	**2,617**	4,006
Purchase of property, plant and equipment	**(53,923)**	(39,001)
Purchase of prepaid lease payments	**(46,697)**	–
Purchase of financial assets at fair value through profit or loss	**–**	(500)
Purchase of held-to-maturity financial assets	**(1,000)**	(6,000)
Redemption of held-to-maturity financial assets	**6,000**	–
Net cash inflow from acquisition of additional interests in a subsidiary	**2,715**	–
Net cash inflow from disposal of subsidiaries	**–**	16,572
Proceeds from disposal of financial assets at fair value through profit or loss	**–**	507
Increase in pledged bank deposits	**(63,951)**	–
Net cash used in investing activities	**(153,414)**	(24,072)
Financing activities		
Proceeds from borrowings	**104,950**	175,050
Repayments of borrowings	**(176,850)**	(132,695)
Repayments of amount due to a shareholder	**(141,140)**	(17,760)
Proceeds from issue of ordinary shares, net	**–**	35,768
Net cash (used in)/generated from financing activities	**(213,040)**	60,363
Net (decrease)/increase in cash and cash equivalents	**(20,381)**	42,268
Cash and cash equivalents at beginning of year	**61,259**	19,787
Effect of foreign exchange rate changes	**(457)**	(796)
Cash and cash equivalents at end of year	**40,421**	61,259

The accompany notes from an integral part of these financial statements.

1. GENERAL INFORMATION AND REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 February 2010. 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 Companies now comprising the Group underwent a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 20 December 2010, the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation were set out in the prospectus of the Company dated 30 December 2010 (the "Prospectus").

The shares of the Company have been listed on the Stock Exchange since 11 January 2011.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, these consolidated financial statements have been prepared using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), assuming that the current structure of the Group had been in existence throughout the two years ended 31 December 2009 and 2010.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in Note 22.

These consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Group and all values are rounded to the nearest thousand except when otherwise stated.

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

In the current year, the Group have applied a number of new and revised standards and interpretations (the "new HKFRSs") issued by the HKICPA for the financial year beginning 1 January 2010.

The application of the new HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the year ending 31 December 2013 and that application of the Standard may not have significant impacts on the amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to HKFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. If the Group, however, enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because certain counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK (IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK (IFRIC) – Int 19 will affect the required accounting. In particular, under HK (IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost convention except for financial assets through profit or loss, biological assets and agricultural produce, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, 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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Losses applicable to the non-controlling interests in excess of the non-controlling's interest in subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests has a binding obligation and is able to make an additional investment to cover the losses.

Net current liabilities

As at 31 December 2010, the current liabilities of the Group exceeded its current assets by approximately RMB11,613,000. The Group finances its business by obtaining interest-bearing bank borrowings.

On 11 January 2011, the Company was successfully listed on the Stock Exchange, under which a total of 400,000,000 shares were issued at the offer price of HK$0.68 per share. Net proceeds from such issue amounted to approximately HK$244,100,000. On 1 February 2011, pursuant to exercise of the over-allotment options in connection with the listing, a total number of 60,000,000 shares were issued at HK$0.68 per share. Net proceeds from such issue amounted to approximately HK$39,800,000.

The directors of the Company are of the opinion that, taking into account the presently available banking facilities, the net proceeds from the Company's placing and public offer, the continual renewal of bank loans upon maturity and internal financial resources of the Group the Group has sufficient working capital for its present requirements. Hence, the financial statements have been prepared on a going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised, if after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The non-controlling interests in the acquiree is initially measured at the non-controlling's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in a subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group losses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of comprehensive income as follows:

(a) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(b) Rental income

Rental income received under operating leases is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of lease. Contingent rentals are recognised income in the accounting period in which they are earned.

(c) Interest income

Interest income from a financial asset (other than a financial asset at fair value through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Company's or the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

Leasing

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the periods in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gain and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are recognised directly in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposal of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange difference arising are recognised in the foreign currency translation reserve.

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the period necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest (received on or after 1 January 2009) is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan on initial recognition.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

For defined contribution retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use and depreciates on the same basis as other property assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	10 – 30 years
Machinery and equipment	3 – 10 years
Motor vehicles	5 – 8 years
Tools	3 – 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Investment property

Investment property is a building component held for long-term rental yields and is not occupied by the Group.

The investment property is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amount over the estimated useful lives of 30 years.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Agricultural produce is included under inventories at its fair value less costs to sell at the point of lay, subsequently included under inventory and stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Biological assets and agricultural produce

Biological assets are stated at fair value less costs to sell, with any resultant gain or loss recognised in the consolidated statement of comprehensive income. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Agricultural produce, which comprises broiler eggs, is initially measured at its fair value less costs to sell at the point of lay. Any resultant gain or loss recognised in consolidated statement of comprehensive income.

Prepaid lease payments

Prepaid lease payments represent the purchase costs of land use rights and are amortised on a straight-line basis over the period of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses.

Provisions

Provisions are recognised when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities with the Group's management have the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a shareholder, amount due from related parties, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 71 – 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities (including trade and other payables, amount due to a shareholder, amounts due to related parties and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. At the end of the reporting period, the Group measures the financial guarantee contract at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties transactions

A party is considered to be related to the Group if:

(a) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(b) the Group and the party are subject to common control;

(c) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(d) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(e) the party is a close family member of a party referred to in (a) or is an entity under the control, joint control or significant influence of such individuals; or

(f) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be exported to influence, or be influenced by, that individual in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Group accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of property, plant and equipment and investment property

The Group reviews its property, plant and equipment and investment property for indications of impairment at each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the end of the reporting period to ensure inventories are shown at the lower of cost and net realisable value.

(c) Impairment of trade and other receivables

The Group estimates impairment losses for bad and doubtful debts resulting from inability of the customers to make the require payments. The estimate is based on the ageing of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial conditions of the customers were to deteriorate, actual write-offs would be higher than estimated.

(d) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(e) Income taxes

Determining income tax provisions involve judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Fair values of biological assets and agricultural produce

The fair value less costs to sell of breeders is determined using the income approach. The income approach focuses on the income-producing capability of the breeders. It assumes the value of breeders can be measured by the present worth of the net economic benefit to be received over the useful life of breeders. Discounted cash flow method had been used in the valuation. The value depends on the present worth of future economic benefits to be derived from the ownership of breeders. The value is calculated by discounting future cash flows generated from the asset to their present worth at a market-derived rate of return appropriate for the risks and hazards of investing in similar asset.

The fair value less costs to sell of Parent Stock Day-Old Chicks, chicken breeds and pig breeders are determined using the direct comparison approach. The direct comparison approach assumes sales of Parent Stock Day-Old Chicks, chicken breeds and pig breeders in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.

The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets and agricultural produce. Details of the assumptions used are disclosed in note 24.

(g) Provision for financial guarantee

The Group follows the guidance of HKAS 37 *Provision, Contingent Liabilities and Contingent Assets* on determining the provision for guarantees. Provision have been made based on management's best estimates and judgments if it is probable that an outflow of resources will be required to settle the defaulted guarantees and the amount of such provision can be measured reliably.

5. REVENUE

The principal activities of the Group are the trading and manufacturing of poultry and chilled meat, chicken breeding and trading and manufacturing of animal feeds. The amount of each significant category of turnover recognised during the year is as follows:

	2010 RMB'000	2009 RMB'000
Continuing operations		
Sales of chicken meat	**434,786**	364,395
Sales of animal feeds	**162,180**	166,260
Sales of chicken breeds	**36,289**	38,587
	633,255	569,242
Discontinued operation		
Sales of pork	–	520,031
Total	**633,255**	1,089,273

6. SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports which are prepared in accordance with accounting policies which conform to HKFRSs that are regularly reviewed by the chief operating decision maker in order to allocate resources to the reportable segments and to assess their performance.

