

*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*



Chartered Accountants  
Certified Public Accountants

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The Landmark  
11 Pedder Street  
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Hong Kong

29 February 2012

The Directors  
China Putian Food Holding Limited  
Cinda International Capital Limited

Dear Sirs,

We set out below our report on the financial information of China Putian Food Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), comprising the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 December 2008, 2009, 2010 and the nine months ended 30 September 2011 (the “Track Record Period”), and the combined statements of financial position of the Group as at 31 December 2008, 2009, 2010 and 30 September 2011, together with the notes thereto (the “Financial Information”), and the comparative combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for the nine months ended 30 September 2010 (the “Unaudited Comparative Financial Information”), prepared on the basis of presentation set out in Note 3 of Section II below, for inclusion in the prospectus of the Company dated 29 February 2012 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 27 May 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”), as more fully explained in the paragraph headed “Corporate Reorganisation” in Appendix VI to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group as set out in Note 2 of Section II. The Reorganisation became effective on 10 February 2012.

All companies now comprising the Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for the Company since its date of incorporation as there are no statutory requirements for the Company to prepare audited financial statements.

No statutory audited financial statements for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 of China Modern Agriculture Holding Limited (“China Modern”), Victoria Top Limited (“Victoria Top”) and Wellname Investments Limited (“Wellname Investments”) have been prepared as there are no statutory requirements for China Modern, Victoria Top and Wellname Investments to prepare financial statements.

The statutory audited financial statements of Tianyi (Fujian) Modern Agriculture Development Co., Ltd (“Fujian Tianyi”) for the years ended 31 December 2008, 2009 and 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC”) and were audited by Putian Shenxin Certified Public Accountants Ltd (莆田市審信有限責任會計師事務所), certified public accountants registered in the PRC.

### **BASIS OF PREPARATION**

For the purpose of this report, the directors of the Company have prepared the Financial Information for the Track Record Period based on the unaudited financial statements of the Group in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The Financial Information for each of the Track Record Period were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The Financial Information set out in this report has been prepared from the unaudited financial statements with no adjustments made thereon.

### **RESPONSIBILITY OF THE DIRECTORS**

The directors of the Company are responsible for the contents of the Prospectus, including the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in Note 3 of Section II. The directors are responsible for the preparation of the Financial Information and the Unaudited Comparative Financial Information that give a true and fair view in accordance with HKFRSs and the Listing Rules, and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information and the Unaudited Comparative Financial Information that are free from material misstatement, whether due to fraud or error.

### **RESPONSIBILITY OF REPORTING ACCOUNTANTS**

For the Financial Information for the Track Record Period, it is our responsibility is to form an independent opinion on the Financial Information based on our examination and to report our opinion to you. We examined the relevant audited financial statements or, where appropriate, the relevant unaudited financial statements of the Group for the Track Record Period, and carried out such procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists principally of making enquiries of the Group’s management and applying analytical procedures to the Unaudited Comparative Financial

Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Unaudited Comparative Financial Information.

**OPINION AND REVIEW CONCLUSION**

In our opinion, the Financial Information for the Track Record Period, for the purpose of this report and prepared on the basis of presentation and preparation set out in Note 3 of Section II below, gives a true and fair view of the combined state of affairs of the Group as at 31 December 2008, 2009 and 2010 and 30 September 2011 and of the combined results and cash flows of the Group for the Track Record Period.

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section II below which are in conformity with HKFRSs.

## I. FINANCIAL INFORMATION

## Combined Statements of Comprehensive Income

		Year ended 31 December 2008 <i>RMB'000</i>	Year ended 31 December 2009 <i>RMB'000</i>	Year ended 31 December 2010 <i>RMB'000</i>	Nine months ended 30 September 2010 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2011 <i>RMB'000</i>
	<i>Notes</i>					
<b>Revenue</b>	6	51,875	157,443	444,367	343,738	356,946
Cost of sales		<u>(30,499)</u>	<u>(110,819)</u>	<u>(364,127)</u>	<u>(291,383)</u>	<u>(269,060)</u>
<b>Gross profit</b>		21,376	46,624	80,240	52,355	87,886
Other revenue and gains	7	5,768	585	605	391	1,277
Change in fair value less costs to sell of biological assets	19	(3,470)	(8,516)	11,173	5,439	3,399
Selling and distribution expenses		(2,163)	(3,114)	(9,441)	(8,015)	(8,092)
Administrative expenses		(4,589)	(4,933)	(7,000)	(5,078)	(8,799)
Finance costs	8	(1,790)	(3,535)	(3,773)	(2,957)	(3,106)
Other operating expenses		<u>(82)</u>	<u>(66)</u>	<u>(60)</u>	<u>(42)</u>	<u>(145)</u>
Profit before taxation		15,050	27,045	71,744	42,093	72,420
Taxation	9	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Profit for the year/period</b>	10	<u>15,050</u>	<u>27,045</u>	<u>71,744</u>	<u>42,093</u>	<u>72,420</u>
<b>Other comprehensive (loss)/income</b>						
Exchange differences on translation of foreign operations		<u>—</u>	<u>(1)</u>	<u>1</u>	<u>1</u>	<u>152</u>
Other comprehensive(loss)/income for the year/period, net of tax		<u>—</u>	<u>(1)</u>	<u>1</u>	<u>1</u>	<u>152</u>
<b>Total comprehensive income for the year/period</b>		<u>15,050</u>	<u>27,044</u>	<u>71,745</u>	<u>42,094</u>	<u>72,572</u>
Dividends	13	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,343</u>
<b>Earnings per share</b>	14					
Basic and diluted ( <i>RMB cents</i> )		<u>2.51</u>	<u>4.51</u>	<u>11.96</u>	<u>7.02</u>	<u>12.07</u>

The accompanying notes form an integral part of the Financial Information.

## Combined Statements of Financial Position

		As at 31 December 2008 <i>RMB'000</i>	As at 31 December 2009 <i>RMB'000</i>	As at 31 December 2010 <i>RMB'000</i>	As at 30 September 2011 <i>RMB'000</i>
	<i>Notes</i>				
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	15	61,119	107,371	119,331	136,461
Prepaid lease payments	16	22,190	21,714	21,238	20,880
Biological assets	19	<u>3,055</u>	<u>3,765</u>	<u>2,921</u>	<u>3,124</u>
		<u>86,364</u>	<u>132,850</u>	<u>143,490</u>	<u>160,465</u>
<b>Current assets</b>					
Inventories	18	273	986	7,504	4,610
Biological assets	19	8,368	96,387	40,760	54,817
Trade and other receivables	20	4,551	18,081	40,452	64,664
Prepaid lease payments	16	476	476	476	476
Amount due from a shareholder	21	3,016	—	—	—
Amount due from a related party	22	—	985	—	—
Cash and bank balances	23	<u>6,231</u>	<u>583</u>	<u>23,732</u>	<u>29,351</u>
		<u>22,915</u>	<u>117,498</u>	<u>112,924</u>	<u>153,918</u>
<b>Current liabilities</b>					
Trade and other payables	24	5,681	87,754	19,098	12,771
Amount due to a shareholder	25	—	12,965	25	—
Amount due to a related party	26	46	—	—	—
Financial guarantee liabilities	27	—	—	31	—
Bank borrowings	28	40,000	55,000	70,000	70,000
Deferred revenue	30	<u>80</u>	<u>302</u>	<u>368</u>	<u>377</u>
		<u>45,807</u>	<u>156,021</u>	<u>89,522</u>	<u>83,148</u>
<b>Net current (liabilities)/assets</b>		<u>(22,892)</u>	<u>(38,523)</u>	<u>23,402</u>	<u>70,770</u>
<b>Total assets less current liabilities</b>		<u>63,472</u>	<u>94,327</u>	<u>166,892</u>	<u>231,235</u>

		As at 31 December 2008	As at 31 December 2009	As at 31 December 2010	As at 30 September 2011
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Equity</b>					
Share capital	31	9	9	9	317
Reserves	32	<u>61,973</u>	<u>89,017</u>	<u>160,762</u>	<u>224,997</u>
Total equity		<u>61,982</u>	<u>89,026</u>	<u>160,771</u>	<u>225,314</u>
<b>Non-current liabilities</b>					
Loan from government	29	—	1,328	1,431	1,498
Deferred revenue	30	<u>1,490</u>	<u>3,973</u>	<u>4,690</u>	<u>4,423</u>
		<u>1,490</u>	<u>5,301</u>	<u>6,121</u>	<u>5,921</u>
<b>Total equity and non-current liabilities</b>		<u><u>63,472</u></u>	<u><u>94,327</u></u>	<u><u>166,892</u></u>	<u><u>231,235</u></u>

The accompanying notes form an integral part of the Financial Information.

