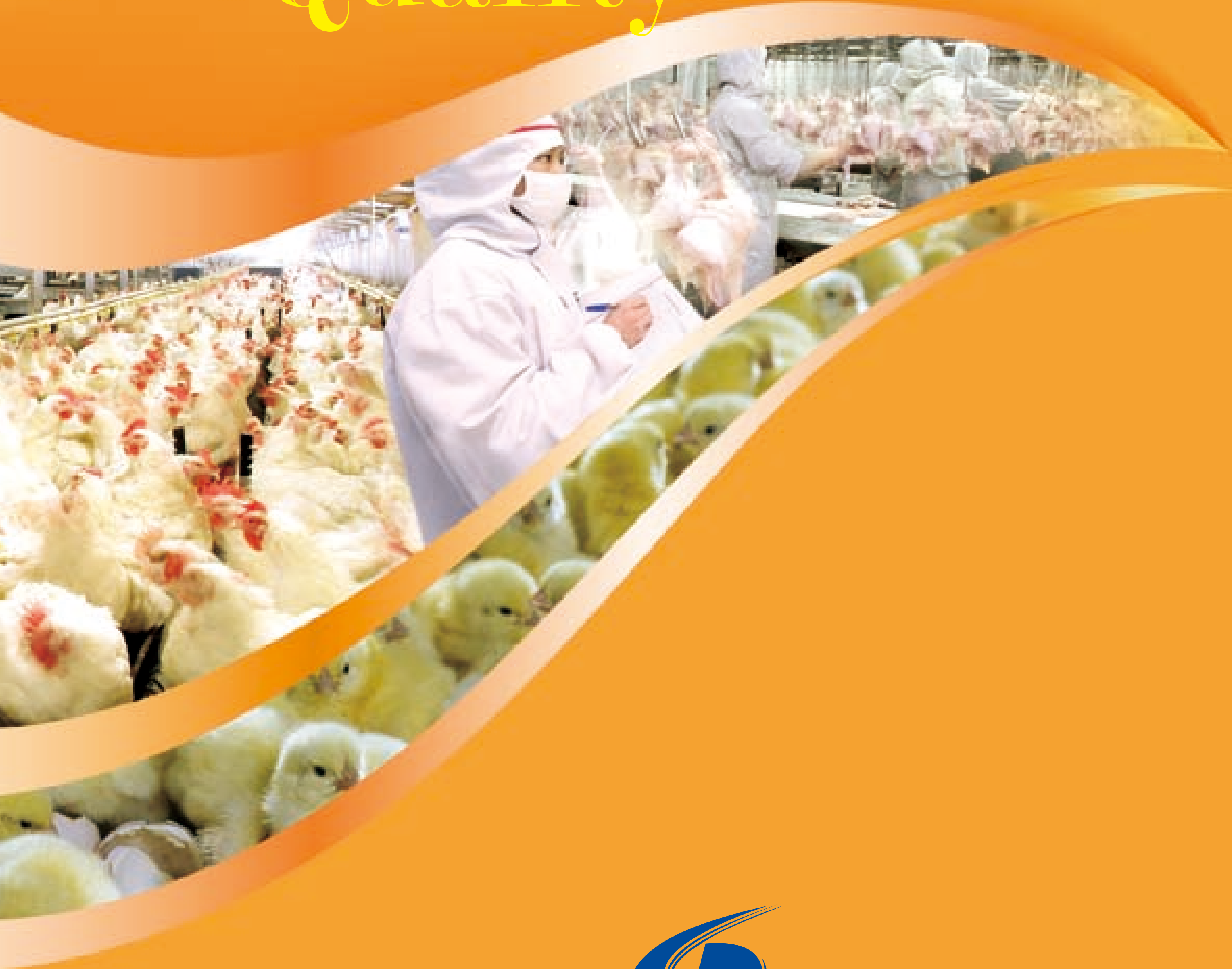
Annual Report **2011**

In Pursuit of Quality



SUMPO

SUMPO FOOD HOLDINGS LIMTED

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

SUMPO FOOD

The Group is principally engaged in the production of chicken meat products from white-feathered broilers through its own production facilities. We are one of the well-known chicken meat products suppliers and one of the competitive enterprises of meat products awarded by the China Meat Association (中國肉類協會) in the PRC.

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Corporate Information

Directors

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

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

Mr. Lin Qinglin *(Committee Chairman)*
Mr. Hu Chung Ming
Mr. Chau On Ta Yuen

Company Secretary

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

Legal Advisor

Cheung Tong & Rosa Solicitors

Compliance Advisor

Kingston Corporate Finance Limited

Auditors

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Stock Code

1089

Principal Bankers

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

Registered Office in Cayman Islands

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

Place of Business in Hong Kong

Suite 3516, Shun Tak Centre West Tower,
168-200 Connaught Road Central,
Sheung Wan, Hong Kong

Head Office and Principal Place of Business in the PRC

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Company Website

www.sumpofood.com

Promoting the Broiler Business's Sound and Fast Development with Convinced and Resolved View

Lin Qinglin

Chairman, executive Director & Chief Executive Officer

Chairman's Statement

Dear Shareholders,

I am pleased to present the annual results of Sumpo Food Holdings Limited ("Sumpo" or the "Company") and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2011 for the shareholders' consideration.

TURNOVER AND PROFIT

During the year, the Group continued to develop its chicken meat products and recorded growth for core business with aggregate turnover amounting to RMB663.0 million (2010: approximately RMB633.3 million), representing a year-on-year increase of approximately 4.7%. Our profit attributable to the owners of the Company arrived at approximately RMB42.8 million (2010: approximately RMB61.9 million), representing a decrease of approximately 30.8% over last year.

BUSINESS REVIEW

2011 was an evolutionary year for Sumpo. The Group was successfully listed on the main board of The Stock Exchange of Hong Kong Limited in early 2011, subsequent to which the construction of new slaughtering and processing plant in Longyan, Fujian was successfully completed and put into operation in January 2012. Upon full commissioning, the overall slaughtering and processing capacity will be increased by two times to approximately 54 million broilers per year, earmarking another milestone for the Group. To meet the robust market demand for chicken meat products, the slaughtering and processing plant of the Group enhanced the automation system proactively enlarging the original annual capacity, demonstrating the Group's strong determination in expanding its market share.

During the year, sales of chicken meat products was similar to that of last year, with average selling price reached record high, resulting in a steady rise of the Group's turnover. In addition, the domestic fast-food culture has become increasingly prevalent, as a result, the fast-food products account for a larger proportion of the Group's total sales compared to last year, and the prices of frozen chicken meat products have also been driven up, bringing about favorable sales advantages and opportunities to the Group. In respect of the vaccination program and bio-security management, there was no outbreak of severe epidemics at the breeding bases during the year under satisfactory breeding conditions, being concrete proof of the Group's effectiveness in the strict implementation of its bio-security and epidemic prevention system, while bolstering the confidence of the general public in our products.

However, corn prices surged at a faster pace than other raw materials for production, resulting in a significant increase in feeding cost. Although rising costs exerted pressure on the gross profit margin of chicken meat products, the Group still insisted to deliberately select raw materials of stable and supreme quality as feed, so as to safeguard the performance of broiler breeding while taking into account the health and nutrition intake of the general public. Given the volatility in raw materials prices, the Group implemented cost reduction measures during the year, adjusted broiler feed formulae according to different seasonal characteristics and raw materials prices. Adjustments of nutrient concentration in feed formula were also made to further reduce the breeding and feeding costs while improving production efficiency.

Apart from implementing the relevant work, the Group also invited feed and breeding experts from different countries for technological exchange to enhance the Group's overall technology level. After detailed examination of breeder and broiler breeding environment and equipment, technical experts commended the Group for its various monitoring programs in relation to ensuring the physical health of the breeders and the supreme quality of broiler and also provided us with valuable advices for improvement. In the future, the Group will organise and participate in more conferences and continue to communicate and cooperate with overseas industry players to jointly promote the chicken meat products business.

PROSPECTS

In 2011, the Group has set a clear development and expansion strategy. It will continue to place great attention to the chicken meat products business with development potential in the future, endeavoring to strengthen its leading market position. Although a series of expansion projects will be launched, the Group will steadily explore the sizeable chicken meat products market in the PRC in a pragmatic manner to ensure the quality of our products. To this end, the Group is well-positioned to implement our expansion plans. In 2012, we will develop new breeder farms, hatching facilities, broiler breeding farms and animal feeds production facilities in phases, and the expansion plans are expected to be completed and commence operation successively by the end of the year.

To cope with our new expansion plan, the Group is taking the initiative to recruit and train its staff while optimizing the corporate structure. The industrious efforts and cooperation among all personnel of the Group will certainly foster the smooth progress of the entire production line to meet our future demand for capacity growth.

As one of the "Powerful Enterprises in the Meat Products Industry of China", the Group will continue to cultivate its brand and image and develop more new chicken meat products, striving to establish "森寶(Sumpo)" as a well-known brand of chicken meat products supplier in China that is versatile and put great emphasis on product quality and customers care. In addition to widely promoting its own brand-"森寶(Sumpo)", the Group will continue to work closely with a number of major fast-food shops and contract farmers to strengthen mutual communication and business relationships, so as to establish a reliable and solid customer network for mutual gain.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my heartfelt gratitude to our shareholders, members of the Board of Directors, senior management and all our staff for their dedication and contribution during the year and also to our clients, suppliers, contract farmers and business partners for their relentless support and trust! Looking forward, let us join hands, spreading our wings to reach a new height and unroll a new chapter of glory.