For the purpose of resources allocation and performance assessment, the Group's executive directors view operating results and financial information by divisions, which are organised by business lines. Where any group company is operating in similar business model, selling similar products and subject to a similar target group of customers, they are aggregated into the following reportable segments according to the nature of each company:

Chicken meat: The chicken meat segment carries on the business of slaughtering, production and sales of chicken meat.

Chicken breeds: The chicken breeds segment carries on the business of hatching of broiler eggs and breeding of Parent Stock Day-Old Chicks.

Animal feeds: The animal feeds segment carries on the business of feeds production.

Pork: The pork segment carries on the business of slaughtering, production and sales of pork.

During the year ended 31 December 2009, the Group had disposed of its pork segment.

The Group's revenue, assets, liabilities and capital expenditure are principally attributable to a single geographical region, which is the PRC and accordingly, no further geographical segment information is presented.

6. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by reportable segments.

31 December 2010

	Continuing operations					Discontinued operation	
	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Sub-total RMB'000	Pork RMB'000	Total RMB'000
Segment results							
External segment revenue	434,786	36,289	162,180	–	633,255	–	633,255
Inter-segment revenue	485,840	35,080	85,627	(606,547)	–	–	–
Segment revenue	920,626	71,369	247,807	(606,547)	633,255	–	633,255
Segment results	96,032	27,821	6,908	–	130,761	–	130,761
Unallocated revenue and gains							23,102
Unallocated operating expenses							(71,775)
							82,088
Finance costs – net							(10,045)
Profit before taxation							72,043
Other segment items included in the consolidated statement of comprehensive income							
Interest income	325	18	–	–	343	–	343
Interest expenses	7,037	1,853	–	–	8,890	–	8,890
Depreciation of property, plant and equipment	8,487	2,582	1,362	–	12,431	–	12,431
Amortisation of prepaid lease payments	540	22	148	–	710	–	710
Segment assets and liabilities							
Segment assets	231,041	38,509	50,401	–	319,951	–	319,951
Unallocated assets							99,806
Total assets							419,757
Segment liabilities	50,445	30,107	27,376	–	107,928	–	107,928
Unallocated liabilities							117,889
Total liabilities							225,817
Capital expenditures	51,493	789	16	–	52,298	–	52,298

6. SEGMENT INFORMATION (Continued)

31 December 2009

	Continuing operations					Discontinued operation	
	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Sub-total RMB'000	Pork RMB'000	Total RMB'000
Segment results							
External segment revenue	364,395	38,587	166,260	–	569,242	520,031	1,089,273
Inter-segment revenue	464,093	37,302	59,559	(560,954)	–	–	–
Segment revenue	828,488	75,889	225,819	(560,954)	569,242	520,031	1,089,273
Segment results	50,768	25,917	21,269	–	97,954	16,603	114,557
Gain on disposal of discontinued operation							34,969
Unallocated revenue and gains							18,252
Unallocated operating expenses							(85,772)
							82,006
Finance costs – net							(17,058)
Profit before taxation							64,948
Other segment items included in the consolidated statement of comprehensive income							
Interest income	853	7	–	–	860	18	878
Interest expenses	6,927	1,979	–	–	8,906	8,152	17,058
Depreciation of property, plant and equipment	3,432	7,729	1,379	–	12,540	10,706	23,246
Amortisation of prepaid lease payments	117	25	148	–	290	640	930
Segment assets and liabilities							
Segment assets	104,756	77,377	48,367	–	230,500	–	230,500
Unallocated assets							328,230
Total assets							558,730
Segment liabilities	29,588	30,752	17,614	–	77,954	–	77,954
Unallocated liabilities							271,905
Total liabilities							349,859
Capital expenditures	2,777	2,161	501	–	5,439	29,557	34,996

6. SEGMENT INFORMATION (Continued)

Other information

Revenue from major products

The Group's revenue from its major products are as follows:

	2010 RMB'000	2009 RMB'000
Continuing operations		
Sales of chicken meat	**434,786**	364,395
Sales of animal feeds	**162,180**	166,260
Sales of chicken breeds	**36,289**	38,587
Total	**633,255**	569,242

Information about major customers

Includes in revenues arising from chicken meat of approximately RMB364,395,000 and RMB434,786,000 during the years ended 31 December 2009 and 2010 are revenues of approximately RMB125,204,000 and RMB130,500,000 which arose from sales to the Group's top five customers.

7. OTHER REVENUE AND GAINS

	2010 RMB'000	2009 RMB'000
Continuing operations		
Interest income on:		
Bank deposits	**344**	593
Held-to-maturity investment	**481**	267
Total interest income	**825**	860
Sales of side products and related products, net	**9,408**	9,821
Gain on disposal of property, plant and equipment	**421**	–
Government grants	**1,419**	1,987
Amortisation of financial guarantee liabilities	**1,612**	–
Reversal of impairment loss recognised on other receivables	**–**	47
Net gain arising on change in fair value of financial assets at fair value through profit or loss	**7**	49
Reimbursement on withholding tax from a shareholder	**8,380**	–
Rental income	**74**	–
Sundry income	**956**	936
	23,102	13,700

8. FINANCE COSTS

	2010 **RMB'000**	2009 RMB'000
Continuing operations		
Interests on:		
– Bank borrowings wholly repayable within five years	**10,045**	8,906
Discontinued operation		
Interests on:		
– Bank borrowings wholly repayable within five years	**–**	8,152

9. TAXATION

	2010 **RMB'000**	2009 RMB'000
PRC enterprise income tax		
– current year	**2,072**	5,522
Deferred income tax (note 10)	**31**	31
	2,103	5,553

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the combined entities, as follows:

	2010 **RMB'000**	2009 RMB'000
Profit before taxation		
– Continuing operations	**72,043**	55,577
– Discontinued operation	**–**	9,371
	72,043	64,948

9. TAXATION (Continued)

	2010 **RMB'000**	2009 RMB'000
Tax at the applicable income tax rate	**18,719**	16,246
Tax exemption for subsidiaries operating in the PRC	**(4,976)**	(5,195)
Tax effect of the expenses not deductible for tax purpose	**918**	181
Tax effect of income not taxable for tax purpose	**(13,763)**	(12,324)
Under/(over) provision for previous years	**231**	(56)
Tax effect of tax loss not recognised	**943**	6,399
Tax effect of unrecognised temporary difference	**31**	302
Income tax expenses	**2,103**	5,553

Notes:

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

(b) No provision for Hong Kong profits tax has been made as the Group did not have assessable profits subject to Hong Kong profits tax during the reporting period.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a tax rate of 25% for the years ended 31 December 2009 and 2010, except for the following:

(i) Pursuant to the Ministry of Finance's Notice on Preferential Enterprise Income Tax on Agricultural Products（《國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍（試行）的通知》）("Order [2008] No. 149"), issued on 20 November 2008, effective on 1 January 2008, Fujian Sumpo Food Holdings Co., Ltd ("Fujian Sumpo") is entitled to enterprise income tax exemption with respect to the income derived from the processing of frozen chicken meat products during the period between 1 January 2008 and 7 September 2018.