## Combined Statements of Changes in Equity

	Share capital RMB'000	Exchange reserve* RMB'000 Note 32(a)	Statutory reserve* RMB'000 Note 32(b)	Other reserve* RMB'000 Note 32(c)	Retained earnings* RMB'000	Total RMB'000
As at 1 January 2008	33,883	—	—	—	7,499	41,382
Profit for the year	—	—	—	—	15,050	15,050
Total comprehensive income for the year	—	—	—	—	15,050	15,050
Issue of shares	9	—	—	—	—	9
Capital injection in a subsidiary	5,541	—	—	—	—	5,541
Effect of Reorganisation	(39,424)	—	—	39,424	—	—
As at 31 December 2008	9	—	—	39,424	22,549	61,982
Profit for the year	—	—	—	—	27,045	27,045
Other comprehensive loss for the year	—	(1)	—	—	—	(1)
Total comprehensive income for the year	—	(1)	—	—	27,045	27,044
Transfer to statutory reserve	—	—	3,877	—	(3,877)	—
Transfer to other reserve	—	—	—	13,656	(13,656)	—
As at 31 December 2009	9	(1)	3,877	53,080	32,061	89,026
Profit for the year	—	—	—	—	71,744	71,744
Other comprehensive income for the year	—	1	—	—	—	1
Total comprehensive income for the year	—	1	—	—	71,744	71,745
Transfer to statutory reserve	—	—	6,548	—	(6,548)	—
As at 31 December 2010	9	—	10,425	53,080	97,257	160,771
Profit for the period	—	—	—	—	72,420	72,420
Other comprehensive income for the period	—	152	—	—	—	152
Total comprehensive income for the period	—	152	—	—	72,420	72,572
Issue of shares	324	—	—	—	—	324
Effect of Reorganisation	(16)	—	—	6	—	(10)
Transfer to statutory reserve	—	—	7,198	—	(7,198)	—
Dividend paid	—	—	—	—	(8,343)	(8,343)
As at 30 September 2011	317	152	17,623	53,086	154,136	225,314
As at 1 January 2010	9	(1)	3,877	53,080	32,061	89,026
Profit for the period	—	—	—	—	42,093	42,093
Other comprehensive income for the period	—	1	—	—	—	1
Total comprehensive income for the period	—	1	—	—	42,093	42,094
Transfer to statutory reserve	—	—	3,945	—	(3,945)	—
As at 30 September 2010 (unaudited)	9	—	7,822	53,080	70,209	131,120

\* These reserve accounts comprise of the combined reserves of approximately RMB61,973,000, RMB89,017,000, RMB160,762,000 and RMB224,997,000 in the combined statements of financial position as at 31 December 2008, 2009 and 2010 and 30 September 2011, respectively.

The accompanying notes form an integral part of the Financial Information.

## Combined Statements of Cash Flows

	Year ended 31 December 2008 <i>RMB'000</i>	Year ended 31 December 2009 <i>RMB'000</i>	Year ended 31 December 2010 <i>RMB'000</i>	Nine months ended 30 September 2010 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2011 <i>RMB'000</i>
<b>Operating activities</b>					
Profit before taxation	15,050	27,045	71,744	42,093	72,420
<b>Adjustments for:</b>					
Interest income	(13)	(89)	(161)	(101)	(138)
Finance costs	1,790	3,535	3,773	2,957	3,106
Loss on issue of financial guarantee liabilities	—	—	31	—	—
Amortisation of financial guarantee liabilities	—	—	—	—	(31)
Amortisation of prepaid lease payments	476	476	476	358	358
Gain on disposal of property, plant and equipment	—	(33)	—	—	—
Depreciation of property, plant and equipment	2,287	3,814	6,353	4,588	4,883
Change in fair values less costs to sell of biological assets	3,470	8,516	(11,173)	(5,439)	(3,399)
<b>Operating cash flows before movements in working capital</b>	23,060	43,264	71,043	44,456	77,199
(Increase)/decrease in biological assets	(126)	(97,245)	67,644	64,676	(10,861)
Increase in trade and other receivables	(2,426)	(13,530)	(22,371)	(33,549)	(24,212)
(Increase)/decrease in inventories	(102)	(713)	(6,518)	(2,619)	2,894
(Decrease)/increase in amount due to a related party	(3,617)	(1,031)	985	985	—
(Decrease)/increase in trade and other payables	(13,558)	82,073	(68,656)	(44,202)	(6,327)
Increase/(decrease) in deferred revenue	1,570	2,253	886	475	(191)
<b>Net cash generated from operating activities</b>	<u>4,801</u>	<u>15,071</u>	<u>43,013</u>	<u>30,222</u>	<u>38,502</u>
<b>Investing activities</b>					
Interest received	13	11	58	34	50
Proceeds from disposal of property, plant and equipment	22	60	—	—	—
Purchase of property, plant and equipment	(29,527)	(50,093)	(18,313)	(18,002)	(22,013)
<b>Net cash used in investing activities</b>	<u>(29,492)</u>	<u>(50,022)</u>	<u>(18,255)</u>	<u>(17,968)</u>	<u>(21,963)</u>



	Year ended 31 December 2008 <i>RMB'000</i>	Year ended 31 December 2009 <i>RMB'000</i>	Year ended 31 December 2010 <i>RMB'000</i>	Nine months ended 30 September 2010 <i>RMB'000</i> <i>(unaudited)</i>	Nine months ended 30 September 2011 <i>RMB'000</i>
<b>Financing activities</b>					
Interest paid	(1,790)	(3,457)	(3,670)	(2,890)	(3,039)
Proceeds from bank borrowings	40,000	55,000	110,000	110,000	70,000
Repayments of bank borrowings	(10,000)	(40,000)	(95,000)	(95,000)	(70,000)
Proceed from government loan	—	1,780	—	—	—
(Repayment to)/advance from a shareholder	(3,746)	15,981	(12,940)	(12,940)	(25)
Proceeds from issue of ordinary shares, net	9	—	—	—	324
Cash received from capital injection in a subsidiary	5,541	—	—	—	—
Dividends paid to owners of the Company	—	—	—	—	(8,343)
<b>Net cash generated from/(used in) financing activities</b>	<u>30,014</u>	<u>29,304</u>	<u>(1,610)</u>	<u>(830)</u>	<u>(11,083)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	5,323	(5,647)	23,148	11,424	5,456
<b>Cash and cash equivalents at the beginning of the year/period</b>	908	6,231	583	583	23,732
<b>Effect of foreign exchange rate changes</b>	<u>—</u>	<u>(1)</u>	<u>1</u>	<u>1</u>	<u>163</u>
<b>Cash and cash equivalents at the end of the year/period</b>	<u><u>6,231</u></u>	<u><u>583</u></u>	<u><u>23,732</u></u>	<u><u>12,008</u></u>	<u><u>29,351</u></u>

The accompanying notes form an integral part of the Financial Information.