Lin Qinglin
Chairman

28 March 2012




Vertically Integrated Operation

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

Management Discussion and Analysis

The construction of new slaughtering and processing plant in Longyan, Fujian was successfully completed and put into operation in January 2012. Upon full commissioning, the overall slaughtering and processing capacity will be increased by two times to approximately 54 million broilers per year, earmarking another milestone for the Group. To meet the robust market demand for chicken meat products, the slaughtering and processing plant of the Group enhanced the automation system proactively enlarging the original annual capacity, demonstrating the Group's strong determination in expanding its market share.

Business Review

Overview

We are one of the well-known chicken meat products suppliers in the Fujian Province of the PRC and principally engaged in the sales of chicken meat products under the "森寶 (Sumpo)" brand. In 2011, the Group was honored with the title of "Top Ten Farming Enterprises" by the Animal Husbandry and Veterinary Association, which affirmed the diligent efforts of the Group for the development of its chicken meat products, signifying high acclaim of Sumpo's business concept of "quality and quantity".

Sales of the Group's chicken meat products had a solid growth during the year, mainly driven by the increase in income due to the rising average selling prices of chicken. In view of the booming fast food industry as well as new customers solicited by the Group during the year, fast food products accounted for a larger proportion of our processing business than last year, fostering an increase in the price of frozen chicken meat products. During the year, the Group recorded a consolidated turnover of approximately RMB663.0 million (2010: approximately RMB633.3 million), representing an increase of approximately 4.7% over last year; profit attributable to the owners of the Company was approximately RMB42.8 million (2010: approximately RMB61.9 million), representing a decrease of approximately 30.8% over last year. The decrease was mainly attributable to i) a decrease in gross profit resulting from the increase in raw material costs and labour costs; ii) a change in fair value less cost to sale of biological assets; and iii) the expenses incurred prior to the commencement of operation of the new slaughtering and processing plant in January 2012.

During the year, the Group formulated an enhanced payroll program to ensure the wage system followed the principle of fairness, thus effectively improving the overall efficiency. Moreover, the Group continued to work closely with over 160 contract farmers for the sales of our own chicken breeds and animal feeds to them, which guaranteed the health quality of broiler breeding while effectively preventing the outbreak of severe epidemics. After recurrent assessments and reviews, profitability of independent contract farmers were seen to have achieved significant growth during the year.

Vertical integration of production processes

During the year, the Group operated a number of production facilities in Longyan, Fujian, which included 3 breeder farms, 1 hatching facility, 5 broiler breeding farms, 1 animal feeds production facility and 2 slaughtering and processing facilities. Through the vertical integration of the production process, the Group's annual overall slaughtering and processing capacity will be increased by two times to approximately 54 million broilers per year upon the completion of construction of the second new slaughtering and processing plant, which commenced operation officially in January 2012. Given the huge potential for the development of the chicken meat products industry in the upcoming years, the Group reallocated part of the unutilised net proceeds from the share offer during the year to satisfy the immediate need of business development, particularly for the provision of more advanced equipment for the new slaughtering and processing plant to reach the design production capacity, so as to strengthen Sumpo's competitiveness.

Strict control of production costs

In respect of production costs, the Group's feeding cost increased substantially in face of the surging prices during the year, particularly the significant rise in corn price. In response to the above, the Group adopted a number of appropriate measures at different levels, which included broadening the procurement pipeline of feed ingredients and refined feed management. In addition to keeping an eye on the changes in market prices to capture the opportune purchase time, the procurement team also strengthened its collaboration with trading enterprises in the grain-producing regions to source for corn and wheat directly from northeastern China and Anhui respectively in order to keep itself abreast of the accurate raw material prices in a timely manner.

The Group adjusted the broiler feed formulae from time to time in different seasons, and applied corn-or wheat-based broiler feed formulae timely to cope with the difference in market prices of corn and wheat, with an aim to minimise production cost while maintaining consistent feed quality. To alleviate the impact of feed with adjusted formula on broilers, the Group closely inspected its animal feeds production facilities on a regular basis.

Improving the quality of chicken meat products

During the year, the Group strictly enforced the bio-security and vaccination program, which enhanced the precautionary measures against the outbreak of diseases amongst live chickens to ensure no severe pandemic. Trace elements consumed by breeders are all purchased from large reputable companies, which eliminated the impact of heavy metals on the production ability of breeders and ensure the breeders reached safety standards. Furthermore, the Group has established a chicken breed quality tracking system to improve the survival rate of breeding. The Group has been extensively overseeing organisational coordination and quality control of the Company based on market intelligence and by allocation of plant personnel, so as to facilitate our monitoring of product quality and to improve the yield of high-valued products.

Financial Review

Revenue

Our revenue derived from the sales of chicken meat products, animal feeds and chicken breeds represented approximately 71.8%, 22.8% and 5.4% of our total revenue respectively for the year ended 31 December 2011.

Management Discussion and Analysis

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

	For the year ended 31 December			
	2011 RMB'000	**% of total revenue**	2010 RMB'000	% of total revenue
Revenue				
Chicken meat products	**476,124**	**71.8**	434,786	68.7
Animal feeds	**150,965**	**22.8**	162,180	25.6
Chicken breeds	**35,952**	**5.4**	36,289	5.7
Total	**663,041**	**100.0**	633,255	100.0

Our total revenue increased from approximately RMB633.3 million for the year ended 31 December 2010 to approximately RMB663.0 million for the year ended 31 December 2011, primarily due to the increase in sales volume and average selling price of the chicken meat products.

Chicken meat products

Revenue from sales of our chicken meat products business increased by approximately 9.5%, from approximately RMB434.8 million for the year ended 31 December 2010 to approximately RMB476.1 million for the year ended 31 December 2011, primarily as a result of the increase in both the average selling price and sales volume of our chicken meat products.

Animal feeds

Revenue from sales of our animal feeds business decreased by approximately 6.9% from approximately RMB162.2 million for the year ended 31 December 2010 to approximately RMB151.0 million for the year ended 31 December 2011, primarily as a result of the termination of production and sale of pig feeds at the end of 2010.

Chicken breeds

Revenue from sales of our chicken breeds business decreased by approximately 0.9%, from approximately RMB36.3 million for the year ended 31 December 2010 to approximately RMB36.0 million for the year ended 31 December 2011, primarily due to the decrease in the proportion of broilers sold to the contract farmers as some contract farmers had temporarily ceased their broiler breeding business during the long holiday period for the Chinese New Year in January 2011.

Gross Profit and Gross Profit Margin

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

	For the year ended 31 December			
	2011 RMB'000	**% of total gross profit**	2010 RMB'000	% of total gross profit
Gross Profit				
Chicken meat products	**95,887**	**78.8**	94,740	75.2
Animal feeds	**3,158**	**2.6**	6,908	5.5
Chicken breeds	**22,653**	**18.6**	24,327	19.3
Total	**121,698**	**100.0**	125,975	100.0

	For the year ended 31 December	
	2011 %	2010 %
Gross Profit Margin		
Chicken meat products	**20.1**	21.8
Animal feeds	**2.1**	4.3
Chicken breeds	**63.0**	67.0
Overall	**18.4**	19.9

Gross profit decreased from approximately RMB126.0 million for the year ended 31 December 2010 to approximately RMB121.7 million for the year ended 31 December 2011. Our overall gross profit margin decreased from approximately 19.9% for the year ended 31 December 2010 to approximately 18.4% for the year ended 31 December 2011, primarily due to the increase in costs of raw materials and labour costs.

Chicken meat products

Gross profit from our chicken meat products business increased by approximately 1.2%, from approximately RMB94.7 million for the year ended 31 December 2010 to approximately RMB95.9 million for the year ended 31 December 2011. The gross profit margin for our chicken meat products business decreased from approximately 21.8% for the year ended 31 December 2010 to approximately 20.1% for the year ended 31 December 2011. This was primarily due to the extent of increase in the cost of our chicken meat products was higher than the increase in the selling price of our chicken meat products.

Animal feeds
Gross profit from our animal feeds business decreased by approximately 54.3%, from approximately RMB6.9 million for the year ended 31 December 2010 to approximately RMB3.2 million for the year ended 31 December 2011. The gross profit margin for our animal feeds business decreased from approximately 4.3% for the year ended 31 December 2010 to approximately 2.1% for the year ended 31 December 2011. This was primarily due to the increase in the unit cost of major raw materials of animal feeds, namely corn and wheat.

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

Other Revenue and Gains
Other revenue and gains decreased by approximately 28.1%, from approximately RMB23.1 million for the year ended 31 December 2010 to approximately RMB16.6 million for the year ended 31 December 2011, primarily as a result of no reimbursement of withholding tax from a shareholder as that in 2010 was recognised for the year ended 31 December 2011.

Selling and Distribution Expenses
Selling and distribution expenses increased by approximately 25.6%, from approximately RMB10.7 million for the year ended 31 December 2010 to approximately RMB13.4 million for the year ended 31 December 2011, primarily as a result of an increase in the transportation expenses related to the sales of our products.

Administrative Expenses
Administrative expenses increased by approximately 12.6%, from approximately RMB41.8 million for the year ended 31 December 2010 to approximately RMB47.1 million for the year ended 31 December 2011. The increase was mainly the result of the pre-operation cost incurred for the establishment of the new slaughtering and processing plant and the cost incurred for application on issuance of Taiwan depository receipt during the year.