(ii) Pursuant to the Ministry of Finance's Notice on Preferential Enterprise Income Tax（《國家稅務總局關於企業所得稅若干優惠政策的通知》）("Order [1994] No. 001"), issued on 29 March 1994, effective on 1 January 1994, and the Ministry of Finance's Approval on the Implementation of Preferential Income Tax for Newly Established Enterprises（《國家稅務總局關於新辦企業所得稅優惠執行口徑的批覆》）("Order [2003] No. 1239") issued on 18 November 2003, Longyan Baotai Agriculture Company Limited ("Longyan Baotai") is entitled to enterprise income tax exemption with respect to the income derived from broilers breeding during the period between 1 January 2006 and 31 December 2010. Longyan Baotai is also entitled to exemption from the value-added tax during the period between 1 December 2005 and 1 November 2025.

(iii) According to the notice issued by the State Council (the "Notice"), enterprises which are entitled to enjoy tax incentive shall have a grace period of five years commencing from 1 January 2008 before they are required to pay the corporate income tax at the rate of 25%. Before the promulgation of the new PRC Enterprise Income Tax Law, as Xiamen Sumpo Food Trading Limited ("Xiamen Sumpo Trading") is located in the Xiamen Special Economic Zone, it was only required to pay corporate income tax at the reduced rate of 15%. As a result of the new PRC tax law and the Notice, it was required to pay corporate income tax at the reduced rate of 18% for the year ended 31 December 2008, 20% for the year ended 31 December 2009, 22% for the year ending 31 December 2010, 24% for the year ending 31 December 2011 and 25% for the year ending 31 December 2012.

9. TAXATION (Continued)

Notes: (continued)

(d) Pursuant to the new PRC Enterprise Income Tax Law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends received by the Group from its PRC subsidiaries are subject to the above-mentioned withholding tax.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2010 would not be distributed in the foreseeable future.

10. DEFERRED TAX ASSETS

The movements in the deferred tax assets during the reporting period are as follows:

	2010	2009
	RMB'000	RMB'000
Deferred revenue		
At the beginning of the year	**901**	932
Charge to profit or loss	**(31)**	(31)
At the end of the year	**870**	901

11. DISCONTINUED OPERATION

Disposal of pork operation

The pork operation include Fujian Sumhua Enterprise Limited ("Fujian Sumhua"), Longyan Baoxing Agriculture Co. Limited ("Longyan Baoxing") and Fujian Senhong Food Development Co. Limited ("Fujian Senhong") (collectively referred to as the "Fujian Sumhua Group") and Fujian Sumhui Agriculture Development Limited ("Fujian Sumhui").

On 1 December 2009, Fujian Sumpo, a subsidiary of the Group, entered into a share transfer agreement with Xiamen Sumpo Group Limited ("Xiamen Sumpo") to dispose of its 98% equity interest in Fujian Sumhua Group to Xiamen Sumpo at a consideration of RMB98,000,000. The disposal was completed on 16 December 2009. According to the agreement and as agreed by both parties, the transfer of equity interest was effective on 30 November 2009.

11. DISCONTINUED OPERATION (Continued)

Disposal of pork operation (Continued)

On the same date, Longyan Baotai, a subsidiary of the Group, entered into a share transfer agreement with Xiamen Sumpo, to dispose of its 2% equity interest in Fujian Sumhua Group to Xiamen Sumpo at a consideration of RMB2,000,000. The disposal was completed on 16 December 2009. According to the agreement and as agreed by both parties, the transfer of equity interest was effective on 30 November 2009.

On 18 December 2009, Fujian Sumpo entered into a share transfer agreement with Fujian Sumhua to disposed of its 70% interest in Fujian Sumhui at a consideration of RMB21,000,000. The disposal was completed on 30 December 2009. According to the agreement and as agreed by both parties, the transfer of equity interest was effective on 31 December 2009.

The profit for the year ended 31 December 2009 from the discontinued operation which has been included in the consolidated statements of comprehensive income and consolidated statements of cash flows are set out below:

	2009 RMB'000
Profit from discontinued operation	
Revenue	520,031
Cost of sales	(503,428)
Other revenue and gains	4,552
Expenses	(46,753)
Loss for the year	(25,598)
Gain on disposal of operation (note 18(a))	34,969
	9,371

	2009 RMB'000
Cash flows from discontinued operation	
Net cash generated from operating activities	45,929
Net cash used in investing activities	(28,244)
Net cash used in financing activities	(8,000)
Net cash inflows	9,685

12. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

Profit for the year from continuing operations has been arrived at after charging:

	2010 RMB'000	2009 RMB'000
Staff costs including directors' remuneration (note 13)	**10,331**	8,913
Contributions to retirement schemes	**1,640**	1,482
Total staff costs	**11,971**	10,395
Depreciation of property, plant and equipment	**14,779**	14,835
Amortisation of investment property	**36**	36
Amortisation of prepaid lease payments	**710**	290
Total depreciation and amortisation	**15,525**	15,161
Auditors' remuneration	**621**	129
Impairment loss recognised on trade receivables	**125**	–
Research and development costs	**1,339**	1,634
Operating lease rental expenses	**737**	226
Loss on disposal of property, plant and equipment	**25**	71

13. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid by the companies now comprising the Group to the directors of the Company during the reporting period are as follows:

	2010 RMB'000	2009 RMB'000
Directors' fees	**144**	–
Salaries, allowances and benefits in kind	**255**	150
Discretionary bonus	**–**	–
Retirement schemes contributions	**5**	5
	404	155

13. DIRECTORS' EMOLUMENTS (Continued)

Details for the emoluments of each director of the Company during the reporting period are as follows:

	Directors' fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2010					
Executive director:					
Mr. Lin Qinglin	–	–	–	–	–
Mr. Wu Shiming	–	–	–	–	–
Mr. Yin Shouhong	–	255	–	5	260
Independent non-executive director:					
Mr. Chau On Ta Yuen	48	–	–	–	48
Mr. Hu Chung Ming	48	–	–	–	48
Mr. Liao Yuan	48	–	–	–	48
Mr. Wei Ji Min	–	–	–	–	–
	144	255	–	5	404
2009					
Executive director:					
Mr. Lin Qinglin	–	–	–	–	–
Mr. Wu Shiming	–	–	–	–	–
Mr. Yin Shouhong	–	150	–	5	155
Independent non-executive director:					
Mr. Chau On Ta Yuen	–	–	–	–	–
Mr. Hu Chung Ming	–	–	–	–	–
Mr. Liao Yuan	–	–	–	–	–
Mr. Wei Ji Min	–	–	–	–	–
	–	150	–	5	155

14. EMPLOYEES EMOLUMENTS

The five highest paid employees of the Group during the reporting period are analysed as follows:

	2010 RMB'000	2009 RMB'000
Directors	260	155
Non-directors	1,663	910
	1,923	1,065

Details of the remuneration of the above non-directors, highest paid employees during the reporting period are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	1,571	805
Retirement scheme contributions	92	105
	1,663	910

The number of these non-directors, highest paid employees whose remuneration fell within the following band is as follows:

	2010	2009
Nil to RMB880,000 (equivalents to HK$1,000,000)	4	4

During the reporting period, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the reporting period (2009: nil).

15. DIVIDENDS

	2010	2009
	RMB'000	RMB'000
Dividends	**75,000**	60,000

During the year ended 31 December 2010, the Company declared a dividend of RMB75,000,000 in respect of the year ended 31 December 2009 to a shareholder of the Company.

During the year ended 31 December 2009, the Company declared a dividend of RMB60,000,000 in respect of the year ended 31 December 2008 to a shareholder of the Company.

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

The directors do not recommend the payment of any dividend in respect of the current year.

16. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit attributable to the owners of the Company for the year and on the assumptions that the proposed 1,600,000,000 ordinary shares in issue as at the date of listing of the Company's shares on the Stock Exchange as described in the sub-section headed "Shareholders' resolutions of the Company passed on 17 December 2010" under the section headed "Statutory and General Information" in Appendix VI to the Prospectus, as if the shares were outstanding throughout the year.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the reporting period.