**II. NOTES TO THE FINANCIAL INFORMATION****1. GENERAL INFORMATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 May 2011. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. It became the holding company of the Group as a result of the Reorganisation as described in the paragraph headed "Corporate reorganisation" in Appendix VI "Statutory and General Information" to the Prospectus.

**2. REORGANISATION**

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Group underwent the Reorganisation, as a result of the Company became a holding company of the subsidiaries comprising the Group. The Reorganisation included the following principal steps:

- (a) On 26 April 2005, Fujian Tianyi was established in the PRC with a registered capital of US\$5,000,000 which was fully paid up by Mr. Cai Chenyang.
- (b) On 13 August 2008, China Modern was incorporated and 10,000 shares of HK\$1 each were issued and allotted to Mr. Cai Chenyang for cash at par.
- (c) On 30 August 2008, Mr. Cai Chenyang transferred his entire equity interest in Fujian Tianyi to China Modern at a consideration of HK\$1.
- (d) On 10 January 2011, Zhan Rui Investments Limited ("Zhan Rui") was incorporated in the BVI.
- (e) On 13 January 2011, Wellname Investments was incorporated in the BVI.
- (f) On 10 February 2011, Zhan Rui issued and allotted 1,000 shares of US\$1 each to Mr. Cai Chenyang for cash at par.
- (g) On 14 February 2011, Wellname Investments issued and allotted 1,000 shares of US\$1 each to Zhan Rui.
- (h) On 14 February 2011, Mr. Cai Chenyang transferred 10,000 shares of China Modern to Wellname Investments at a consideration of HK\$10,000.
- (i) On 16 February 2011, Zhan Rui transferred 100 shares in Wellname Investments each to Charming Investment Holdings Limited ("Charming Investment") and Long Excel Limited ("Long Excel") each at the consideration of HK\$30,000,000.
- (j) On 23 February 2011, Victoria Top Limited ("Victoria Top") issued and allotted 1 ordinary share of HK\$1 to Acota Services Limited, a service provider, for cash at par.
- (k) On 17 March 2011, the service provider transferred the entire issued share capital of Victoria Top to China Modern at a consideration of HK\$1.
- (l) On 18 April 2011, Zhan Rui transferred 20 shares in Wellname Investments to Wide Sincere Investments Limited ("Wide Sincere") at the consideration of HK\$6,000,000.
- (m) On 18 April 2011, Zhan Rui transferred 60 shares in Wellname Investments to Giant King Investments Limited ("Giant King") at the consideration of HK\$18,000,000.
- (n) On 18 April 2011, Zhan Rui transferred 40 shares in Wellname Investments to Kai Rong Holdings Limited ("Kai Rong") at the consideration of HK\$12,000,000.
- (o) On 27 May 2011, the Company was incorporated in the Cayman Islands. One Share was issued to Codan Trust Company (Cayman) Limited as the initial subscriber nil paid on 27 May 2011 and such Share was transferred to Zhan Rui on the same day.

- (p) Pursuant to the written resolutions of the sole shareholder the Company dated 7 February 2012, authorised share capital of the Company was increased from HK\$380,000 to HK\$4,000,000,000 by the creation of an additional 39,996,200,000 shares, such new shares to rank pari passu with the then existing shares in all respect.
- (q) On 8 February 2012, the Company allotted and issued 67, 10, 10, 2, 6 and 4 shares nil paid to Zhan Rui, Charming Investment, Long Excel, Wide Sincere, Giant King and Kai Rong respectively.
- (r) On 10 February 2012, in exchange and as consideration for the acquisition of the entire issued share capital of 1,000 shares of US\$1 each in the capital of Wellname Investments from the Existing Shareholders, the 99 shares referred to in paragraph (q) above issued to the Existing Shareholders nil paid on 8 February 2012 were paid up in full at par and the Company allotted and issued 679,932, 99,990, 99,990, 19,998, 59,994 and 39,996 shares credited as fully paid to Zhan Rui, Charming Investment, Long Excel, Wide Sincere, Giant King and Kai Rong respectively.

Upon the completion of the Reorganisation on 10 February 2012, the Company became the holding company of the companies now comprising the Group.

The direct and indirect interests in the following subsidiaries held by the Company during the Track Record Period and at the date of this report are as follows:

Name of subsidiary	Incorporation/ establishment of operation	Issued and fully paid share capital/registered capital at the date of this report	Attributable equity interest held by the Company					At the date of this report	Principal activities
			As at 31 December			As at 30			
			2008	2009	2010	September	2011		
			%	%	%	%	%		
China Modern	Hong Kong, 13 August 2008	HK\$10,000	100	100	100	100	100	Investment holding	
Fujian Tianyi	The PRC, 26 April 2005	USD7,000,000	100	100	100	100	100	Slaughtering and processing of livestock, production and sales of meat products	
Victoria Top	Hong Kong, 23 February 2011	HK\$1	NA	NA	NA	100	100	Investment holding	
Wellname Investments	The BVI, 13 January 2011	USD1,000	NA	NA	NA	100	100	Investment holding	

As at the date of this report, no statutory audited financial information have been prepared for the Company since its date of incorporation as there are no statutory requirements for the Company to prepare audited financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Introduction

The Financial Information has been prepared under the historical cost convention except for biological assets, which are measured at fair value, as explained in the accounting policies set out below. The accounting policies set out below have been consistently applied throughout the Track Record Period. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise stated.

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong. In addition, the Financial Information includes 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.

For the purpose of preparing the Financial Information, the Group has consistently applied all the new and revised HKFRSs which are effective for the Group's financial year beginning on 1 January 2011 throughout the Track Record Period except for those new and revised HKFRSs that are not yet effective for any of the Track Record Period as explained below.

**(b) Application of new and revised standards, amendments and interpretations**

The HKICPA has issued the following new and revised standards, amendments and interpretations that are not yet effective. The Group has not early applied these new and revised standards, amendments or interpretations during the Track Record Period.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets <sup>1</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>4</sup>
HKFRS 9	Financial Instruments <sup>6</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 1 Amendments	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income <sup>3</sup>
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (2011)	Employee Benefits <sup>4</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>4</sup>
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2015

The management is in the process of assessing their potential impact on the results and financial position of the Group.

**(c) Basis of presentation**

The controlling shareholder owned and controlled the companies now comprising the Group before the Reorganisation and continues to own and control these companies after the Reorganisation. For the purposes of this report, the Financial Information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA. The combined statements of comprehensive income, combined statements of financial position, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period or since the respective dates when these companies first came under the control of the Controlling Shareholder, whichever is the shorter period, in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the HKICPA.

All significant intra-group transactions and balances have been eliminated on combination.

**(d) Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

**(e) Merger accounting for common control combination**

The Financial Information incorporates the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The combined statements of comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

**(f) 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 combined statement of comprehensive income as follows:

**(i) 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.

**(ii) 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.

**(g) 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.

**(h) Leasing*****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 Track Record Period 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.

**(i) Foreign currencies**

The functional currency of the company and its subsidiaries outside the PRC is Hong Kong dollars. The functional currency of the PRC subsidiary is RMB. The Financial Information is presented in RMB which is the Group's presentation currency. This is also the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

In preparing the Financial Information of each individual group entities, 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 Track Record Period 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 Financial Information 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 Track Record 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.

For the purpose of presenting Financial Information, 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.

**(j) Borrowing costs**

Borrowing costs directly attributable to the acquisition, 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 Track Record Period in which they are incurred.

**(k) Government grants**

Government grants are recognised in profit or loss on a systematic basis over the Track Record Period 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 combined statements 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 Track Record 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 Track Record 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.

**(l) 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.

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from the subsidiary in an independent fund managed by the PRC government.