Other Operating Expenses
Other operating expenses increased by approximately 17.6%, from approximately RMB19.3 million for the year ended 31 December 2010 to approximately RMB22.7 million for the year ended 31 December 2011, mainly due to the increase in the feeding cost of mature breeders and exchange loss during the year.

Finance Costs
Finance costs decreased by approximately 48.3%, from approximately RMB10.0 million for the year ended 31 December 2010 to approximately RMB5.2 million for the year ended 31 December 2011, primarily as a result of the decrease in interest paid on bank borrowings.

Taxation
Income tax decreased by approximately 44.9%, from approximately RMB2.1 million for the year ended 31 December 2010 to approximately RMB1.2 million for the year ended 31 December 2011, primarily as a result of the decrease in taxable profit attributable to the sale of animal feeds for the year ended 31 December 2011.

Outlook

Active expansion and improvement of production base

Looking forward, the foremost mission of the Group is to maximise the utilisation of the annual production capacity of the new slaughtering and processing plant to 36 million broilers. To achieve the goal and fully utilise our existing production facilities, the Group will allocate more resources to the new plant to improve the entire production process and to cater for the increasing market demand. Meanwhile, new feedmills, hatching facilities, breeder farms and broiler breeding farms are under rapid expansion with a view to excel our business growth and increase our market share. The new hatching facility has been put into operation in March 2012, whilst the first breeder farm is expected to commence operation by the middle of the year, and the second and third breeder farms are expected to commence operation in the third quarter.

Currently, the Group has pressed ahead the acquisition of lands and environmental assessment and inspection of the new broiler breeding farms while planning to fulfill the requirements of the four standardised broiler breeding farms in 2012. The new animal feeds production facility has completed the installation of the equipment and the plant design with the environmental assessment report being under review, which is expected to be commissioned during the second half of 2012. However, land acquisition, project progress and recruitment of talent will pose the most formidable challenges for the Group to realise such goals. Confronted with such an intricate task, the Group specifically set up the land acquisition task force to strengthen the communication with the relevant government authorities to change our submissive strategy of land acquisition by feeding into it new ideas and team spirit, so as to achieve the utmost goal for the year.

To meet future market demand for chicken meat products, the Group will monitor the land and infrastructure development of contract farmers as scheduled and closely observe the processing of the Pollutant Discharge Permit and the Animal Epidemic Prevention Qualification Certificate for contract farmers.

Exploring regional markets

Over the years, the Group's production base has been deeply rooted in Longyan City. Being one of the largest poultry consumption markets in China, Fujian definitely has a vast potential for growth. In the future, the Group will continue to target Fujian as its primary market for growth, fully leveraging its leading position to promote the entire chicken meat products business, while continuing to seek for new customers of other provinces to lay a solid foundation for the Group's future increase in production. The Group plans to strengthen its local marketing efforts, specify clear and reasonable sales targets for different regions and improve its market analysis and forecast to prevent cross-territory sales and to ensure the effectiveness of its marketing strategy. On the other hand, the Group will increase the proportion of sales of high-valued products, committing to the development of markets for fresh products and small fast-food restaurants, so as to consolidate and expand its share in the chicken meat products wholesale market.

Strengthening internal management

Proper internal management is one of the key elements for a successful enterprise. As such, the Group will implement a performance appraisal system by modifying the appraisal of production units and functional departments and analysing the production and operation performance indicators to improve the two-tier appraisal system. A technical data system in respect of the quality of raw material procurement, feed, breeding, processing and sale is in the planning stage to enhance quality tracking and safety awareness. In respect of the enforcement of our system, the Group adheres to the principle of equality with rewards and punishments in place while upholding the people-oriented management system, aiming at changing the compulsory mechanism to self-restraint mechanism of employees. To live up to the commitment of a paperless office, the Group will advocate office automation and improve information management in order to be environmental friendly.

Ensuring workplace and product safety

In 2012, the Group will strictly cling to the principle of "prevention for safety", formulate disaster emergency plans as well as enhance the operating skills and safety awareness of personnel for special operations, endeavoring to eliminate all potential safety hazards. At the same time, all production units, the safety department and the administration department will adopt the three-tier safety responsibility system to ensure production safety. In addition, the Group will continue to maintain the epidemic prevention system for living stocks and improve feeding practices, thereby increasing the fertilisation rate and product safety of the breeders.

Contract Farmer's Permit and Certificate

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

Our aim was that not less than 30% of the contract farmers would have obtained such permit and certificate by 31 December 2011 and an additional of not less than 40% to 45% of our contract farmers will have obtained such permit and certificate by 31 December 2012. As at 31 December 2011, approximately 61% and approximately 41% of the contract farmers had obtained the Pollutant Discharge Permit（排污許可證）and the Animal Epidemic Prevention Qualification Certificate（動物防疫條件合格證）respectively. The Directors are of the view that, even if some contract farmers are unable to satisfy the requirement of obtaining the said permit and certificate and thus cannot continue to provide contact farming services to us, we will still be able to find alternative contract farmers who can satisfy such requirements to provide contract farming services to us.

Liquidity and Financial Resources

Financial Resources

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital requirements. As at 31 December 2011, cash and cash equivalents and pledged bank deposits amounted to approximately RMB156.8 million (2010: approximately RMB104.4 million), all of which were denominated in Renminbi.

Borrowings and Pledged Assets

As at 31 December 2011, the total amount of interest-bearing bank borrowings were approximately RMB50.6 million (2010: approximately RMB106.2 million), all of which was denominated in Renminbi, with interest rates ranged from 2.4% to 7.0% per annum.

As at 31 December 2011, the bank borrowings were secured by the Group's property, plant and equipment and prepaid lease payments with total carrying value of approximately RMB80.6 million (2010: approximately RMB13.5 million).

Gearing Ratio

As at 31 December 2011, the gearing ratio of the Group was approximately 8.2% (2010: approximately 25.3%). This was calculated by dividing interest-bearing bank borrowings with the total assets of the Group as at 31 December 2011. The decrease in the gearing ratio was mainly due to repayment of bank borrowings during the year.

Foreign Exchange Risk

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

Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries and associated companies during the year under review.

Contractual and Capital Commitments

As at 31 December 2011, the Group had operating lease commitments of approximately RMB6.9 million (2010: approximately RMB6.3 million).

As at 31 December 2011, the Group had capital commitments of approximately RMB142.7 million (2010: approximately RMB114.0 million).

Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities (2010: Nil).

Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the issuance of new shares of the Company (the "Shares") at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 January 2011 and after the exercise of the over-allotment options on 28 January 2011 amounted to approximately HK$283.9 million (approximately RMB231.7 million). As at 31 December 2011, the net proceeds were partially applied in accordance with the proposed applications set out in the Prospectus and the announcement of the Company dated 28 November 2011, as follow:

– Approximately RMB8.4 million was used to finance the costs of establishing our new breeder farms;
– Approximately RMB8.8 million was used to finance the costs of establishing our new hatching facilities;
– Approximately RMB63.0 million was used to finance the costs of establishing our new slaughtering and processing plant;
– Approximately RMB29.5 million was used to finance the Group's general working capital and general corporate services; and
– Approximately RMB122.0 million remains unused, which are deposited with licensed banks and financial institutions in Hong Kong and the PRC.

Human Resources

At 31 December 2011, the Group had 1,242 employees. Employee costs, excluding directors' emoluments, totalled approximately RMB10.6 million for the year (2010: approximately RMB11.6 million). All of the Group's companies are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

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

CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. We have obtained confirmation from all our Directors that they have complied with the Model Code throughout the period since our listing on the Main Board of the Stock Exchange on 11 January 2011.

BOARD OF DIRECTORS

Board Composition

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

Executive Directors:

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

Independent non-executive Directors:

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

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

The biographical information of Directors is set out on pages 25 to 28 of this annual report.

The Company has appointed four independent non-executive Directors representing more than half of the Board. Mr. Hu Chung Ming, who is one of the independent non-executive Directors, has a professional qualification in accountancy. The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provides adequate checks and balances to safeguard the interests of the Group and its shareholders, including the review of continuing connected transactions described in the other sections of this annual report. The Board confirms that the Company has received from each of the independent non-executive Directors a confirmation of independence for the year ended 31 December 2011 pursuant to Rule 3.13 of the Listing Rules and considers such Directors to be independent.

Functions of the Board

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

Directors' and Officers' Insurance

We have acquired insurance coverage on Directors' and officers' liabilities in respect of any legal actions which may be taken against our Directors and officers in the execution and discharge of their duties or in relation thereto.

Delegation by the Board of Directors

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration Committee, Nomination Committee and the senior management. On 28 March 2012, the Board approved the forming of a Nomination Committee.