17. ACQUISITION OF A SUBSIDIARY

On 13 August 2010, Fujian Sumpo entered into a share transfer agreement with Fujian Sumhua to acquired 68% equity interest in Fujian Baojiashun Food Development Company Limited ("Fujian Baojiashun") at a consideration of RMB81,600,000. The consideration was settled by way of deducting the amount due from Fujian Sumhua. The transfer of equity interest in Fujian Baojiashun was completed on 16 August 2010. For details, please refer to the Prospectus.

	Fair value RMB'000
NET ASSETS ACQUIRED:	
Property, plant and equipment	38,607
Prepaid lease payments	46,570
Amount due from holding company	8,115
Amount due from minority shareholder	24,043
Cash and bank balances	2,715
Other payable	(73)
	119,977
Non-controlling interests	(38,393)
Goodwill (note)	16
Total consideration	81,600
Total consideration satisfied by:	
Cash consideration	81,600
Net cash inflow arising on acquisition:	
Cash and bank balances acquired	2,715

Note:

Goodwill arising from the acquisition of 68%equity interest in Fujian Baojiashun from Fujian Sumhua is related to the chicken meat business cash-generating unit.

The directors of the Company evaluated the recoverable amount of goodwill, and determined that an impairment on goodwill of RMB16,000 was required and charged to the consolidated statement of comprehensive income for the year ended 31 December 2010.

18. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Fujian Sumhua

On 1 December 2009, Fujian Sumpo, a subsidiary of the Group, entered into a share transfer agreement with Xiamen Sumpo to dispose of its 98% equity interest in Fujian Sumhua Group to Xiamen Sumpo at a consideration of RMB98,000,000. Such consideration is determined with reference to the registered capital of Fujian Sumhua Group. The disposal was on completed 16 December 2009. According to the agreement and as agreed by both parties, the transfer of control and equity interest was effective on 30 November 2009.

On the same date, Longyan Baotai, a wholly-owned subsidiary of the Group, entered into a share transfer agreement with Xiamen Sumpo, pursuant to which Longyan Baotai agreed to sell its 2% equity interest in Fujian Sumhua Group to Xiamen Sumpo at a consideration of RMB2,000,000. The disposal was completed on 16 December 2009. After the aforesaid transfers, Fujian Sumhua Group became a wholly-owned subsidiary of Xiamen Sumpo. According to the agreement and as agreed by both parties, the transfer of control and equity interest was effective on 30 November 2009.

The aggregate amounts of net assets and liabilities of Fujian Sumhua Group at the date of disposal were:

	2009 RMB'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment, net	220,151
Construction in progress	842
Biological assets	2,006
Prepaid lease payments	32,932
Inventories, net	33,202
Trade and other receivables	68,171
Cash and bank	6,004
Trade and other payables	(20,680)
Short-term bank borrowings	(35,000)
Deferred revenue	(6,559)
Long-term payable	(136,536)
Long-term bank borrowings	(97,500)
	67,033
Non-controlling interests	(2,002)
Gain on disposal	34,969
Total consideration	100,000
Consideration satisfied by cash	100,000

18. DISPOSAL OF SUBSIDIARIES (Continued)

(a) Disposal of Fujian Sumhua (Continued)

	2009 RMB'000
Net cash outflow arising on disposal:	
Cash consideration received	2,000
Cash and bank balances disposed of	(6,004)
	(4,004)

(b) Disposal of Fujian Sumhui

On 18 December 2009, Fujian Sumpo entered into a share transfer agreement with Fujian Sumhua to disposed of its 70% equity interest in Fujian Sumhui at a consideration of RMB21,000,000. The disposal was completed on 30 December 2009. According to the agreement and as agreed by both parties, the transfer of control and equity interest was effective on 18 December 2009. No gain or loss arose from the disposal of 70% equity interest in Fujian Sumhui.

	2009 RMB'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment, net	1,058
Construction in progress	909
Prepaid lease payments	3,677
Cash and bank	2,388
Prepayments and other receivables	22,148
Trade and other payables	(180)
	30,000
Non-controlling interests	(9,000)
Total consideration	21,000
Consideration satisfied by cash	21,000
Net cash inflow arising on disposal:	
Cash consideration received	21,000
Cash and bank balances disposed of	(424)
	20,576

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Tools RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
As at 1 January 2009	235,873	113,806	17,464	5,968	2,102	375,213
Additions	2,980	21,000	4,346	1,372	9,303	39,001
Disposals	(4,422)	(59)	(1,920)	(44)	–	(6,445)
Disposal of subsidiaries	(163,474)	(67,934)	(3,559)	(3,132)	(843)	(238,942)
Transfer	10,435	90	–	16	(10,541)	–
As at 31 December 2009 and 1 January 2010	81,392	66,903	16,331	4,180	21	168,827
Additions	37,780	1,078	608	505	13,952	53,923
Disposals	(754)	(136)	(3,515)	–	–	(4,405)
Transfer	21	–	–	–	(21)	–
As at 31 December 2010	118,439	67,845	13,424	4,685	13,952	218,345
Accumulated depreciation						
As at 1 January 2009	20,714	32,745	2,705	2,710	–	58,874
Provided for the year	10,933	11,150	2,248	1,204	–	25,535
Disposals	(1,844)	(394)	(184)	–	–	(2,422)
Disposal of subsidiaries	(7,121)	(9,739)	(362)	(672)	–	(17,894)
As at 31 December 2009 and 1 January 2010	22,682	33,762	4,407	3,242	–	64,093
Provided for the period	6,305	6,156	1,799	519	–	14,779
Disposals	(57)	(125)	(1,581)	–	–	(1,763)
As at 31 December 2010	28,930	39,793	4,625	3,761	–	77,109
Net book values						
As at 31 December 2010	89,509	28,052	8,799	924	13,952	141,236
As at 31 December 2009	58,710	33,141	11,924	938	21	104,734

20. INVESTMENT PROPERTY

	2010 RMB'000	2009 RMB'000
Cost		
At the beginning of the year	**1,187**	1,187
Addition	**–**	–
At the end of the year	**1,187**	1,187
Accumulated depreciation		
At the beginning of the year	**84**	48
Charge for the year	**36**	36
At the end of the year	**120**	84
Net book values	**1,067**	1,103

The investment property is located in Mainland China, on land with land use right of 30 years.

The fair values of the investment property was RMB2,770,000 at the end of the reporting period (2009: RMB2,720,000). The fair values of the investment property of the Group at the end of the reporting periods has been arrived at on the basis of a valuation carried out at that date by Asset Appraisal Limited (the "Valuer") and have appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

21. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Cost		
At the beginning of the year	**11,246**	46,226
Additions	**46,697**	–
Disposals	**–**	(34,980)
At the end of the year	**57,943**	11,246
Accumulated amortisation		
At the beginning of the year	**1,390**	2,502
Charge for the year	**710**	930
Disposals	**–**	(2,042)
At the end of the year	**2,100**	1,390
Net book values	**55,843**	9,856
Analysed for reporting purposes as:		
Current assets	**1,298**	290
Non-current assets	**54,545**	9,566
	55,843	9,856

The leases are held under long term leases and are situated in the PRC.

The prepaid lease payments with net book amount of approximately RMB4,828,000 at the end of the reporting period (2009: approximately RMB9,117,000), are pledged as collaterals for the Group's bank borrowings. Please refer to note 35 for details.

22. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2009 and 2010 are as follows:

Name of subsidiary	Place of incorporation	Percentage of equity interest attributable to the company Direct %	Percentage of equity interest attributable to the company Indirect %	Principal activities
Fujian Sumpo (note (a))	PRC	–	90	Manufacturing and trading of animal feeds, trading of poultry, processing and trading of meat and meat product
Longyan Baotai (note (b))	PRC	–	90	Breeding and sales of poultry commodity broilers, chicken breeds, aquatic products and provision of breeding techniques consultancy services
Xiamen Sumpo Trading (note (c))	PRC	–	90	Sale of packaged food products
Fujian Hetai Poultry Company Limited ("Fujian Hetai") (note (d))	PRC	–	90	Dormant
Fujian Baojiashun (note (e))	PRC	–	90	Dormant

Notes:

a. Fujian Sumpo was a limited liability company established in the PRC on 7 September 1998, which was transformed into a joint stock company on 10 July 2007.

b. Longyan Baotai was a limited liability company established in the PRC on 1 November 2005 with a registered capital of RMB32,000,000 and a wholly-owned subsidiary of Fujian Sumpo.

c. Xiamen Sumpo Trading was a limited liability company established in the PRC on 19 October 2005 with a registered capital of RMB10,000,000 and a wholly-owned subsidiary of Fujian Sumpo.

d. Fujian Hetai was a limited liability company established in the PRC on 8 June 2010 with a registered capital of RMB20,000,000 and a wholly-owned subsidiary of Fujian Sumpo.

e. Fujian Baojiashun was a limited liability company established in the PRC on 14 July 2010 with a registered capital of RMB120,000,000 which was owned by Fujian Sumhua and Fujian Sumpo as to 68% and 32% respectively before the transfer of equity interests from Fujian Sumhua to Fujian Sumpo as at 16 August 2010 (note 17).

23. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2010 RMB'000	2009 RMB'000
Frozen meats	**19,594**	16,075
Animal feeds	**2,184**	4,158
Processed foods	**1,046**	636
Agricultural produce	**5,223**	2,866
Raw materials (note)	**16,951**	13,819
Consumables	**742**	849
Packaging	**524**	432
	46,264	38,835

Note: Included in the raw materials were mainly raw materials for the production of animal feeds, such as corn, wheat, soya meal and additives.

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	2010 RMB'000	2009 RMB'000
Carrying amount of inventories sold		
– continuing operations	**475,399**	452,976
– discontinued operation	**–**	507,641
	475,399	960,617
Fair value of agricultural produce on initial recognition	**(58,340)**	(57,952)
Reversal of fair value of agricultural produce due to hatch and disposals	**55,983**	60,083
	473,042	962,748

(c) Production quantities of agricultural produce:

	2010	2009
Broiler eggs (units)	**23,335,969**	23,180,983

23. INVENTORIES (Continued)

(d) Movements of the agricultural produce, representing broiler eggs, are summarised as follows:

	2010 **RMB'000**	2009 RMB'000
At the beginning of the year	**2,866**	4,997
Increase due to lay	**58,340**	57,952
Decrease due to hatch and disposals	**(55,983)**	(60,083)
At the end of the year	**5,223**	2,866

24. BIOLOGICAL ASSETS

Movements of the biological assets are summarised as follows:

	Parent Stock Day – Old Chicks and immature breeders RMB'000	**Mature breeders** RMB'000	**Chicken breeds** RMB'000	**Pig breeders** RMB'000	**Total** RMB'000
As at 1 January 2009	5,656	4,012	4,820	3,154	17,642
Increase due to purchases	2,720	–	–	155	2,875
Increase due to raising (Feeding cost and others)	4,287	–	91,203	1,625	97,115
Transfer	(8,919)	8,919	–	–	–
Decrease due to retirement and deaths	–	(6,470)	–	(2,928)	(9,398)
Decrease due to sales	–	–	(92,505)	–	(92,505)
Disposal of subsidiaries	–	–	–	(2,006)	(2,006)
Change in fair value less costs to sell	2,144	(334)	1,578	–	3,388
As at 31 December 2009 and 1 January 2010	5,888	6,127	5,096	–	17,111
Increase due to purchases	2,367	–	–	–	2,367
Increase due to raising (Feeding cost and others)	4,002	–	94,042	–	98,044
Transfer	(5,404)	5,404	–	–	–
Decrease due to retirement and deaths	–	(9,306)	–	–	(9,306)
Decrease due to sales	–	–	(90,938)	–	(90,938)
Change in fair value less costs to sell	20	3,474	(1,065)	–	2,429
As at 31 December 2010	6,873	5,699	7,135	–	19,707

24. BIOLOGICAL ASSETS (Continued)

The numbers of biological assets are summarised as follows:

	2010	2009
	'000	'000
Parent Stock Day-Old Chicks and immature breeders	**78**	62
Mature breeders	**91**	127
Chicken breeds	**644**	662
At the end of the year	**813**	851

Analysed for reporting purposes as:

	2010	2009
	RMB'000	RMB'000
Current assets	**7,135**	5,096
Non-current assets	**12,572**	12,015
At the end of the year	**19,707**	17,111

The chicken breeds are primarily held for further growth for the production of chicken meat and is classified as current assets. The immature breeders are primarily bred for further growth into mature breeders. The mature breeders are primarily held to produce agricultural produce. Both immature breeders and mature breeders are classified as non-current assets.

The fair values of biological assets of the Group at the end of each reporting period has been arrived at on the basis of a valuation carried out at that date by the Valuer and have appropriate qualifications and recent experiences in the valuation of similar assets.

The fair value less costs to sell of chicken breeds and pig breeders is determined using the direct comparison approach. The direct comparison approach assumes sales of chicken breeds and pig breeders in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.

24. BIOLOGICAL ASSETS (Continued)

Under the prevailing market, only Parent Stock Day-Old Chicks or mature breeders having their egg laying cycles terminated after breeding for 66 weeks are normally transacted on the market. Therefore, the breeders are seldom transacted on the market and their market determined prices are unavailable. In this regard, it is appropriate for the Company to estimate their fair value less costs to sell by using the income approach rather than the direct comparison approach. The fair value less costs to sell under income approach is measured by discounted cash flow ("DCF") model. Despite the short production cycle of breeders, the DCF model is considered an appropriate method of valuation as there is time lag between cash outflows and cash inflows of the operations where negative net cash flows are observed during the initial stage of the breeding cycle. By discounting all future cash flows into present values, for the same dollar amount, the model can reflect the difference in values of cash flows happened in different points of time along the breeding cycle. The DCF model focuses on the income-producing capability of the breeders. Cash inflows of the model comprise the fair value of broiler eggs to be laid by the breeders from the valuation date to the end of the expected egg laying period and the terminal value of the mature breeders having their egg laying cycles terminated (based on their disposal values). Cash outflows comprise the breeding costs (based on actual costs incurred) as well as costs allowed for wastage due to natural mortality and infertility. The DCF model involves specific assumptions such as the discount rate, yield of egg production per breeder, mortality rate and infertility rate, market price of broiler eggs and related production costs.

The discount rate adopted in the DCF model for the reporting period is 24.71% (2009: 24.77%).

In addition, the following principal assumptions have been adopted by the Valuer:

- there will be no major change in the existing political, legal and economic conditions in the PRC;
- save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;
- the interest rates and exchange rates will not differ materially from those presently prevailing;
- the breeders are free from any animal diseases, including but not limiting to avian influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;
- the life cycle, natural mortality rates and infertility rates of that particular breed of breeders as given by the Group are fair and reasonable and egg laying pattern of that particular breed of breeders is not materially different from that as shown in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives as published by Aviagen Group which is the developer of AA+ branded chicken;

24. BIOLOGICAL ASSETS (Continued)

- the availability of finance will not be a constraint on the breeding of the breeders;
- the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;
- the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;
- the breeders are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;
- the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and
- the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the breeders.