**(m) 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 Track Record Period. Taxable profit differs from profit as reported in the combined statements 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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information 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 and associates, and interests in joint ventures, 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.

**(n) 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.

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 the combined statements of comprehensive income in the Track Record Period in which the item is derecognised.

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

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

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

**(o) 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.

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 Track Record 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 Track Record Period in which the reversal occurs.

**(p) Biological assets**

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

**(q) Prepaid lease payments**

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

**(r) 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).

**(s) 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 represent 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 market place.

***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 Track Record 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.

***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 a related party and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

***Impairment of financial assets***

Financial assets 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 within 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 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.

#### ***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 income over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 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, amount due to a related party, bank borrowings and loan from government) 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 financial assets at fair value through profit or loss 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.

#### ***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 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.

**(t) Related parties transactions**

For the purpose of this Financial Information, a party is considered to be related to the Group if:

- (i) 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;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) 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;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) 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 expected to influence, or be influenced by, that individual in their dealings with the entity.

**4. CRITICAL ACCOUNTING JUDGMENTS 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 entity's accounting policies and that have the most significant effect on the amounts recognised in the combined financial statements.

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

The Group reviews its property, plant and equipment 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) 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 required 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.

**(c) Depreciation and amortisation**

Items of property, plant and equipment and prepaid lease payments are depreciated and amortised 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 and amortisation 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 and amortisation for future periods are adjusted if there are significant changes from previous estimates.

**(d) Fair values of biological assets**

The biological assets are valued at fair value less costs to sell. The fair value is determined based on either the market-determined prices as at the end of the reporting periods adjusted with reference to the species, age, growing condition and costs incurred to reflect differences in characteristic and/or stages of growth of biological assets. Any change in the estimates may affect the fair value of biological assets significantly.

The Valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets. Details of the assumptions used are disclosed in note 19.

**(e) Provision for financial guarantee liabilities**

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. SEGMENT INFORMATION

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

During each of the reporting periods, all revenue is derived from customers in the PRC and almost all the non-current assets of the Group are located the PRC.

Included in revenue arising from the sales of pork of approximately RMB51,875,000, RMB157,443,000, RMB444,367,000 and RMB356,946,000 for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 are revenues of approximately RMB10,716,000, RMB33,036,000, RMB65,542,000 and RMB42,851,000 which arose from sales to the Group's largest customer.

For the year ended 31 December 2008, another two customers contributed 10% or more to the Group's revenue are approximately RMB9,280,000 and RMB8,963,000.

For the year ended 31 December 2009, another two customers contributed 10% or more to the Group's revenue are approximately RMB22,743,000 and RMB17,961,000.

For the year ended 31 December 2010, another three customers contributed 10% or more to the Group's revenue are approximately RMB61,019,000, RMB49,585,000 and RMB46,522,000.

For the nine months ended 30 September 2011, another four customers contributed 10% or more to the Group's revenue are approximately RMB41,702,000, RMB40,607,000, RMB36,559,000 and RMB36,135,000.

## 6. REVENUE

Revenue represents the net invoiced value of goods sold, excludes value added tax or other sales tax and is after deduction of any trade discounts.

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Revenue from					
— Commodity hogs	42,436	27,462	3,024	3,024	—
— Retail of pork	9,439	14,263	76,058	40,505	149,257
— Wholesale of pork	—	115,718	365,285	300,209	207,689
	<u>51,875</u>	<u>157,443</u>	<u>444,367</u>	<u>343,738</u>	<u>356,946</u>

## 7. OTHER REVENUE AND GAINS

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Interest income on:					
Bank deposits	13	11	58	34	50
Amortisation of deferred revenue	—	78	103	67	88
Gain on disposal of hog droppings	1,403	—	—	16	443
Gain on disposal of biological assets	4,090	184	149	98	343
Gain on disposal of property, plant and equipment	—	33	—	—	—
Net foreign exchange gain	—	5	—	—	—
Government grants <i>(note)</i>	209	274	235	155	190
Amortisation of financial guarantee liabilities	—	—	—	—	31
Sundry income	53	—	60	21	132
	<u>5,768</u>	<u>585</u>	<u>605</u>	<u>391</u>	<u>1,277</u>

*Note:* Government grants include subsidies income received by a subsidiary of the Group which operates in the PRC in accordance with the subsidy policies of local government authorities and in relation to the construction of hog farms and slaughterhouse. Subsidies income received by a subsidiary of the Group is recognised in the combined statements of comprehensive income when received and no specific conditions have been required to fulfill. Those

government grants in relation to the construction of hogs farm and slaughterhouse are recognised as deferred income (note 30(a)). The government grants recognised during the Track Record Period are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

## 8. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (unaudited)	2011 RMB'000
Interest on:					
Bank borrowings wholly repayable within five years	1,790	3,457	3,670	2,890	3,039
Interest on interest-free government loan	—	78	103	67	67
	<u>1,790</u>	<u>3,535</u>	<u>3,773</u>	<u>2,957</u>	<u>3,106</u>

## 9. TAXATION

The taxation for the Track Record Period represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the Group.

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:

	Year ended 31 December			Nine months ended 30 September	
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (unaudited)	2011 RMB'000
Profit before taxation	<u>15,050</u>	<u>27,045</u>	<u>71,744</u>	<u>42,093</u>	<u>72,420</u>
Tax at the application income tax rate	3,765	6,798	17,951	10,539	18,298
Tax exemption for subsidiary operating in the PRC	(3,769)	(6,871)	(17,984)	(10,570)	(15,321)
Tax effect of income not taxable for tax purpose	—	—	—	—	(3,353)
Tax effect of tax loss not recognised	<u>4</u>	<u>73</u>	<u>33</u>	<u>31</u>	<u>376</u>
Income tax expenses	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

### Notes:

- 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 Track Record Period.
- 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 Track Record Period.
- On 1 January 2008, *The Foreign Investment Enterprise and Foreign Enterprise Income Tax Law of the PRC* (中華人民共和國外商投資企業和外國企業所得稅法) was repealed, and the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法), promulgated on 16 March 2007, became effective. Pursuant to the *Enterprise Income Tax Law of the PRC*, the statutory tax rate of EIT for both domestic enterprises and foreign investment enterprises is 25%.

According to Article 16 (1) of the *Provisional Regulations of the People's Republic of China on Value-Added Tax* (中華人民共和國增值稅暫行條例), self-produced agricultural products sold by agricultural producers is exempted from the statutory Value-Added Tax (the "VAT") of 13% of sales.

According to Article 86 (1) of the *Implementation Regulations of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例), income derived by an enterprise from engaging in the raising of livestock and poultry shall be exempted from EIT.

- (d) According to the Enterprise Income Tax Law (the "EIT Law") and implementation of the regulations issued by the State Council, income tax at the rate of 5% is applicable to any dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Fujian Tianyi is considered as "resident enterprise" by the Chinese government, and it is required to withholding tax on the dividend payable to the foreign shareholders and foreign shareholders also have to pay PRC income tax on gain on transfer of shares.