The Board delegates the authority and responsibility of the daily operations, business strategies and day-to-day management to the Chief Executive Officer and the senior management. The final decision(s) are still made by the Board unless otherwise provided for in the terms of reference of the three committees.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Mr. Lin Qinglin currently serves as the Chairman and Chief Executive Officer of the Company. The Board believes that the serving by the same individual as Chairman and Chief Executive Officer during the rapid development of the business is conducive to building a strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. Also, the Board considers that this structure will not impair the balance of power and authority between the Board and management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operations of the Company. The Board has full confidence in Mr. Lin and believes that having Mr. Lin performing the roles of Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

Non-Competition Undertakings

In order to avoid any possible future competition between our Group on the one hand, and Mr. Lin Qinglin and Mr. Lin Genghua (the son of Mr. Lin Qinglin) (the "Controlling Shareholders") on the other hand, the Controlling Shareholders executed a deed of non-competition ("Deed of Non-Competition") on 17 December 2010 in favour of our Company (for itself and for the benefit of each member of our Group). Pursuant to the Deed of Non-Competition, the Controlling Shareholders have jointly and severally, irrevocably and unconditionally undertaken with our Company (for itself and for the benefit of each member of our Group) that with effect from the Listing Date (i.e. 11 January 2011) and for as long as the Shares remain listed on the Stock Exchange and the Controlling Shareholders are, either individually or collectively with their respective associates, directly or indirectly interested in not less than 30% of the issued share capital of our Company, the Controlling Shareholders and their respective associates (other than members of our Group) shall not directly or indirectly be engaged, invest, be interested or otherwise be involved in any chicken-related business and any other business which is carried out by our Group (the "Restricted Activity") in the PRC save for the holding of not more than 5% shareholding interests (individually or with other executive Directors and/or their respective associates) in any company which is engaged or interested in the Restricted Activity, provided that (a) that company is listed on a recognized stock exchange; or (b) the Controlling Shareholders do not have any right to appoint any person to the board of directors of that company and there is at least one other shareholder having shareholding in that company which is larger than the aggregate shareholding of the Controlling Shareholders in that company; or (c) the obtaining of our Company's approval.

The Company has received a declaration from the Controlling Shareholders of their compliance with the terms of the Deed of Non-Competition for the year under review.

Directors' Appointments, Re-election and Removal

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commenced from the date of appointment (i.e. 17 December 2010). Each of the independent non-executive Directors has signed an appointment letter with the Company for an initial term of two years commenced from 17 December 2010 which were renewed for a term ending at the conclusion of the annual general meeting of the Company in 2014, subject to retirement by rotation at the annual general meeting of the company in accordance with the Articles of Association of the Company (the "Articles"). Each of these service agreements and appointment letters may be terminated by either party by giving to the other not less than three months' prior notice in writing.

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

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

Board Meetings and Board Practices

Under code provision A.1.1 of the CG Code, the Board meets regularly and at four times a year at approximately quarterly intervals. During the year ended 31 December 2011, six meetings had been held by the Board. The attendance of each individual Director of the Board is contained in the following table:

	Number of attendance/Total
Executive Directors	
Mr. Lin Qinglin	6/6
Mr. Wu Shiming	6/6
Mr. Yin Shouhong	6/6
Independent non-executive Directors	
Mr. Hu Chung Ming	5/6
Mr. Liao Yuan	5/6
Mr. Chau On Ta Yuen	6/6
Mr. Wei Ji Min	6/6

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

Supply of and access to information

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

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

Responsibilities of Directors

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

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

Audit Committee

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

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

The Audit committee held two meetings for the year under review. The attendance of each member of the Audit Committee is contained in the following table:

	Number of attendance/Total
Mr. Hu Chung Ming	2/2
Mr. Liao Yuan	1/2
Mr. Chau On Ta Yuen	2/2
Mr. Wei Ji Min	2/2

Remuneration Committee

The Remuneration Committee comprises three independent non-executive Directors and one executive Director, with Mr. Liao Yuan as the chairman, other three members are Mr. Hu Chung Ming, Mr. Wei Ji Min and Mr. Lin Qinglin.

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

The Remuneration Committee held one meeting for the year under review. The attendance of each member of the Remuneration Committee is contained in the following table:

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

Nomination Committee

Pursuant to the relevant requirements of the Listing Rules, the Company established a nomination committee ("**Nomination Committee**") on 28 March 2012. The chairperson of the Nomination Committee is Mr. Lin Qinglin, and the members of the Nomination Committee include Mr. Hu Chung Ming and Mr. Chau On Ta Yuen. Among the 3 members of the Nomination Committee, 2 members are independent non-executive Directors. The Nomination Committee is responsible for formulating and implementing policies relating to the nomination of Directors and evaluating candidates based on factors such as experience, qualification and academic background related to business of the Company, integrity of nominees and time being invested. Other functions of the Nomination Committee include: (i) to review the structure, size and composition (including the skills, knowledge, experience and length of service) of the Board at least annually and to make recommendation to the Board regarding any proposed changes to implement the Company's corporate strategy; (ii) to identify individuals suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; (iii) to assess the independence of the independent non-executive Directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors of the Company and the succession planning for Directors of the Company, in particular the chairman of the Board and the chief executive officer; (v) to regularly review the time required from a Director to perform his responsibilities; (vi) to do any such things to enable the Nomination Committee to discharge its powers and functions conferred on it by the Board; and (vii) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the Company's Articles or imposed by legislation.

Compliance Advisor

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

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

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Acknowledgement

The Audit Committee and the Board have reviewed the Group's consolidated financial statements for the year ended 31 December 2011. The Directors acknowledge their responsibilities for preparing accounts, the financial statements, performance position and prospects of the Group. Management has provided information and explanation to the Board to enable it to make an informed assessment of the financial and other information put before the Board for approval. The Directors believed that they have selected suitable accounting policies and applied them consistently, made judgment and estimates that are prudent and reasonable.

The Board is not aware of any material uncertainties relating to the events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the ongoing concern basis in preparing the financial statements.

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

HLB Hodgson Impey Cheng, the auditors of the Company, acknowledged their reporting responsibilities in the Independent Auditors' Report on the consolidated financial statements for the year ended 31 December 2011.

Internal Control and Risk Management

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

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

During the year ended 31 December 2011, the Audit Committee assessed the internal control environment of the Group and reviewed the internal control procedural manual of the Group and concluded that the internal control systems are effective and efficient.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, Messrs HLB Hodgson Impey Cheng, paid/payable for the year is set out as follows:

	2011 **RMB'000**	2010 RMB'000
Audit services	**700**	500
As reporting accountants for the Company's initial public offer	**–**	3,340
Report on the Group's continuing connected transactions	**83**	87
Total	**783**	3,927

Executive Directors

Mr. Lin Qinglin, aged 57, is the Chairman and the Chief Executive Officer of our Company. He is responsible for formulation of the overall development and business strategies of our Group at a strategic level and oversee major management decisions of our Group.

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

Mr. Wu Shiming, aged 36, is an executive Director and deputy chief executive officer of our Company. He is responsible for overseeing the financial and operational performance of the Group. He is a qualified intermediate accountant and he obtained such qualification after he has passed the national examination jointly organized by the Ministry of Finance and the Ministry of Personnel of the PRC. Mr. Wu has over 15 years of experiences in accounting and financial management. Mr. Wu graduated from a course in foreign economic enterprise financial accounting at Jimei University (集美大學) in 1995.

Mr. Yin Shouhong, aged 44, is an executive Director of our Company. Mr. Yin has had over 20 years of experience in the food industry. Mr. Yin has been the assistant to chief executive officer and deputy chief executive officer, responsible for managing the broilers business department and production unit. He commenced his career in the food industry in Anhui Hua Feng Meat and Poultry Joint Venture Company (安徽華豐肉禽聯營公司) as the head of quality control and director of the processing plant from July 1988 to October 2001. Mr. Yin joined Fujian Sumpo in November 2001 as factory manager of the broilers processing plant.

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

Independent non-executive Directors

Mr. Hu Chung Ming, aged 39, became an independent non-executive Director of our Company on 17 December 2010. Mr. Hu has been a certified practising accountant of the Australian Society of Certified Practising Accountants since 10 March 2000 and a fellow of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Hu worked in Ernst & Young Certified Public Accountants as an accountant from January 1997 to September 1999, and as a senior accountant from October 1999 to March 2000. Mr. Hu has been the chief financial officer of certain other companies, namely Lankom Electronics Limited from 2000 to 2003, China Flexible Packaging Holdings (中國軟包裝控股有限公司) Limited from 2003 to 2007, Yunnan Junfa Real Estate Company Limited (雲南俊發房地產有限責任公司) from 2007 to 2008 and Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (Stock Code: 1938) from 2009 to 2011 respectively.

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

Mr. Liao Yuan, aged 37, became an independent non-executive Director of our Company on 17 December 2010. Mr. Liao has over 13 years of experience in financial management. Mr. Liao was the branch manager assistant of the Xinyuan Branch of the Shenzhen Ping An Bank (平安銀行深圳分行新園支行) from July 1997 to May 2007. He then became the general manager of Shenzhen Kaishuo Investment Company Limited (深圳市凱碩投資有限公司) in September 2007. In 2008, Mr. Liao also became a director of Shenzhen Ahtong Electricity Holdings Co. Ltd (深圳亞通光電股份有限公司) and Shenzhen Yingfengyuan Investment Company Limited (深圳市盈豐源投資有限公司) respectively. He subsequently became the supervisor of Shenzhen Kangmei Biotechnology Holdings Limited (深圳康美生物科技股份有限公司) in April 2009. Mr. Liao also became a director of Dachen Yinlei Gaoxin (Beijing) Entrepreneurial Investment Limited (達晨銀雷高新(北京)創業投資有限公司) in February 2009.