25. TRADE AND OTHER RECEIVABLES

	2010 **RMB'000**	2009 RMB'000
Trade receivables	**20,088**	49,498
Less: Impairment loss recognised	**(450)**	(325)
	19,638	49,173
Deposits paid, prepayments and other receivables	**30,166**	19,602
Less: Impairment loss recognised	**(528)**	(528)
	29,638	19,074
Total	**49,276**	68,247

25. TRADE AND OTHER RECEIVABLES (Continued)

Trade receivables

The fair values of trade receivables approximate their carrying amounts.

The Group normally allows a credit period ranging from 15 to 70 days. The ageing analysis of trade receivables, net of impairment is as follows:

	2010 RMB'000	2009 RMB'000
Within 30 days	**18,796**	37,051
31 days to 70 days	**745**	11,077
71 days to 180 days	**74**	842
Over 180 days	**23**	203
	19,638	49,173

Certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010 RMB'000	2009 RMB'000
Within 30 days	**–**	–
31 days to 70 days	**–**	127
71 days to 180 days	**74**	842
Over 180 days	**23**	203
	97	1,172

At the end of the reporting period, trade receivables of approximately RMB450,000 (2009: RMB325,000) was impaired and had been fully provided for. These receivables mainly relate to wholesales in unexpected difficult economic situations. The ageing of these receivables are as follows:

	2010 RMB'000	2009 RMB'000
Over 180 days	**450**	325

25. TRADE AND OTHER RECEIVABLES (Continued)

Trade receivables (Continued)

Movements of impairment loss recognised on trade receivables:

	2010 **RMB'000**	2009 RMB'000
At the beginning of the year	**325**	325
Impairment loss recognised	**125**	–
At the end of the year	**450**	325

The creation and release of provision for impairment of trade receivables have been included in administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The trade receivables are denominated in RMB.

There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

Other receivables

	2010 **RMB'000**	2009 RMB'000
IPO deposits paid	**2,442**	2,445
Advances to staff	**1,346**	4,960
VAT recoverable	**208**	1,241
Other receivables	**897**	543
Suppliers' deposits	**14,720**	2,179
Deposits paid for purchase of property, plant and equipment	**6,397**	5,654
Deposits paid and prepayments	**4,156**	2,580
	30,166	19,602
Less: Impairment loss recognised	**(528)**	(528)
	29,638	19,074

The fair values of other receivables approximate their carrying amounts.

The other receivables are denominated in RMB.

25. TRADE AND OTHER RECEIVABLES (Continued)

Other receivables (Continued)

Movements of impairment loss recognised on other receivables are as follows:

	2010 RMB'000	2009 RMB'000
At the beginning of the year	**528**	575
Reversal of impairment loss recognised	**–**	(47)
At the end of the year	**528**	528

26. AMOUNT DUE FROM A SHAREHOLDER

Name of a shareholder	Maximum balance outstanding during the year RMB'000	2010 RMB'000	Maximum balance outstanding during the year RMB'000	2009 RMB'000
Golden Prince Group Limited	**17,854**	**–**	17,854	17,854

The amount due from a shareholder was unsecured, interest-free and had been settled.

27. AMOUNTS DUE FROM RELATED PARTIES

Name of related party	Relationship	**Maximum balance outstanding during the year RMB'000**	**2010 RMB'000**	Maximum balance outstanding during the year RMB'000	2009 RMB'000
Mr. Lin Qingrong	Director of a subsidiary	**2,643**	**–**	2,643	169
Mr. Ke Mingxing	Director of a subsidiary	**989**	**–**	989	60
Mr. Lai Youhui	Director of a subsidiary	**50**	**–**	50	–
林金英	Relative of a director of a subsidiary	**844**	**–**	844	258
Fujian Sumhua (note (a))	Common director in a related company	**123,790**	**–**	123,790	123,552
Fujian Sumhui	Common director in a related company	**2,072**	**–**	2,072	2,072
Longyan Baoxing	Common director in a related company	**9,625**	**–**	9,625	9,625
Longyan Investment	Shareholder of a subsidiary	**50**	**–**	50	50
Xiamen Sumpo (note (b))	Common director in a related company	**101,929**	**–**	101,929	96,929
			–		232,715

The amounts due from related parties which were in trade nature are unsecured, interest-free and have a credit period of 30 days.

The amounts due from related parties which were in non-trade nature are unsecured, interest-free and had been settled.

Notes:

(a) Subsequent to the reporting date as of 31 December 2009, the amount due from Fujian Sumhua was partly settled by way of transfer of 68% equity interest in Fujian Baojianshun. On 13 August 2010, Fujian Sumpo entered into a share transfer agreement to acquire 68% equity interest in Fujian Baojiashun from Fujian Sumhua at a consideration of RMB81,600,000. The transfer of 68% equity interest in Fujian Baojiashun was completed on 16 August 2010.

Such amount due from Fujian Sumhua was settled prior to the Listing.

The major assets of Fujian Baojiashun comprises of land use rights and buildings located in the PRC. The fair value of the land use rights and buildings amounting to approximately RMB61,335,000 and RMB19,746,000 respectively as at 18 May 2010 has been arrived at on the basis of a valuation carried out by an independent PRC professional valuers.

(b) The amount due from Xiamen Sumpo represents the amount receivable in relation to deferred cash consideration receivable on the disposal of 100% equity interest in Fujian Sumhua Group and 70% equity interest in Fujian Sumhui at RMB100,000,000 and RMB21,000,000 respectively, and net of the amount due to Xiamen Sumpo at the year ended date. For details of the disposals, please refer to notes 18(a) and (b).

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 RMB'000	2009 RMB'000
Held for trading:		
Listed securities:		
– Equity securities listed in the PRC	**122**	115

Fair value is determined with reference to quoted market bid prices.

29. HELD-TO-MATURITY INVESTMENT

	2010 RMB'000	2009 RMB'000
Unlisted debt securities: (note)		
– Current assets	**–**	6,000
– Non-current assets	**1,000**	–
	1,000	6,000

Note: Held-to maturity debt securities are measured at amortised cost less any impairment losses. They had fixed interests and will mature in 2012.

30. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**40,421**	61,259
Pledged bank deposits (note 45)	**63,951**	–
	104,372	61,259

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at the prevailing market rates which at 0.36% per annum during the reporting period (2009: 0.36%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of approximately RMB32,356,000 (2009: approximately RMB46,334,000) which are not freely convertible into other currencies.

31. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	RMB'000
Trade payables	**37,950**	30,512
Bills payables	**54,579**	26,950
Deposits received	**518**	293
Accruals and other payables	**21,823**	9,987
	114,870	67,742

The ageing analysis of trade payables is as follows:

	2010	2009
	RMB'000	RMB'000
Within 30 days	**35,214**	17,644
31 days to 90 days	**2,205**	5,738
91 days to 180 days	**39**	246
Over 180 days	**492**	6,884
	37,950	30,512

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

32. AMOUNT DUE TO A SHAREHOLDER

	2010	2009
Name of a shareholder	**RMB'000**	RMB'000
Mr. Lin Qinglin	**–**	23,994

The amount due to a shareholder is unsecured, interest free and had been settled.

33. AMOUNTS DUE TO RELATED PARTIES

Name of related party	Relationship	2010 RMB'000	2009 RMB'000
華紹桂	Director of a subsidiary	–	100
陳宏偉	Director of a subsidiary	–	47
Fujian Senhong	Common director in a related company	–	9,850
		–	9,997

The amounts due to related parties are unsecured, interest free and had been settled.