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

#### 10. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Staff costs					
including directors' emoluments ( <i>note 11</i> )	2,522	3,647	6,078	4,186	8,738
Retirement scheme contributions	<u>175</u>	<u>307</u>	<u>402</u>	<u>263</u>	<u>643</u>
Total staff costs	<u>2,697</u>	<u>3,954</u>	<u>6,480</u>	<u>4,449</u>	<u>9,381</u>
Depreciation of property, plant and equipment	2,287	3,814	6,353	4,588	4,883
Amortisation of prepaid lease payments	<u>476</u>	<u>476</u>	<u>476</u>	<u>358</u>	<u>358</u>
Total depreciation and amortisation	<u>2,763</u>	<u>4,290</u>	<u>6,829</u>	<u>4,946</u>	<u>5,241</u>
Auditors' remuneration	4	4	4	3	3
Operating lease rental expenses	<u>305</u>	<u>524</u>	<u>596</u>	<u>473</u>	<u>1,158</u>



## 11. DIRECTORS' EMOLUMENTS

Pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, the aggregate amounts of emoluments paid by the companies now comprising the Group to the directors of the Company during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors' fees	—	—	—	—	—
Salaries, allowances and benefits in kind	193	248	278	201	216
Discretionary bonus	—	—	—	—	—
Retirement schemes contributions	1	1	1	1	4
	<u>194</u>	<u>249</u>	<u>279</u>	<u>202</u>	<u>220</u>

Details for the emoluments of each directors of the Company during the Track Record Period are as follows:

	Year ended 31 December 2008				
	Directors' fees	Salaries, allowances, and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive director:</b>					
Mr. Cai Chenyang	—	154	—	—	154
Mr. Cai Haifang	—	39	—	1	40
Ms. Cai Shengyin	—	—	—	—	—
<b>Independent non-executive director:</b>					
Mr. Cai Zirong	—	—	—	—	—
Mr. Wu Shiming	—	—	—	—	—
Mr. Yu Wenquan	—	—	—	—	—
	<u>—</u>	<u>193</u>	<u>—</u>	<u>1</u>	<u>194</u>

	Year ended 31 December 2009				
	Directors' fees	Salaries, allowances, and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive director:</b>					
Mr. Cai Chenyang	—	155	—	—	155
Mr. Cai Haifang	—	45	—	1	46
Ms. Cai Shengyin	—	48	—	—	48
<b>Independent non-executive director:</b>					
Mr. Cai Zirong	—	—	—	—	—
Mr. Wu Shiming	—	—	—	—	—
Mr. Yu Wenquan	—	—	—	—	—
	<u>—</u>	<u>248</u>	<u>—</u>	<u>1</u>	<u>249</u>

Year ended 31 December 2010					
Directors' fees	Salaries, allowances, and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Executive director:</b>					
Mr. Cai Chenyang	—	156	—	—	156
Mr. Cai Haifang	—	61	—	1	62
Ms. Cai Shengyin	—	61	—	—	61
<b>Independent non-executive director:</b>					
Mr. Cai Zirong	—	—	—	—	—
Mr. Wu Shiming	—	—	—	—	—
Mr. Yu Wenquan	—	—	—	—	—
	278	—	—	1	279
<b>Nine months ended 30 September 2010 (unaudited)</b>					
Directors' fees	Salaries, allowances, and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Executive director:</b>					
Mr. Cai Chenyang	—	117	—	—	117
Mr. Cai Haifang	—	40	—	1	41
Ms. Cai Shengyin	—	44	—	—	44
<b>Independent non-executive director:</b>					
Mr. Cai Zirong	—	—	—	—	—
Mr. Wu Shiming	—	—	—	—	—
Mr. Yu Wenquan	—	—	—	—	—
	201	—	—	1	202

	Nine months ended 30 September 2011				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	
<b>Executive director:</b>					
Mr. Cai Chenyang	—	116	—	2	118
Mr. Cai Haifang	—	50	—	1	51
Ms. Cai Shengyin	—	50	—	1	51
<b>Independent non-executive director:</b>					
Mr. Cai Zirong	—	—	—	—	—
Mr. Wu Shiming	—	—	—	—	—
Mr. Yu Wenquan	—	—	—	—	—
	<u>—</u>	<u>216</u>	<u>—</u>	<u>4</u>	<u>220</u>

## 12. EMPLOYEES EMOLUMENTS

The five highest paid employees of the Group during the Track Record Period are analysed as follows:

	Year ended 31 December			Nine months ended 30 September	
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (unaudited)	2011 RMB'000
Directors	193	249	278	201	220
Non-directors	<u>146</u>	<u>112</u>	<u>130</u>	<u>89</u>	<u>346</u>
	<u>339</u>	<u>361</u>	<u>408</u>	<u>290</u>	<u>566</u>

Details of the remuneration of the above non-director, highest paid employees during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (unaudited)	2011 RMB'000
Salaries and other benefits	145	111	130	89	345
Retirement scheme contributions	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
	<u>146</u>	<u>112</u>	<u>130</u>	<u>89</u>	<u>346</u>

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

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
Nil to RMB880,000 (equivalents to HK\$1,000,000)	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the Track Record 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 Track Record Period.

### 13. DIVIDENDS

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Dividends	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,343</u>

During the nine months ended 30 September 2011, the Group declared and paid a dividend of RMB8,343,000 to Mr. Cai Chenyang.

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

### 14. EARNINGS PER SHARE

The calculation of basic earnings per share for the Track Record Period is based on the profit attributable to the owners of the Company for the Track Record Period and on the assumptions that 600,000,000 ordinary shares had been in issue, comprising 1,000,000 shares in issue as at the date of this prospectus and 599,000,000 shares to be issued pursuant to the capitalisation issue as detailed in the sub-section headed "Share Capital" set out in this prospectus as if the shares had been outstanding throughout the entire Track Record Period.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the Track Record Period.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>						
As at 1 January 2008	32,370	1,063	2,310	302	—	36,045
Additions	—	72	15	200	29,240	29,527
Disposals	—	(37)	—	—	—	(37)
Transfer	9,108	—	—	—	(9,108)	—
As at 31 December 2008 and 1 January 2009	41,478	1,098	2,325	502	20,132	65,535
Additions	47	4,861	271	159	44,755	50,093
Disposals	—	—	(184)	—	—	(184)
Transfer	46,552	2,191	—	—	(48,743)	—
As at 31 December 2009 and 1 January 2010	88,077	8,150	2,412	661	16,144	115,444
Additions	—	107	286	63	17,857	18,313
Transfer	16,974	—	—	—	(16,974)	—
As at 31 December 2010 and 1 January 2011	105,051	8,257	2,698	724	17,027	133,757
Additions	—	518	2,403	1,000	18,092	22,013
Transfer	22,401	—	—	—	(22,401)	—
As at 30 September 2011	<u>127,452</u>	<u>8,775</u>	<u>5,101</u>	<u>1,724</u>	<u>12,718</u>	<u>155,770</u>
<b>Accumulated depreciation</b>						
As at 1 January 2008	1,118	112	851	63	—	2,144
Provided for the year	1,659	111	439	78	—	2,287
Disposals	—	(15)	—	—	—	(15)
As at 31 December 2008 and 1 January 2009	2,777	208	1,290	141	—	4,416
Provided for the year	2,894	331	478	111	—	3,814
Disposals	—	—	(157)	—	—	(157)
As at 31 December 2009 and 1 January 2010	5,671	539	1,611	252	—	8,073
Provided for the year	5,444	356	428	125	—	6,353
As at 31 December 2010 and 1 January 2010	11,115	895	2,039	377	—	14,426
Provided for the period	3,938	495	279	171	—	4,883
As at 30 September 2011	<u>15,053</u>	<u>1,390</u>	<u>2,318</u>	<u>548</u>	<u>—</u>	<u>19,309</u>
<b>Net book values</b>						
As at 30 September 2011	<u>112,399</u>	<u>7,385</u>	<u>2,783</u>	<u>1,176</u>	<u>12,718</u>	<u>136,461</u>
As at 31 December 2010	<u>93,936</u>	<u>7,362</u>	<u>659</u>	<u>347</u>	<u>17,027</u>	<u>119,331</u>
As at 31 December 2009	<u>82,406</u>	<u>7,611</u>	<u>801</u>	<u>409</u>	<u>16,144</u>	<u>107,371</u>
As at 31 December 2008	<u>38,701</u>	<u>890</u>	<u>1,035</u>	<u>361</u>	<u>20,132</u>	<u>61,119</u>

Certain buildings with net book value of approximately RMB43,880,000 and RMB42,234,000 as at 31 December 2010 and 30 September 2011 respectively are pledged as collaterals for the Group's bank borrowings, Please refer to note 28 for details.