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

Mr. Chau On Ta Yuen, aged 64, became an independent non-executive Director of our Company on 17 December 2010. Mr. Chau currently holds directorship in many other companies. In respect of companies listed in Hong Kong, Mr. Chau was an executive director of Everbest Energy Holdings Limited (恒發世紀控股有限公司) (Stock Code: 0578, the name of that company was subsequently changed to Dynamic Energy Holdings Limited (合動能源控股有限公司) on 23 November 2007), a company listed on the Main Board of the Stock Exchange, from March 2000 to November 2006; an independent non-executive director of Everpride Biopharmaceutical Company Limited (中遠威生物製藥有限公司) (Stock Code: 8019, the name of that company was subsequently changed to Hao Wen Holdings Limited (皓文控股有限公司) in March 2010), a company listed on the Growth Enterprise Market of the Stock Exchange, from June 2003 to August 2009; and an independent non-executive director of Buildmore International Limited (建懋國際有限公司) (Stock Code: 0108) from December 2008 to September 2010. Mr. Chau is currently the chairman of China Ocean Shipbuilding Industry Group Limited (中海船舶重工集團有限公司) (Stock Code: 0651) where his directorship commenced in September 2007. Mr. Chau has also been an independent non-executive director of (i) Good Fellow Resources Limited (金威資源控股有限公司 (Stock Code: 0109) since July 2007 and (ii) Come Sure Group (Holdings) Limited (錦勝集團(控股)有限公司) (Stock Code: 0794) since February 2009, all of which are companies listed on the Main Board on the Stock Exchange.

Mr. Chau completed a course in Chinese literature at Xiamen University (廈門大學) in August 1968. Mr. Chau is currently a member of the 11th National Committee of the Chinese People's Political Consultative Conference 11 (中國人民政治協商會議第十一屆全國委員會委員). He is also the vice chairman and chief secretary of the 8th board of directors of the Hong Kong Fujian Association (香港福建社團聯會董事會).

Mr. Wei Ji Min, aged 64, became an independent non-executive Director of our Company on 17 December 2010. Mr. Wei has over 32 years of experience in the agricultural and livestock industry. Mr. Wei was the deputy head of the Changting Animal Husbandry and Fishery Bureau（長汀縣畜牧水產局）from November 1982 to January 1983. He was appointed as the deputy county head of the Changting County People's Government（長汀縣人民政府）in April 1985. He was appointed as the deputy head of the Longyan District Animal Husbandry and Fishery Bureau（龍岩地區畜牧水務局）in September 1987. From June 1994 to July 1997 and from July 1997 to June 2007, he was the head of Longyan District Animal Husbandry and Fishery Bureau（龍岩地區畜牧水產局）and the Longyan City Animal Husbandry and Fishery Bureau（龍岩市畜牧水產局）respectively.

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

Senior Management

Mr. Zhang Xiangyang, aged 40, is the deputy general manager and executive director of Fujian Sumpo. Mr. Zhang is responsible for the Group's operation and business development. Mr. Zhang has over 14 years of managerial experiences. He joined the Group in November 2009. Prior to joining the Group, he was the deputy general manager of Xiamen Sumpo Electronic Technology Group Limited from 2008 to 2009. Before that, he held various positions in Xiamen Sumpo Group Limited. Mr. Zhang graduated from Wuhan University（武漢大學）with a bachelor's degree in electrical automation.

Mr. Chen Xi, aged 40, is assistant vice president of Fujian Sumpo Group and general manager of Xiamen Sumpo Trading, responsible for sale and business development of the Group. Mr. Chen joined the Group in December 2009. He has over 10 years of experience in operational management. Prior to joining the Group, Mr. Chen was the general manager of Xiamen Meiweijia Catering Management Company Limited（廈門美唯佳餐飲管理有限公司）, he also hold several positions in Sumpo Group before. Mr. Chen graduated from Fuzhou University major in business management.

Mr. Lin Jianqun, aged 42, is the vice chief financial officer and the secretary of the board of directors of Fujian Sumpo. Mr. Lin graduated from Xiamen University with a bachelor degree in accountancy and is also a member of The Chinese Institute of Certified Public Accountants in the PRC. He has over 20 years of experience in finance and accounting. Mr. Lin joined the Group in 2005 and is responsible for all finance and accounting matters of the Group's Mainland China subsidiaries.

Company Secretary

Mr. Ng Kin Sun, aged 42, is the chief financial officer and company secretary of the Company. Mr. Ng is primarily responsible for the financial management of the Company. Mr. Ng has over 17 years experience in auditing and financial management gained from various international accounting firms and listed companies. Prior to joining the Group in March 2010, he was the financial controller of a company listed on the New York Stock Exchange. Mr. Ng graduated from University of Western Sydney – Nepean of Australia with a bachelor degree in commerce and The University of Manchester with a master of business administration. Mr. Ng is also a member of Hong Kong Institute of Certified Public Accountant and CPA Australia.

The directors of the Company ("Directors") are pleased to present this annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

Corporate Information

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

Principal Activities

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

Results and Final Dividend

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 46.

The Board recommends a final dividend of HK$1.0 cent per share (2010: Nil) to shareholders whose names appear on the register of members of the Company on 17 May 2012. Subject to the approval by the shareholders at the forthcoming annual general meeting of such final dividend payment to be held on 9 May 2012.

Summary of Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the audited consolidated financial statements and restated/reclassified as appropriate, is set out on pages 117 to 118 of this report.

Closure of Register of Members

The register of members will be closed from 7 May 2012 to 9 May 2012, both days inclusive, on which no transfer of Shares will be effected. In order to determine the eligibility to shareholders to obtain and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 4 May 2012.

The register of members will be closed from 15 May 2012 to 17 May 2012, both days inclusive, on which no transfer of Shares will be effected. In order to determine the entitlements of the shareholders to the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share branch registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 14 May 2012.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 16 to the consolidated financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in Note 29 to the consolidated financial statements.

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

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

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

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

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

Pre-Emptive Rights

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

Reserves

As at 31 December 2011, the Company's reserves available for distribution to equity holders comprising share premium account less accumulated losses, amounted to approximately RMB83.4 million.

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 44 and note 30 to the consolidated financial statements respectively.

Major Customers and Suppliers

For the year ended 31 December 2011, sales to the Group's largest and five largest customers accounted for approximately 13.0% and approximately 24.7% of the Group's total sales respectively. For the year ended 31 December 2011, the largest and five largest suppliers of the Group accounted for approximately 7.6% and approximately 24.5% of the Group's total purchases respectively.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year ended 31 December 2011.

Directors and Directors' Service Contracts

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

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

Independent non-executive Directors:
Mr. Hu Chung Ming
Mr. Liao Yuan
Mr. Chau On Ta Yuen
Mr. Wei Ji Min

In accordance with Article 84 of the Company's Articles, Messrs. Yin Shouhong, Chau On Ta Yuen and Wei Ji Min will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 25 to 28 of this report.

Directors' Service Contracts

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

The Company has issued an appointment letter to each of Mr. Hu Chung Ming, Mr. Liao Yuan, Mr. Chau On Ta Yuen and Mr. Wei Ji Min, being the independent non-executive Directors of the Company for an initial term of two years commencing from 17 December 2010, which were renewed for a new term ending at the concussion of the annual general meeting of the Company in 2014, subject to retirement by rotation at the annual general meeting of the Company in accordance with the Articles.

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

Directors' Interests in Contracts

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

Directors' Remuneration

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

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

As at 31 December 2011, the interests and short positions of the Directors and chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in Shares and underlying Shares of the Company

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

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

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

As at 31 December 2011, the interests or short positions of the persons (other than the Directors or chief executives of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Long position in Shares and underlying Shares of the Company

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

Notes:

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

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

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

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

Sufficiency of Public Float

Based on information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year.

Continuing Connected Transactions

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

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

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

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

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

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

For the year ended 31 December 2011, the aggregate amount of purchase price paid by Fujian Sumhua was approximately RMB772,000.

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

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

   For the year ended 31 December 2011, the aggregate amount of purchase price paid by Xiamen Oporto was approximately RMB1,035,000.

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

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

   For the year ended 31 December 2011, the aggregate amount of purchase price paid by Fujian Sumhua was approximately RMB1,015,000.

Annual Review of Continuing Connected Transactions

The independent non-executive Directors have reviewed the above continuing connected transactions numbered 1 to 3 for the year ended 31 December 2011 and have confirmed that these continuing connected transactions are:

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

2. entered into on normal commercial terms; and

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

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

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

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

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

Directors' Interests in a Competing Business

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

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

Code on Corporate Governance Practices

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

Auditors

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lin Qinglin
Chairman

Hong Kong, 28 March 2012

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

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

We have audited the consolidated financial statements of Sumpo Food Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 116, which comprise the consolidated and Company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY (continued)

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011** **RMB'000**	2010 RMB'000
Revenue	6	**663,041**	633,255
Cost of sales		**(541,343)**	(507,280)
Gross profit		**121,698**	125,975
Other revenue and gains	7	**16,607**	23,095
Change in fair value less cost to sell of biological assets	21	**(3,025)**	2,429
Net (loss)/gain on financial assets at fair value through profit or loss	10	**(1,296)**	7
Fair value of agricultural produce on initial recognition	20	**64,920**	58,340
Reversal of fair value of agricultural produce due to hatch and disposals	20	**(62,260)**	(55,983)
Selling and distribution expenses		**(13,409)**	(10,674)
Administrative expenses		**(47,061)**	(41,786)
Finance costs	8	**(5,198)**	(10,045)
Other operating expenses		**(22,713)**	(19,315)
Profit before taxation		**48,263**	72,043
Taxation	9	**(1,159)**	(2,103)
Profit for the year	10	**47,104**	69,940
Other comprehensive income/(loss) for the year, net of income tax:			
Exchange differences on translating foreign operations		**10**	(83)
Other comprehensive income/(loss) for the year, net of income tax		**10**	(83)
Total comprehensive income for the year		**47,114**	69,857