34. FINANCIAL GUARANTEE LIABILITIES

	2010 RMB'000	2009 RMB'000
At the beginning of the year	1,612	–
Fair value of the financial guarantee at date of grant	–	1,612
Amortisation of financial guarantee liabilities	(1,612)	–
At the end of the year	–	1,612

During the year ended 31 December 2009, Fujian Sumpo provided guarantees for bank loans of RMB160,000,000 to Fujian Sumhua. The financial guarantees were released during the year ended 31 December 2010.

The above balances represented the fair values of the financial guarantees.

35. BANK BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank borrowings – secured	89,950	175,050
Bank borrowings – unsecured	15,000	–
Total bank borrowings	104,950	175,050
Loan from other banking facilities	1,260	3,060
	106,210	178,110

35. BANK BORROWINGS (Continued)

Carrying amount repayable:

	2010 RMB'000	2009 RMB'000
On demand or within one year	**104,950**	136,850
More than one year but less than two years	**1,260**	40,630
More than two years but less than five years	**–**	630
Total bank borrowings	**106,210**	178,110
Less: Amounts due within one year shown under current liabilities	**104,950**	136,850
	1,260	41,260

Bank borrowings at:

	2010 RMB'000	2009 RMB'000
– floating interest rate	**17,000**	40,000
– fixed interest rate	**89,210**	138,110
	106,210	178,110

The carrying amounts of the Group's bank borrowings are all originally denominated in RMB, which is the functional currency of the Group.

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

	2010	2009
Bank borrowings	**2.4% – 5.6%**	2.4% – 5.9%

35. BANK BORROWINGS (Continued)

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

	2010 **RMB'000**	2009 RMB'000
Property, plant and equipment	**8,692**	18,290
Prepaid lease payments	**4,828**	9,117
	13,520	27,407

The fair values of the short-term borrowings approximate their carrying amounts.

The carrying amounts and fair values of the non-current borrowings are as follow:

	2010 **RMB'000**	2009 RMB'000
Carrying amount	**1,260**	41,260
Fair value	**1,146**	37,979

As at 31 December 2009, the Group's bank borrowings of RMB110,050,000 was guaranteed by Xiamen Sumpo and such guarantee was released during the year ended 31 December 2010.

36. DEFERRED REVENUE

At the end of the reporting period, the Group has unused government grants in relation to the construction of qualifying assets of approximately RMB4,477,000 (2009: approximately RMB4,603,000), respectively. The deferred revenue will be recognised upon construction of qualifying assets. The government grants are not repayable.

37. SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares	
		HK$'000	RMB'000
Ordinary shares of HK$0.1 each			
Authorised:			
On the date of incorporation and at 31 December 2010 (note (b))	3,800,000	380	304
Increase of ordinary shares of HK$0.1 each (note (c)(i))	3,996,200,000	399,620	319,696
	4,000,000,000	400,000	320,000
Issued and fully paid:			
On the date of incorporation (note (b))	1	–	–
Issues of shares for the Reorganisation (note (c)(ii))	4,999	–	–
As at 31 December 2010	5,000	–	–

Notes:

(a) As at 31 December 2009, the share capital of the Group represents the issued share capital of Sumpo Holdings prior to the establishment of the Company.

(b) As at the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 3,800,000 shares of HK$0.1 each. One share was issued to Codan Trust Company (Cayman) Limited as subscriber for cash at par on 22 February 2010 and such share was transferred to Mr. Lin Qinglin on the same day.

(c) Pursuant to written resolutions passed by the then sole shareholder of the Company on 17 December 2010:

(i) the authorised share capital of the Company was increased from HK$380,000 to HK$400,000,000 by the creation of an additional 3,996,200,000 shares, such new shares to rank pari passu with the then existing shares in all respects; and

(ii) the Directors were authorised to allot and issue 2,674, 697, 400, 450, 450, 328 shares nil paid to Mr. Lin Qinglin, Mr. Lin Genghua, Success Dragon International Limited, Golden Prince Group Limited, King & Queen International Limited and Robust China Limited (together the "Existing Shareholders") respectively.

(iii) Pursuant to the resolutions of the Broad passed on 20 December 2010, it was resolved that in exchange and as consideration for the acquisition of the entire issued share capital of 5,000 shares of US$1 each in the capital of Sumpo Holdings from the Existing Shareholders, the Company would apply the sum of HK$499.90 to pay up in full at par the 4,999 shares which were issued to the Existing Shareholders nil-paid on 17 December 2010.

38. RESERVES

(a) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC.

(b) Statutory reserve

Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

(c) Other reserve

During the year ended 31 December 2010, the amount of approximately RMB35,769,000 represented the difference between the Company's share of nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the Reorganisation as detailed in note 2.

39. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, this contribution is matched by employees.

The employees of the Group's subsidiaries established in the PRC are members of state-managed retirement benefits schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligations of the Group with respect to the retirement benefits schemes are to make the specified contributions.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting period.

The capital structure of the Group consists of bank borrowings and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained earnings).

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as raising and repayment of bank borrowings.

40. CAPITAL RISK MANAGEMENT (Continued)

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings with total assets. The Group's overall strategy remains unchanged during the reporting period. The gearing ratio at the end of each reporting periods were as follows:

	2010 **RMB'000**	2009 RMB'000
Total borrowings	**106,210**	178,110
Total assets	**419,757**	558,730
Gearing ratio (%)	**25%**	32%

41. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 **RMB'000**	2009 RMB'000
Financial assets		
Financial assets at fair value through profit or loss		
– Held for trading	**122**	115
Held-to-maturity investment	**1,000**	6,000
Loans and receivables (including cash and bank balances)		
– Trade and other receivables	**49,276**	68,247
– Amount due from a shareholder	**–**	17,854
– Amounts due from related parties	**–**	232,715
– Pledged bank deposits	**63,951**	–
– Cash and bank balances	**40,421**	61,259
Financial liabilities		
Amortised cost		
– Trade and other payables	**114,870**	67,449
– Amount due to a shareholder	**–**	23,994
– Amounts due to related parties	**–**	9,997
– Bank borrowings	**106,210**	178,110
Financial guarantee liabilities	**–**	1,612

41. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The directors of the Group monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest risk), credit risk, business risk and liquidity risk.

The Group's major financial instruments include trade and other receivables, trade and other payables, financial assets at fair value through profit or loss, held-to-maturity investment, pledged bank deposit, cash and bank balances and bank borrowings. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by senior management. The Group diversified business base ensures that there are no significant concentrations of credit risk for a particular customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Interest rate risk

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group's results for the current reporting period and in future years. The Group is exposed to interest rate risk arising from bank borrowings on floating rate basis. The Group generally does not take a speculative view on the movement in interest rates and, therefore, does not actively use interest rate derivative instruments to hedge exposed risks.

Management considered that the exposure to interest rates on its variable-rated borrowing is limited. A 50 basis point increase or decrease is used when reporting interest rate internally to key management personnel and represents management's assessment of the possible change in interest rates. A 50 basis point change in interest rate with all other variable were held constant, would not have a significant effect on the Group's profit for each of the reporting periods.

41. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Currency risk

As most of the Group's monetary assets and liabilities are denominated in RMB and the Group conducts its business transactions principally in RMB, the currency risk of the Group is not significant and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

In the opinion of the directors of the Company, since the currency risk is minimal, no sensitivity analysis is presented.

Business risk

The Group is exposed to financial risks arising from changes in prices of livestock and livestock's agricultural produce and the change in cost and supply of feed ingredients, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases. The Group has little or no control over these conditions and factors.

The Group is subject to risks relating to its ability to maintain animal health status. Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on a regular basis and has procedures in place to reduce potential exposure to infectious diseases. Although policies and procedures have been put into place, there is no guarantee that the Group will not be affected by epidemic diseases.