## 16. PREPAID LEASE PAYMENTS

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
<b>Cost</b>				
At 1 January 2008, 31 December 2008, 31 December 2009, 31 December 2010 and 30 September 2011	23,807	23,807	23,807	23,807
<b>Accumulated amortisation</b>				
At the beginning of the year/period	665	1,141	1,617	2,093
Charge for the year/period	476	476	476	358
At the end of the year/period	1,141	1,617	2,093	2,451
<b>Net book values</b>	22,666	22,190	21,714	21,356

**Analysed for reporting purposes as:**

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Current assets	476	476	476	476
Non-current assets	22,190	21,714	21,238	20,880
	22,666	22,190	21,714	21,356

Prepaid lease payments represent the cost of land use rights in respect of certain leasehold land located in the PRC, which is held under long term leases.

The prepaid lease payments with net book amount of approximately RMB22,666,000, RMB22,190,000, RMB21,714,000 and RMB21,356,000 as at 31 December 2008, 2009 and 2010 and 30 September 2011, respectively, are pledged as collaterals for the Group's bank borrowings. Please refer to note 28 for details.

## 17. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2008, 2009, 2010 and 30 September 2011 are as follows:

Name of subsidiary	Place and date of incorporation	Issued/paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Wellname Investments	The BVI, 13 January 2011	USD1,000	100	—	Investment holding
China Modern	Hong Kong, 13 August 2008	HK\$10,000	—	100	Investment holding
Fujian Tianyi	The PRC, 26 April 2005	USD7,000,000	—	100	Slaughtering and processing of livestock, production and sales of meat products
Victoria Top	Hong Kong, 23 February 2011	HK\$1	—	100	Investment holding

## 18. INVENTORIES

## (a) Inventories in the combined statements of financial position comprise:

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Hogs feeds	2	246	6,620	1,350
Raw materials ( <i>note</i> )	<u>271</u>	<u>740</u>	<u>884</u>	<u>3,260</u>
	<u>273</u>	<u>986</u>	<u>7,504</u>	<u>4,610</u>

*Note:* Included in the raw materials were mainly corn, soya meal, wheat bran and feed premix ready for the mixture of animal feeds.

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

	Year ended 31 December			Nine months
	2008	2009	2010	ended
	RMB'000	RMB'000	RMB'000	30 September
				2011
				RMB'000
Carrying amount of inventories sold	<u>26,770</u>	<u>99,005</u>	<u>336,314</u>	<u>256,337</u>

## 19. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

	Breeder hogs	Commodity hogs	Total
	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2008</b>	2,666	12,101	14,767
Increase due to purchases	2,529	1,141	3,670
Increase due to raising (Feeding cost and others)	1,443	21,773	23,216
Transfer	(2,041)	2,041	—
Decrease due to retirement and deaths	—	(637)	(637)
Decrease due to sales	(703)	(25,420)	(26,123)
Change in fair value less costs to sell	<u>(839)</u>	<u>(2,631)</u>	<u>(3,470)</u>
<b>As at 31 December 2008 and 1 January 2009</b>	3,055	8,368	11,423
Increase due to purchases	492	96,623	97,115
Increase due to raising (Feeding cost and others)	2,718	101,421	104,139
Transfer	(3,870)	3,870	—
Decrease due to retirement and deaths	—	(4,061)	(4,061)
Decrease due to sales	(184)	(99,764)	(99,948)
Change in fair value less costs to sell	<u>1,554</u>	<u>(10,070)</u>	<u>(8,516)</u>

	<b>Breeder hogs</b> <i>RMB'000</i>	<b>Commodity hogs</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>As at 31 December 2009 and 1 January 2010</b>	3,765	96,387	100,152
Increase due to purchases	189	124,279	124,468
Increase due to raising (Feeding cost and others)	3,041	165,360	168,401
Transfer	(3,526)	3,526	—
Decrease due to retirement and deaths	—	(5,035)	(5,035)
Decrease due to sales	(149)	(355,329)	(355,478)
Change in fair value less costs to sell	(399)	11,572	11,173
<b>As at 31 December 2010 and 1 January 2011</b>	2,921	40,760	43,681
Increase due to purchases	347	210,116	210,463
Increase due to raising (Feeding cost and others)	3,071	58,465	61,536
Transfer	(2,827)	2,827	—
Decrease due to retirement and deaths	—	(540)	(540)
Decrease due to sales	(308)	(260,290)	(260,598)
Change in fair value less costs to sell	(80)	3,479	3,399
<b>As at 30 September 2011</b>	<u>3,124</u>	<u>54,817</u>	<u>57,941</u>

The numbers of biological assets are summarised as follows:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>30 September</b>
				<b>2011</b>
Breeder hogs	1,230	1,442	1,412	1,368
Commodity hogs	<u>7,076</u>	<u>117,468</u>	<u>34,840</u>	<u>36,836</u>
	<u>8,306</u>	<u>118,910</u>	<u>36,252</u>	<u>38,204</u>

Analysed for reporting purposes as:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>30 September</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	8,368	96,387	40,760	54,817
Non-current assets	<u>3,055</u>	<u>3,765</u>	<u>2,921</u>	<u>3,124</u>
	<u>11,423</u>	<u>100,152</u>	<u>43,681</u>	<u>57,941</u>

The commodity hogs are primarily held for further growth for the production of pork and are classified as current assets. The breeder hogs are prime hog of excellent qualities that is selected as breeding stock, including boars and gilts, are classified as non-current assets.

The fair value of biological assets of the Group as at 31 December 2008, 2009 and 2010 and 30 September 2011 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 experiences in providing biological asset valuation services to various companies listed on the Stock Exchange and other stock exchange in the United States, which engage in the business of husbandry and agriculture industry.

The fair value less cost to sell of breeder hogs and commodity hogs are determined using the direct comparison approach. The direct comparison approach assumes sales of breeder hogs and commodity hogs in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.



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 biological assets are properly fed with balance diets such that they are gaining weight in accordance under normal growth rate and are receiving appropriate veterinary care;
- the biological assets are free from any animal diseases, including but not limiting to Sarcoptic mange, internal parasites, swine 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 availability of finance will not be a constraint on the breeding of the biological assets;
- 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 biological assets 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 biological assets.

## 20. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at
	2008	2009	2010	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	1,519	15,285	36,606	51,038
Deposits paid, prepayments and other receivables	<u>3,032</u>	<u>2,796</u>	<u>3,846</u>	<u>13,626</u>
	<u>4,551</u>	<u>18,081</u>	<u>40,452</u>	<u>64,664</u>

**Trade receivables**

The fair values of trade receivables approximate their carrying amounts.

The Group normally allows a credit period ranging from cash upon delivery to 90 days depending on the customer's creditworthiness and the length of business relationship with the customers. The ageing analysis of trade receivables is as follows:

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Within 30 days	1,519	12,533	25,449	45,508
31 days to 90 days	—	2,063	9,045	5,357
91 days to 180 days	—	263	772	173
Over 180 days	—	426	1,340	—
Total	<u>1,519</u>	<u>15,285</u>	<u>36,606</u>	<u>51,038</u>

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:

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
91 days to 180 days	—	263	772	173
Over 180 days	—	426	1,340	—
Total	<u>—</u>	<u>689</u>	<u>2,112</u>	<u>173</u>

The trade receivables are denominated in RMB.