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011** **RMB'000**	2010 RMB'000
Profit for the year attributable to:			
Owners of the Company		**42,840**	61,919
Non-controlling interests		**4,264**	8,021
		47,104	69,940
Total comprehensive income for the year attributable to:			
Owners of the Company		**42,850**	61,836
Non-controlling interests		**4,264**	8,021
		47,114	69,857
Dividends	13	**–**	75,000
Earnings per share	14		
Basic and diluted (RMB cents per share)		**2.59**	3.87

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	16	**226,528**	141,236
Investment property	17	**1,031**	1,067
Biological assets	21	**12,419**	12,572
Prepaid lease payments	18	**53,247**	54,545
Held-to-maturity investment	24	**–**	1,000
Deferred tax assets	15	**839**	870
		294,064	211,290
Current assets			
Inventories	20	**54,118**	46,264
Biological assets	21	**6,651**	7,135
Trade and other receivables and deposits	22	**104,651**	49,276
Prepaid lease payments	18	**1,298**	1,298
Financial assets at fair value through profit or loss	23	**92**	122
Held-to-maturity investment	24	**1,000**	–
Pledged bank deposits	25	**12,780**	63,951
Cash and bank balances	25	**144,001**	40,421
		324,591	208,467
Current liabilities			
Trade and other payables	26	**50,794**	114,870
Bank borrowings	27	**30,630**	104,950
Current tax liabilities		**279**	260
		81,703	220,080
Net current assets/(liabilities)		**242,888**	(11,613)
Total assets less current liabilities		**536,952**	199,677

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Equity			
Share capital	29	**141,007**	–
Reserves		**338,336**	181,864
Equity attributable to owners of the Company		**479,343**	181,864
Non-controlling interests		**16,340**	12,076
Total equity		**495,683**	193,940
Non-current liabilities			
Bank borrowings	27	**20,000**	1,260
Deferred revenue	28	**21,269**	4,477
		41,269	5,737
Total equity and non-current liabilities		**536,952**	199,677

Approved by the Board of Directors on 28 March 2012 and signed on its behalf by:

Lin Qinglin
Executive Director

Wu Shiming
Executive Director

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	16	**863**	537
Investments in subsidiaries	19	**–**	–
		863	537
Current assets			
Trade and other receivables and deposits	22	**574**	2,442
Amount due from a subsidiary	19	**221,130**	–
Cash and bank balances	25	**2,731**	–
		224,435	2,442
Current liabilities			
Amount due to a subsidiary	19	**–**	8,612
Trade and other payables	26	**918**	925
		918	9,537
Net current assets/(liabilities)		**223,517**	(7,095)
Total assets less current liabilities		**224,380**	(6,558)
Equity			
Share capital	29	**141,007**	–
Reserves	30	**83,373**	(6,558)
Total equity		**224,380**	(6,558)

Approved by the Board of Directors on 28 March 2012 and signed on its behalf by:

Lin Qinglin
Executive Director

Wu Shiming
Executive Director

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Equity attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000 Note (30(a))	Statutory reserve RMB'000 Note (30(b))	Other reserve RMB'000 Note (30(c))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2010	34	35,735	17,423	5,278	17,804	2,424	116,330	195,028	13,843	208,871
Profit for the year	–	–	–	–	–	–	61,919	61,919	8,021	69,940
Other comprehensive loss for the year, net of income tax:										
Exchange differences on translating foreign operations	–	–	–	(83)	–	–	–	(83)	–	(83)
Total comprehensive (loss)/income for the year	–	–	–	(83)	–	–	61,919	61,836	8,021	69,857
Transfer to statutory reserve	–	–	–	–	12,015	–	(12,015)	–	–	–
Effect of Group Reorganisation	(34)	(35,735)	–	–	–	35,769	–	–	–	–
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	(9,788)	(9,788)
Dividend paid	–	–	–	–	–	–	(75,000)	(75,000)	–	(75,000)
As at 31 December 2010 and 1 January 2011	–	–	17,423	5,195	29,819	38,193	91,234	181,864	12,076	193,940
Profit for the year	–	–	–	–	–	–	42,840	42,840	4,264	47,104
Other comprehensive income for the year, net of income tax:										
Exchange differences on translating foreign operations	–	–	–	10	–	–	–	10	–	10
Total comprehensive income for the year	–	–	–	10	–	–	42,840	42,850	4,264	47,114
Issue of ordinary shares by way of public offer (Note 29 (c))	33,984	197,107	–	–	–	–	–	231,091	–	231,091
Shares capitalisation (Note 29 (d))	101,951	(101,951)	–	–	–	–	–	–	–	–
Shares issued pursuant to exercise of the over-allotment option (Note 29 (e))	5,072	29,416	–	–	–	–	–	34,488	–	34,488
Share issuing expenses	–	(10,950)	–	–	–	–	–	(10,950)	–	(10,950)
Transfer to statutory reserve	–	–	–	–	9,487	–	(9,487)	–	–	–
As at 31 December 2011	**141,007**	**113,622**	**17,423**	**5,205**	**39,306**	**38,193**	**124,587**	**479,343**	**16,340**	**495,683**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 **RMB'000**	2010 RMB'000
Operating activities		
Profit before taxation	**48,263**	72,043
Adjustments for:		
Interest income	**(2,844)**	(825)
Interest expenses	**5,198**	10,045
(Gain)/Loss on disposal of property, plant and equipment	**(1)**	25
Gain on issue of financial guarantee	**–**	(1,612)
Depreciation and amortisation	**15,052**	15,525
Impairment loss on goodwill	**–**	16
Impairment losses recognised on trade and other receivables	**89**	125
Reversal of impairment recognised on trade and other receivables	**(55)**	–
Fair values of agricultural produce on initial recognition	**(64,920)**	(58,340)
Reversal of fair values of agricultural produce due to hatch and disposals	**62,260**	55,983
Net losses/(gain) on financial assets at fair value through profit or loss	**1,296**	(7)
Change in fair values less costs to sell of biological assets	**3,025**	(2,429)
Operating cash flows before movements in working capital	**67,363**	90,549
Increase in biological assets	**(2,388)**	(167)
(Increase)/decrease in trade and other receivables and deposits	**(55,409)**	18,846
Increase in inventories	**(5,194)**	(7,429)
Decrease in amounts due from related parties	**–**	232,715
Decrease in amounts due to a related party	**–**	(19,785)
(Decrease)/increase in trade and other payables	**(64,076)**	47,128
Increase/(decrease) in deferred revenue	**16,792**	(126)
Cash (used in)/generated from operations	**(42,912)**	361,731
Interest paid	**(5,198)**	(10,045)
Income tax paid	**(1,109)**	(5,613)
Net cash (used in)/generated from operating activities	**(49,219)**	346,073

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Investing activities		
Interest received	**2,844**	825
Proceeds from disposal of property, plant and equipment	**4,761**	2,617
Purchase of property, plant and equipment	**(103,770)**	(53,923)
Purchase of prepaid lease payments	**–**	(46,697)
Purchase of held-to-maturity investment	**–**	(1,000)
Net proceeds from trading of of financial assets at fair value through profit or loss	**(1,266)**	–
Redemption of held-to-maturity investment	**–**	6,000
Decrease/(increase) in pledged bank deposits	**51,171**	(63,951)
Net cash inflow from acquisition of additional interests in a subsidiary	**–**	2,715
Net cash used in investing activities	**(46,260)**	(153,414)
Financing activities		
Proceeds from bank borrowings	**50,000**	104,950
Repayments of bank borrowings	**(105,580)**	(176,850)
Proceeds from issue of ordinary shares	**265,579**	–
Share issuing expenses	**(10,950)**	–
Repayment of amount due to a shareholder	**–**	(141,140)
Net cash generated from/(used in) financing activities	**199,049**	(213,040)
Net increase/(decrease) in cash and cash equivalents	**103,570**	(20,381)
Cash and cash equivalents at beginning of the year	**40,421**	61,259
Effect of foreign exchange rate changes, net	**10**	(457)
Cash and cash equivalents at end of the year	**144,001**	40,421

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

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 February 2010. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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

The principal activity of the Company is investment holdings. The activities of its principal subsidiaries are set out in Note 19 to the consolidated financial statements.

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

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2011.

HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Amendment to HKAS 32 Financial Instruments: Presentation-Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirements
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The principal effects of adopting these new HKFRSs are as follows:

HKAS 24 (revised 2009) simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the group is related, or transactions with other entities related to the same government. These amendments have had no material impact on the Group's financial statements.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

The adoption of the new HKFRSs had no material effect on the results and the financial position of the Group for the current or prior accounting period. Accordingly, no prior period adjustment is required.

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

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]
HKFRS 7 (Amendments)	Disclosure – Transfer of Financial Assets[1]
	Disclosure – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interest in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets, HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

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

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

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

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

For other new HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The consolidated financial statements have been prepared on the historical cost basis except for financial assets through profit or loss, biological assets and agricultural produce, which are measured at fair values, as explained in the accounting policies set out below historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

Revenue recognition

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

(a) Sales of goods

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

(b) Rental income

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

(c) Interest income

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

The Group as lessor

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

The Group as lessee

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

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

Foreign currencies

The consolidated financial statements are presented in Renminbi ("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 statements of each individual group entity, transactions in currencies other than that entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period, unless exchange rates fluctuate 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 relation to a partial disposal that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is 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 on identifiable assets acquired 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 each reporting period. Exchange differences arising are recognised in entity under the heading of exchange reserve.