The Group manages its exposure to fluctuation in the price of the key raw materials used in the operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

Liquidity risk

The Group is exposed to minimal liquid risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail Group's contractual maturity for its financial liabilities. The tables has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which Group can be required to pay. The tables include both interest and principal cash flows.

41. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2010						
Non-derivative financial liabilities						
Trade and other payables	–	114,870	–	–	114,870	114,870
Bank borrowings	5.1%	108,447	1,385	–	109,832	106,210
		223,317	1,385	–	224,702	221,080

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2009						
Non-derivative financial liabilities						
Trade and other payables	–	67,449	–	–	67,449	67,449
Amounts due to related parties	–	9,997	–	–	9,997	9,997
Bank borrowings	5.1%	140,403	43,375	1,454	185,232	178,110
Financial guarantee liabilities	–	1,612	–	–	1,612	1,612
Amount due to a shareholder	–	23,994	–	–	23,994	23,994
		243,455	43,375	1,454	288,284	281,162

41. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid and ask prices; and

ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amounts of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable at the end of the reporting period.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

41. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Fair value measurements recognised in the consolidated statement of financial position (Continued)

As at 31 December 2010

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets				
Financial assets at fair value through profit or loss	**122**	**–**	**–**	**122**

As at 31 December 2009

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	115	–	–	115

42. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Significant related party transactions

Particulars of significant related party transactions during the reporting period that will be continued after the Listing are as follows:

Name of company	Nature of transaction	**2010 RMB'000**	2009 RMB'000
Fujian Sumhua	Rental income	**96**	–
Fujian Sumhua	Sales of chicken meat (notes (ii) and (iii))	1,289	295
Fujian Sumhua	Sales of side products (notes (ii) and (iv))	777	69
Xiamen Oporto	Sales of chicken meat	**476**	–
Xiamen Sumpo	Rental paid	**54**	24

Particulars of significant related party transactions during the reporting period that had been discontinued prior to the Listing, is as follows:

Name of company	Nature of transaction	**2010 RMB'000**	2009 RMB'000
Fujian Sumhua	Rental paid (notes (ii) and (v))	399	–

Particulars of significant related party transactions during the reporting period that had been discontinued after to the Listing, are as follows:

Name of company / related party	Nature of transaction	**2010 RMB'000**	2009 RMB'000
Fujian Sumhua	Purchase of pork for trading (notes (i) and (ii))	4,801	3,166
Longyan Baoxing	Sales of animal feeds (notes (i) and (ii))	6,549	466
Xiamen Sumpo	Sales of chicken meat (note (i))	–	5
Mr. Lin Qinglin	Reimbursement on withholding tax	**8,380**	–

42. RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions (Continued)

Notes:

(i) The directors of the Company have confirmed that these transactions will be discontinued in the future after Listing.

(ii) The transactions for the years ended 31 December 2009 and 2010 represent the amount transacted after the disposal of Fujian Sumhua in November 2009.

(iii) For each of the years ended 31 December 2009 and 2010, the aggregate amount of the purchase price paid by Fujian Sumhua for the purchase of the frozen chicken meat products was approximately RMB295,000 and RMB1,289,000 respectively.

(iv) For each of the two years ended 31 December 2009 and 2010, the aggregate amount of the purchase price paid by Fujian Sumhua for the purchase of the agricultural side products were approximately RMB69,000 and RMB777,000 respectively.

(v) This transaction had been terminated in August 2010.

(b) Key management personnel remuneration

	2010	2009
	RMB'000	RMB'000
Short term employee benefits	**1,936**	1,449
Retirement benefits schemes contributions	**125**	187
	2,061	1,636

43. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the end of each reporting date, the Group had commitments for future minimum lease payments in respects of farms and office premises under non-cancellable operating leases from selected farmers at an agreed price based on the area of the farm, which fall due as follows:

	2010	2009
	RMB'000	RMB'000
Within one year	**432**	1,671
In the second to fifth year inclusive	**3,435**	4,769
After the fifth year	**2,429**	2,670
	6,296	9,110

Operating lease payments represent rentals payable by the Group for certain of its farm and office premises. Leases in respect of farms are negotiated for a term of fifteen to fifty years with fixed rentals. Leases in respect of office premises are negotiated for a term of one to two years with fixed rentals.

44. COMMITMENTS FOR EXPENDITURE

	2010 RMB'000	2009 RMB'000
Commitments for the acquisition of property, plant and equipment	**113,986**	202

45. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group (note 35):

	2010 RMB'000	2009 RMB'000
Bank deposits	**63,951**	–
Property, plant and equipment	**8,692**	18,290
Prepaid lease payments	**4,828**	9,117
	77,471	27,407

46. CONTINGENT LIABILITIES

	2010 RMB'000	2009 RMB'000
Guarantees give to banks for:		
– bank borrowings granted to a related company	**–**	160,000

47. NON-CASH TRANSACTION

The Group entered into a non-cash investing activity which is not reflected in the consolidated statements of cash flow for the year ended 31 December 2009. The Group had disposed its entire equity interest in Fujian Sumhua Group on 30 November 2009 and the sales proceeds of approximately RMB98,000,000 had not been received in cash as at 31 December 2009 (note 18 (a)).

48. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) On 11 January 2011, the Company issued 160,000,000 new ordinary shares of HK$0.1 each for cash pursuant to the Company's initial public offering and placing at a price of HK$0.68 per share to the public for listing of those shares on the Stock Exchange. Net proceeds from such issue amounted to approximately HK$244,100,000.

(b) On 28 January 2011, the Company issued 60,000,000 new ordinary shares of HK$0.1 each for cash pursuant to the full exercise of the over-allotment option in connection with the initial public offering at a price of HK$0.68 per share. Net proceeds from such issue amounted to approximately HK$39,800,000.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 23 March 2011.

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial statements and the Prospectus, is set out below:

RESULTS

	Year ended 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations				
Revenue	**633,255**	569,242	587,743	436,419
Cost of sales	**(507,280)**	(472,545)	(491,148)	(347,012)
Gross profit	**125,975**	96,697	96,595	89,407
Other revenue and gains	**23,102**	13,700	15,174	12,638
Change in fair value less costs to sell of biological assets	**2,429**	3,388	(2,191)	3,058
Fair value of agricultural produce on initial recognition	**58,340**	57,952	55,786	34,880
Reversal of fair value of agricultural produce due to hatch and disposals	**(55,983)**	(60,083)	(53,884)	(34,021)
Selling and distribution expenses	**(10,674)**	(9,295)	(9,481)	(8,354)
Administrative expenses	**(41,786)**	(22,406)	(19,444)	(23,951)
Finance costs	**(10,045)**	(8,906)	(9,133)	(4,522)
Other operating expenses	**(19,315)**	(15,470)	(17,663)	(11,293)
Profit before taxation	**72,043**	55,577	55,759	57,842
Taxation	**(2,103)**	(5,553)	(7,107)	(13,693)
Profit for the year from continuing operations	**69,940**	50,024	48,652	44,149
Discontinued operation				
Profit/(loss) for the year from discontinued operation	**–**	9,371	(2,716)	–
Profit for the year	**69,940**	59,395	45,936	44,149
Attributable to:				
For continuing and discontinued operations				
Profit attributable to:				
Owners of the Company	**61,919**	56,985	39,715	42,502
Non-controlling interests	**8,021**	2,410	6,221	1,647
	69,940	59,395	45,936	44,149

FOUR YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**419,757**	558,730	560,138	439,106
Total liabilities	**(225,817)**	(349,859)	(384,650)	(309,579)
Non-controlling interests	**(21,864)**	(13,843)	(13,344)	(5,723)
	172,076	195,028	162,144	123,804