**Other receivables**

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
IPO deposits paid	—	—	—	4,761
Advances to staff ( <i>note (a)</i> )	326	632	280	213
Deposits paid for property, plant and equipment ( <i>note (b)</i> )	744	1,435	2,778	5,674
Deposits paid and prepayments ( <i>note (c)</i> )	<u>1,962</u>	<u>729</u>	<u>788</u>	<u>2,978</u>
Total	<u>3,032</u>	<u>2,796</u>	<u>3,846</u>	<u>13,626</u>

The fair values of other receivables approximate their carrying amounts.

## Notes:

- (a) The amount was mainly for the purchase of raw materials and commodity hogs on behalf of the Group. The directors represented that such amount will continue after the Listing.
- (b) The deposit paid for property, plant and equipment as at 30 September 2011 was mainly for the purchase of equipment and machinery for upgrading of production facilities in the Group's slaughterhouse.
- (c) Included in the amount of deposits paid and prepayments as at 30 September 2011 was approximately RMB8.6 million for the deposit paid for the purchases of hog feeds and commodity hogs and guarantees paid to commodity hog suppliers.

## 21. AMOUNT DUE FROM A SHAREHOLDER

Name of shareholder	Maximum balance outstanding during the year	As at 31 December 2008	Maximum balance outstanding during the year	As at 31 December 2009	Maximum balance outstanding during the year	As at 31 December 2010	Maximum balance outstanding during the period	As at 30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Cai Chenyang	3,042	3,016	3,042	—	10,260	—	1,235	—

The amount due from a shareholder was unsecured, interest-free and fully recovered during the year ended 31 December 2009.

## 22. AMOUNT DUE FROM A RELATED PARTY

Name of related party	Relationship	Maximum balance outstanding during the year	As at 31 December 2008	Maximum balance outstanding during the year	As at 31 December 2009	Maximum balance outstanding during the year	As at 31 December 2010	Maximum balance outstanding during the period	As at 30 September 2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
品味(福建)食品有限公司	Former common director in a related company	4,679	—	986	985	1,058	—	—	—

The amount due from a related party was unsecured, interest-free and fully recovered during the year ended 31 December 2010.

## 23. CASH AND BANK BALANCES

	As at 31 December			As at
	2008	2009	2010	30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	6,231	583	23,732	29,351

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 0.72% per annum during the year ended 31 December 2008 and at 0.36% per annum during the years ended 31 December 2009, 2010 and during the nine months ended 30 September 2011. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances as at 31 December 2008, 2009 and 2010 and 30 September 2011 were amounts in RMB of approximately RMB6,221,000, RMB575,000, RMB23,727,000 and RMB23,430,000 which are not freely convertible into other currencies.

## 24. TRADE AND OTHER PAYABLES

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	184	54,555	11,441	9,202
Deposits received	—	34	410	194
Other payables for property, plant and equipment	4,977	30,583	4,636	446
Accruals and other payables	520	2,582	2,611	2,929
	<u>5,681</u>	<u>87,754</u>	<u>19,098</u>	<u>12,771</u>

The ageing analysis of trade payables is as follows:

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	103	25,406	7,622	7,320
31 days to 90 days	29	25,375	1,347	1,752
91 days to 180 days	9	2,021	1,760	34
Over 180 days	43	1,753	712	96
Total	<u>184</u>	<u>54,555</u>	<u>11,441</u>	<u>9,202</u>

The average credit period on purchases of certain goods of within 90 days.

## 25. AMOUNT DUE TO A SHAREHOLDER

Name of shareholder	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Cai Chenyang	—	12,965	25	—

The amount due to a shareholder was unsecured, interest-free and repayable on demand.

The amount was fully settled in August 2011.

## 26. AMOUNT DUE TO A RELATED PARTY

Name of related party	Relationship	As at 31 December			As at
		2008	2009	2010	30 September
		RMB'000	RMB'000	RMB'000	RMB'000
品味(福建)食品有限公司	Former common director in a related company	46	—	—	—

The amount due to a related party was unsecured, interest-free and fully settled during the year ended 31 December 2009.

## 27. FINANCIAL GUARANTEE LIABILITIES

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
At the beginning of the year/period	—	—	—	31
Fair value of the financial guarantee at the date of grant	—	—	31	—
Amortisation of financial guarantee liabilities	—	—	—	(31)
At the end of the year/period	<u>—</u>	<u>—</u>	<u>31</u>	<u>—</u>

During the year ended 31 December 2010, Fujian Tianyi provided guarantee for a bank loan of RMB20,000,000 to Putian Xiecheng Footwear Co. Ltd. (莆田市協誠鞋業有限公司) which is a related company owned by an indirect family member of Mr. Cai Chenyang. Fujian Tianyi also provided guarantee for a bank loan of RMB4,500,000 to Putian Yi Hua Qing Gong Zhi Pin Co. Ltd. (莆田市億華輕工製品有限公司) which is a related company owned by an indirect family member of Mr. Cai Chenyang. Both guarantees were released in June 2011.

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

## 28. BANK BORROWINGS

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Bank borrowings — secured	<u>40,000</u>	<u>55,000</u>	<u>70,000</u>	<u>70,000</u>
Carrying amount repayable:				

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
On demand or within one year	<u>40,000</u>	<u>55,000</u>	<u>70,000</u>	<u>70,000</u>

Bank borrowings at:

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
— floating interest rate	<u>40,000</u>	<u>55,000</u>	<u>70,000</u>	<u>70,000</u>

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

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

	As at 31 December			As at
	2008	2009	2010	30 September 2011
Bank borrowings	<u>6.975%–7.844%</u>	<u>6.075%–7.169%</u>	<u>5.310%–7.169%</u>	<u>6.560%</u>

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

	As at 31 December			As at
	2008	2009	2010	30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	—	—	43,880	42,234
Prepaid lease payments	<u>22,666</u>	<u>22,190</u>	<u>21,714</u>	<u>21,356</u>
	<u>22,666</u>	<u>22,190</u>	<u>65,594</u>	<u>63,590</u>

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

As at 31 December 2008, 2009 and 2010, the Group's bank borrowings of RMB40,000,000, RMB55,000,000 and RMB70,000,000 respectively were guaranteed by Mr. Cai Chenyang. Such guarantees were released prior to the Listing.

## 29. LOAN FROM GOVERNMENT

	As at 31 December			As at
	2008	2009	2010	30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Loan from government ( <i>note</i> )	<u>—</u>	<u>1,328</u>	<u>1,431</u>	<u>1,498</u>

*Note:* On 24 March 2009, the Group received an interest-free loan of RMB1,780,000 from the Ministry of Finance of Putian City to finance the construction of property, plant and equipment. The loan is repayable in full at the end of that four-year period. Using prevailing market interest rates of the People's Bank of China for an equivalent loan of 5.76% per annum and 6.22% per annum as at 31 December 2009 and 2010 respectively, the fair value of the loan is estimated at RMB1,250,000 on initial recognition. The difference of between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognised as deferred revenue (*note* 30).

As at 31 December 2009 and 2010 and 30 September 2011, the loan from government of RMB1,780,000 was guaranteed by Mr Cai Chenyang.

Such loan from government had been settled before the Listing.

## 30. DEFERRED REVENUE

	As at 31 December			As at
	2008	2009	2010	30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Arising from government grant ( <i>note</i> (a))	1,570	3,823	4,709	4,518
Arising from loan from government ( <i>note</i> (b))	<u>—</u>	<u>452</u>	<u>349</u>	<u>282</u>
	<u>1,570</u>	<u>4,275</u>	<u>5,058</u>	<u>4,800</u>

Analysed for report purposes as:

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Current liabilities	80	302	368	377
Non-current liabilities	<u>1,490</u>	<u>3,973</u>	<u>4,690</u>	<u>4,423</u>
	<u>1,570</u>	<u>4,275</u>	<u>5,058</u>	<u>4,800</u>

Notes:

- (a) As at the end of each reporting period, the Group has unused government grants in relation to the construction of qualifying assets. The deferred revenue will be recognised upon construction of qualifying assets. The government grant is not repayable.
- (b) The deferred revenue arises as a result of the benefit received from an interest-free government loan received in March 2009 (note 29).