Borrowing costs

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit and loss as they become payable in accordance with the rules of the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans is limited to the fixed percentage contributions payable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost, less accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, less their residual values over their useful lives, 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

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

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

Investment property

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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

Net realisable value is the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

Biological assets and agricultural produce

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

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

Prepaid lease payments

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

Provisions

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets

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

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 relevant 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 other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling it in the near future; or

(b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(c) it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)
A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed mature dates that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

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 and deposits, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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:

(a) significant financial difficulty of the issuer or counterparty; or

(b) breach of contract, such as a default or delinquency in interest or principal payments; or

(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial liabilities and equity instruments

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.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and subsequently all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

Related parties transactions

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

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties transactions (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

Impairment of non-financial assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (other than goodwill) (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent liabilities and contingent assets (continued)

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

Individually material operating segments are not aggregate for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 consolidated financial statements.

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

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

(b) Net realisable value of inventories

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairment arises where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade receivables and doubtful debt expenses in the reporting period in which such estimate has been changed.

(d) Depreciation

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

(e) Income taxes

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(f) Fair values of biological assets and agricultural produce

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

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

The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets and agricultural produce. Details of the assumptions used are disclosed in Note 21.

5. SEGMENT INFORMATION

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

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

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

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

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

5. SEGMENT INFORMATION (continued)

Segment revenue and results

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

31 December 2011

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment results					
External segment revenue	476,124	35,952	150,965	–	663,041
Inter-segment revenue	588,200	34,990	94,510	(717,700)	–
Segment revenue	1,064,324	70,942	245,475	(717,700)	663,041
Segment results	95,887	22,288	3,158	–	121,333
Unallocated revenue and gains					16,607
Unallocated selling and distribution expenses					(13,409)
Unallocated administrative expenses					(47,061)
Unallocated other operating expenses					(24,009)
Profit from operations					53,461
Finance costs					(5,198)
Profit before taxation					48,263
Other segment items included in the consolidated statement of comprehensive income					
Interest income					
– allocated	2,097	53	10	–	2,160
– unallocated					684
					2,844
Interest expenses					
– allocated	3,856	1,342	–	–	5,198
Depreciation of property, plant and equipment					
– allcoated	10,185	1,852	1,446	–	13,483
– unallocated					235
					13,718
Amortisation of prepaid lease payments					
– allocated	1,140	10	148	–	1,298
Impairment loss recognised on trade receivables					
– allocated	15	–	–	–	15
Impairment loss recognised on other receivables					
– allocated	44	30	–	–	74

5. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

31 December 2010

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment results					
External segment revenue	434,786	36,289	162,180	–	633,255
Inter-segment revenue	485,840	35,080	85,627	(606,547)	–
Segment revenue	920,626	71,369	247,807	(606,547)	633,255
Segment results	96,032	27,821	6,908	–	130,761
Unallocated revenue and gains					23,102
Unallocated selling and distribution expenses					(10,674)
Unallocated administrative expenses					(41,786)
Unallocated other operating expenses					(19,315)
Profit from operations					82,088
Finance costs					(10,045)
Profit before taxation					72,043
Other segment items included in the consolidated statement of comprehensive income					
Interest income					
– allocated	325	18	–	–	343
– unallocated					482
					825
Interest expenses					
– allocated	7,037	1,853	–	–	8,890
– unallocated					1,155
					10,045
Depreciation of property, plant and equipment					
– allocated	8,487	2,582	1,362	–	12,431
– unallocated					2,348
					14,779
Amortisation of prepaid lease payments					
– allocated	540	22	148	–	710
Impairment loss recognised on trade receivables					
– allocated	125	–	–	–	125

5. SEGMENT INFORMATION (continued)

Segment assets and liabilities

31 December 2011

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment assets and liabilities					
Segment assets	**455,227**	**89,180**	**37,962**	**–**	**582,369**
Unallocated assets					**36,286**
Total assets					**618,655**
Segment liabilities	**50,142**	**31,871**	**15,346**	**–**	**97,359**
Unallocated liabilities					**25,613**
Total liabilities					**122,972**
Capital expenditures					
– allocated	**102,148**	**639**	**28**	**–**	**102,815**
– unallocated					**955**

31 December 2010

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment assets and liabilities					
Segment assets	231,041	38,509	50,401	–	319,951
Unallocated assets					99,806
Total assets					419,757
Segment liabilities	50,445	30,107	27,376	–	107,928
Unallocated liabilities					117,889
Total liabilities					225,817
Capital expenditures					
– allocated	51,493	789	16	–	52,298
– unallocated					1,625

5. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

Reportable segment's assets are reconciled to total assets as follows:

	2011 **RMB'000**	2010 RMB'000
Segment assets for reportable segment	**582,369**	319,951
Unallocated:		
Property, plant and equipment	**19,474**	11,678
Investment property	**1,031**	1,067
Deferred tax assets	**839**	870
Cash and bank balances	**3,069**	22,863
Pledged bank deposits	**5,180**	56,951
Trade and other receivables and deposits	**6,693**	6,377
Total assets	**618,655**	419,757

Reportable segment's liabilities are reconciled to total liabilities as follows:

	2011 **RMB'000**	2010 RMB'000
Segment liabilities for reportable segment	**97,359**	107,928
Unallocated:		
Bank borrowings	**3,630**	60,950
Deferred revenue	**20,423**	3,476
Trade and other payables	**1,560**	53,463
Total liabilities	**122,972**	225,817

Geographical information

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

5. SEGMENT INFORMATION (continued)

Other information

Revenue from major products

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Chicken meat products	**476,124**	434,786
Animal feeds	**150,965**	162,180
Chicken breeds	**35,952**	36,289
	663,041	633,255

Information about major customers

For the year ended 31 December 2011, revenue generated from one (2010: one) customer of the Group amounting to RMB85,908,000 (2010: RMB60,984,000) has individually accounted for over 10% of the Group's total revenue. No other single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2011 and 2010.

Revenue from a major customer, it amounted to 10% or more of the Group's revenue is set out below:

	2011	2010
	RMB'000	RMB'000
Customer A	**85,908**	60,984

6. REVENUE

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Chicken meat products	**476,124**	434,786
Animal feeds	**150,965**	162,180
Chicken breeds	**35,952**	36,289
	663,041	633,255

7. OTHER REVENUE AND GAINS

	The Group	
	2011	2010
	RMB'000	RMB'000
Interest income on:		
Bank deposits	**2,764**	344
Held-to-maturity investment	**80**	481
Total interest income	**2,844**	825
Sales of side products and related products, net	**10,156**	9,408
Gain on disposal of property, plant and equipment	**17**	421
Government grants (Note)	**2,411**	1,419
Amortisation of financial guarantee liabilities	**–**	1,612
Reversal of impairment loss recognised on trade receivables	**44**	–
Reversal of impairment loss recognised on other receivables	**11**	–
Reimbursement on withholding tax from a shareholder	**–**	8,380
Rental income	**187**	74
Sundry income	**937**	956
	16,607	23,095

7. OTHER REVENUE AND GAINS (continued)

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 qualifying assets. Subsidies income received by a subsidiary of the Group is recognised in the consolidated statement of comprehensive income when received and no specific conditions have been required to fulfill. Those government grants in relation to the construction of qualifying assets are recognised as deferred revenue (Note 28). The government grants recognised at the year ended 31 December 2011 are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

8. FINANCE COSTS

	The Group	
	2011	2010
	RMB'000	RMB'000
Interests on:		
– Bank borrowings wholly repayable within five years	**3,827**	10,045
– Bank borrowings wholly repayable over five years	**1,371**	–
	5,198	10,045

9. TAXATION

	The Group	
	2011	2010
	RMB'000	RMB'000
PRC enterprise income tax		
– current year	**1,128**	2,072
Deferred tax (Note 15)	**31**	31
	1,159	2,103

9. TAXATION (continued)

The tax charge for the year can be reconciled to the profit per consolidated statement of comprehensive income as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Profit before taxation	**48,263**	72,043
Tax at the PRC Enterprise Income Tax rate of 25% (2010: 25%)	**8,918**	18,719
Tax exemption for subsidiaries operating in the PRC	**(4,448)**	(4,976)
Tax effect of the expense not deductible for tax purpose	**375**	918
Tax effect of income not taxable for tax purpose	**(9,117)**	(13,763)
Under provision for previous years	**21**	231
Tax effect of tax loss not recognised	**5,379**	943
Tax effect of unrecognised temporary difference	**31**	31
	1,159	2,103

Notes:

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

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

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a tax rate of 25% for the years ended 31 December 2011 and 2010, except for the following:

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

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

(iii) Longyan Baotai is also entitled to exemption from the value-added tax during the period between 1 December 2005 and 1 November 2025.

9. TAXATION (continued)

Notes: (continued)

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

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

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2011 would not be distributed in the foreseeable future.