### 31. SHARE CAPITAL

As at 31 December 2008, 2009 and 2010, the share capital of the Group represents the issued share capital of China Modern prior to the establishment of the Company.

As at 30 September 2011, the share capital of the Group represents the issued share capital of the Company.

### 32. 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

- (i) During the year ended 31 December 2008, the amount of approximately RMB39,424,000 represented the difference between the Company's share of nominal value of the paid-up capital of the subsidiary acquired over the Company's cost of acquisition of the subsidiary under common control.
- (ii) During the year ended 31 December 2009, the retained earnings of Fujian Tianyi of approximately RMB13,656,000 was distributed to China Modern by way of capitalising the amount as the paid-in capital of Fujian Tianyi. Such amount represented the difference between the Company's share of nominal value of the paid-up capital of the subsidiary acquired over the Company's cost of acquisition of the subsidiary under common control.
- (iii) During the nine months ended 30 September 2011, the amount of approximately RMB6,000 represented the difference between the Company's share of nominal value of the paid-up capital of the subsidiary acquired over the Company's cost of acquisition of the subsidiary under common control upon Reorganisation as detailed in note 2.

**33. 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.

**34. 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 Track Record Period.

The capital structure of the Group consists of bank borrowings and equity (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.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings with total equity. The Group's overall strategy remains unchanged during the Track Record Period. The gearing ratio at 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 were as follows:

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Total borrowings ( <i>note</i> )	40,000	56,328	71,431	71,498
Total equity	61,982	89,026	160,771	225,314
Gearing ratio (%)	<u>65%</u>	<u>63%</u>	<u>44%</u>	<u>32%</u>

*Note:* Total borrowings comprise of bank borrowings (note 28) and loan from government (note 29).



## 35. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
<b>Financial assets</b>				
Loans and receivables (including cash and bank balances)				
— Trade and other receivables	1,845	15,917	36,886	51,251
— Amount due from a shareholder	3,016	—	—	—
— Amount due from a related party	—	985	—	—
— Cash and bank balances	6,231	583	23,732	29,351

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
<b>Financial liabilities</b>				
Amortised cost				
— Trade and other payables	5,681	87,754	19,098	12,771
— Amount due to a shareholder	—	12,965	25	—
— Amount due to a related party	46	—	—	—
— Bank borrowings	40,000	55,000	70,000	70,000
— Loan from government	—	1,328	1,431	1,498
Financial guarantee liabilities	—	—	31	—

## (b) Financial risk management objectives and policies

The directors of the Company 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, amount due from/(to) a shareholder, amount due from/(to) a related party, cash and bank balances, loan from government, financial guarantee liabilities 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, amount due from a shareholder and amount due from a related party. 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 amounts presented in the combined statement of financial position are net of allowances for doubtful receivables, if any, estimated by the management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors believe that the credit risk is significantly reduced.

***Interest rate risk***

The Group's exposure to fair value interest rate risk to fixed rate borrowings is minimal because the Group has been keeping borrowings at variable rates.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (note 28). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates arising from the Group's RMB denominated borrowings.

***Interest rate sensitivity analysis***

The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease throughout the Track Record Period is used internally for assessment of possible change in interest rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 would decrease/increase by approximately RMB90,000, RMB173,000, RMB184,000 and RMB152,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

***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 hogs 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 animal 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.

Save for the procurement of breeder hogs, 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 liquidity 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.

	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
<b>As at 31 December 2008</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	5,681	—	—	5,681	5,681
Amount due to a related party	—	46	—	—	46	46
Bank borrowings	7.54	40,000	—	—	40,000	40,000
		<u>45,727</u>	<u>—</u>	<u>—</u>	<u>45,727</u>	<u>45,727</u>
<b>As at 31 December 2009</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	87,754	—	—	87,754	87,754
Amount due to a shareholder	—	12,965	—	—	12,965	12,965
Bank borrowings	6.74	55,000	—	—	55,000	55,000
Loan from government	5.76	—	—	1,780	1,780	1,328
		<u>155,719</u>	<u>—</u>	<u>1,780</u>	<u>157,499</u>	<u>157,047</u>

	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
<b>As at 31 December 2010</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	19,098	—	—	19,098	19,098
Amount due to a shareholder	—	25	—	—	25	25
Bank borrowings	5.31	70,000	—	—	70,000	70,000
Loan from government	5.81	—	—	1,780	1,780	1,431
Financial guarantee liabilities ( <i>note</i> )	—	24,500	—	—	24,500	31
		<u>113,623</u>	<u>—</u>	<u>1,780</u>	<u>115,403</u>	<u>90,585</u>

	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
<b>As at 30 September 2011</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	12,771	—	—	12,771	12,771
Bank borrowings	5.31	70,000	—	—	70,000	70,000
Loan from government	5.81	—	—	1,780	1,780	1,498
		<u>82,771</u>	<u>—</u>	<u>1,780</u>	<u>84,551</u>	<u>84,269</u>

*Note:*

The amount included above for the financial guarantee liabilities is the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

**(c) Fair value**

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the Financial Information approximates to their corresponding fair values.

## 36. RELATED PARTY TRANSACTIONS

Save as disclosed in notes 11, 21, 22, 25, 26 and 27 in the Financial Information, the Group had also entered into the following related party transactions during the Track Record Period:

## (a) Related party transaction

Name of company	Nature of transaction	Year ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Hongyuan Feeds Operation Department of Chengxiang District Putian City (莆田市城厢區宏遠飼料經營部) ("Hongyuan")	Purchase of raw materials (note)	4,700	3,651	—	—	—

Note: Hongyuan was owned by a close family member of a director of the Group.

The purchases from the related party was made at terms agreed between the parties. The transactions were on arm's length basis and on normal commercial terms. Such transactions had been terminated in June 2009.

## (b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 is as follow:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short term employee benefits	337	359	408	289	561
Retirement benefits schemes contributions	2	2	—	1	5
	<u>339</u>	<u>361</u>	<u>408</u>	<u>290</u>	<u>566</u>

## 37. OPERATING LEASE COMMITMENTS

## The Group as lessee:

At the end of each reporting date, the Group had commitments for future minimum lease payments under in respect of retail outlets and office premises non-cancellable operating leases which fall due as follows:

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	388	710	529	1,424
In the second to fifth year inclusive	<u>250</u>	<u>581</u>	<u>144</u>	<u>936</u>
	<u>638</u>	<u>1,291</u>	<u>673</u>	<u>2,360</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and retail outlets. Lease in respect of office premises are negotiated for a term of two years with fixed rentals. Lease in respect of direct sales outlets are negotiated for a term of one year with fixed rentals.

### 38. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings of the Group (note 28):

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Property, plant and equipment	—	—	43,880	42,234
Prepaid lease payments	22,666	22,190	21,714	21,356
	<u>22,666</u>	<u>22,190</u>	<u>65,594</u>	<u>63,590</u>

### 39. CONTINGENT LIABILITIES

	As at 31 December			As at
	2008	2009	2010	30 September
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Guarantees given to banks for:				
— bank borrowings granted to related parties (note 27)	—	—	24,500	—
	<u>—</u>	<u>—</u>	<u>24,500</u>	<u>—</u>

## III. SUBSEQUENT FINANCIAL STATEMENTS

Save as disclosed in Note 13 to the Financial Information, in November and December 2011, the Group further declared and paid dividend to Mr. Cai Chenyang of RMB56,241,000.

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 September 2011.

Yours faithfully  
**HLB Hodgson Impey Cheng**  
Chartered Accountants  
Certified Public Accountants  
Hong Kong