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	The Group	
	2011	2010
	RMB'000	RMB'000
Staff costs including directors' remuneration (Note 11)	**9,670**	10,331
Contributions to retirement schemes	**1,925**	1,640
Total staff costs	**11,595**	11,971
Depreciation of property, plant and equipment (Note 16)	**13,718**	14,779
Depreciation of investment property (Note 17)	**36**	36
Amortisation of prepaid lease payments (Note 18)	**1,298**	710
Total depreciation and amortisation	**15,052**	15,525
Auditors' remuneration	**700**	500
Impairment loss recognised on trade receivables	**15**	125
Impairment loss recognised on other receivables	**74**	–
Research and development costs	**2,150**	1,339
Operating lease rental expenses	**1,233**	737
Loss on disposal of property, plant and equipment	**16**	25

10. PROFIT FOR THE YEAR (continued)

Net loss/(gain) on financial assets at fair value through profit or loss:

	The Group	
	2011	2010
	RMB'000	RMB'000
Proceeds on sales	**(221,145)**	–
Less: Cost of sales	**222,411**	–
Net realised loss on financial assets at fair value through profit or loss	**1,266**	–
Unrealised loss on financial assets at fair value through profit or loss	**30**	–
Unrealised gain on financial assets at fair value through profit or loss	**–**	(7)
Net loss/(gain) on financial assets at fair value through profit or loss	**1,296**	(7)

11. DIRECTORS' EMOLUMENTS

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Directors' fees	**196**	144
Salaries, allowances and benefits in kind	**730**	255
Discretionary bonus	**–**	–
Retirement schemes contributions	**43**	5
	969	404

11. DIRECTORS' EMOLUMENTS (continued)

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

The Group

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2011					
Executive director:					
Mr. Lin Qinglin	–	–	–	–	–
Mr. Wu Shiming	–	262	–	3	265
Mr. Yin Shouhong	–	468	–	40	508
Independent non-executive director:					
Mr. Chau On Ta Yuen	49	–	–	–	49
Mr. Hu Chung Ming	49	–	–	–	49
Mr. Liao Yuan	49	–	–	–	49
Mr. Wei Ji Min	49	–	–	–	49
	196	730	–	43	969

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

12. EMPLOYEES EMOLUMENTS

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Directors	**508**	260
Non-directors	**1,224**	1,663
	1,732	1,923

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Salaries and other benefits	**1,148**	1,571
Retirement scheme contributions	**76**	92
	1,224	1,663

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

	The Group	
	2011	2010
Nil to RMB880,000 (equivalents to HK$1,000,000)	**4**	4

During the reporting period, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the reporting period (2010: Nil).

13. DIVIDENDS

Dividends recognised as distributions during the year:

	The Group	
	2011	2010
	RMB'000	RMB'000
Dividends	**–**	75,000

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

Final dividend of HK$1.0 cent per share in respect of the year ended 31 December 2011 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

14. EARNINGS PER SHARE

	The Group	
	2011	2010
	RMB'000	RMB'000
Earnings		
Earnings attributable to owners of the Company for the purpose of basic earnings per share	**42,840**	61,919

	2011	2010
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**1,654,904**	1,600,000

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

15. DEFERRED TAX ASSETS

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

	The Group	
	Deferred revenue	
	2011	2010
	RMB'000	RMB'000
At the beginning of the year	**870**	901
Charge to profit or loss	**(31)**	(31)
At the end of the year	**839**	870

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Tools RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
As at 1 January 2010	81,392	66,903	16,331	4,180	21	168,827
Additions	37,780	1,078	608	505	13,952	53,923
Disposals	(754)	(136)	(3,515)	–	–	(4,405)
Transfer	21	–	–	–	(21)	–
As at 31 December 2010 and 1 January 2011	118,439	67,845	13,424	4,685	13,952	218,345
Additions	751	3,658	2,479	587	96,295	103,770
Disposals	–	(118)	(7,253)	(8)	–	(7,379)
As at 31 December 2011	119,190	71,385	8,650	5,264	110,247	314,736
Accumulated depreciation						
As at 1 January 2010	22,682	33,762	4,407	3,242	–	64,093
Provided for the year	6,305	6,156	1,799	519	–	14,779
Disposals	(57)	(125)	(1,581)	–	–	(1,763)
As at 31 December 2010 and 1 January 2011	28,930	39,793	4,625	3,761	–	77,109
Provided for the year	6,759	4,773	1,777	409	–	13,718
Disposals	–	(97)	(2,514)	(8)	–	(2,619)
As at 31 December 2011	35,689	44,469	3,888	4,162	–	88,208
Net book values						
As at 31 December 2011	**83,501**	**26,916**	**4,762**	**1,102**	**110,247**	**226,528**
As at 31 December 2010	89,509	28,052	8,799	924	13,952	141,236

Note:

The property, plant and equipment with net book amount of approximately RMB35,419,000 at the end of the reporting period (2010: approximately RMB8,692,000), are pledged as collaterals for the Group's bank borrowings. Please refer to Note 27 for details.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost			
As at 1 January 2010	–	–	–
Additions	–	537	537
As at 31 December 2010 and 1 January 2011	–	537	537
Additions	434	–	434
As at 31 December 2011	434	537	971
Accumulated depreciation			
As at 1 January 2010	–	–	–
Provided for the year	–	–	–
As at 31 December 2010 and 1 January 2011	–	–	–
Provided for the year	1	107	108
As at 31 December 2011	1	107	108
Net book values			
As at 31 December 2011	**433**	**430**	**863**
As at 31 December 2010	–	537	537

17. INVESTMENT PROPERTY

	The Group	
	2011	2010
	RMB'000	RMB'000
Cost		
As at 1 January 2010, 31 December 2010 and 31 December 2011	**1,187**	1,187
Accumulated depreciation		
At the beginning of the year	**120**	84
Charge for the year	**36**	36
At the end of the year	**156**	120
Net book values	**1,031**	1,067

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

The fair value of the investment property was RMB2,990,000 at the end of the reporting period (2010: RMB2,770,000). The fair value of the investment property of the Group at the end of the reporting periods has been arrived at on the basis of a valuation carried out at that date by Asset Appraisal Limited (the "Valuer") and have appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

18. PREPAID LEASE PAYMENTS

	The Group	
	2011	2010
	RMB'000	RMB'000
Cost		
At the beginning of the year	**57,943**	11,246
Additions	**–**	46,697
At the end of the year	**57,943**	57,943
Accumulated amortisation		
At the beginning of the year	**2,100**	1,390
Charge for the year	**1,298**	710
At the end of the year	**3,398**	2,100
Net book values	**54,545**	55,843
Analysed for reporting purposes as:		
Current assets	**1,298**	1,298
Non-current assets	**53,247**	54,545
	54,545	55,843

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 RMB45,229,000 at the end of the reporting period (2010: RMB4,828,000), are pledged as collaterals for the Group's bank borrowings. Please refer to Note 27 for details.

19. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM/(TO) A SUBSIDIARY

	The Company 2011 RMB'000	The Company 2010 RMB'000
Unlisted shares, at cost	–	–
Amount due from a subsidiary	221,130	–
Amount due to a subsidiary	–	(8,612)
	221,130	(8,612)

The amount due from/(to) a subsidiary is unsecured, interest-free and receivable/(repayable) on demand.

Details of the Company's subsidiaries at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation	Paid up capital RMB'000	Percentage of equity interest attributable to the Company Direct %	Percentage of equity interest attributable to the Company Indirect %	Principal activities
Fujian Sumpo Foods Holdings Company Limited ("Fujian Sumpo")	PRC	218,000	94.84	–	Manufacturing and trading of animal feeds, trading of poultry, processing and trading of meat and meat product
Longyan Baotai Agriculture Company Limited ("Longyan Baotai")	PRC	32,000	–	94.84	Breeding and sales of poultry commodity broilers, chicken breeds, aquatic products and provision of breeding techniques consultancy services
Xiamen Sumpo Food Trading Limited ("Xiamen Sumpo Food")	PRC	30,000	–	94.84	Sales of packaged food products
Fujian Hetai Poultry Company Limited ("Fujian Hetai")	PRC	20,000	–	94.84	Breeding and sales of poultry commodity broilers, chicken breeds, aquatic products and provision of breeding techniques consultancy services

19. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM/(TO) A SUBSIDIARY (continued)

Name of subsidiary	Place of incorporation	Paid up capital RMB'000	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Fujian Baojiashun Food Development Company Limited ("Fujian Baojiashun")	PRC	120,000	–	94.84	Processing and trading of meat and meat product
Fujian Longzeji Feed Company Limited ("Fujian Longzeji")	PRC	30,000	–	94.84	Manufacturing and trading of animal feeds

20. INVENTORIES

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

	The Group 2011 RMB'000	2010 RMB'000
Frozen meats	**22,482**	19,594
Animal feeds	**2,834**	2,184
Processed foods	**242**	1,046
Agricultural produce	**7,883**	5,223
Raw materials (Note)	**19,677**	16,951
Consumables	**595**	742
Packaging	**405**	524
	54,118	46,264

Note:

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

20. INVENTORIES (continued)

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

	The Group 2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	**508,432**	475,399
Fair value of agricultural produce on initial recognition	**(64,920)**	(58,340)
Reversal of fair value of agricultural produce due to hatch and disposals	**62,260**	55,983
	505,772	473,042

(c) Production quantities of agricultural produce:

	The Group 2011	2010
Broiler eggs (units)	**23,185,815**	23,335,969

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

	The Group 2011 RMB'000	2010 RMB'000
At the beginning of the year	**5,223**	2,866
Increase due to lay	**64,920**	58,340
Decrease due to hatch and disposals	**(62,260)**	(55,983)
At the end of the year	**7,883**	5,223

21. BIOLOGICAL ASSETS

Movements of the biological assets are summarised as follows:

The Group

	Parent Stock Day-Old Chicks and immature breeders RMB'000	Mature breeders RMB'000	Chicken breeds RMB'000	Total RMB'000
As at 1 January 2010	5,888	6,127	5,096	17,111
Increase due to purchases	2,367	–	–	2,367
Increase due to raising (Feeding cost and others)	4,002	–	94,042	98,044
Transfer	(5,404)	5,404	–	–
Decrease due to retirement and deaths	–	(9,306)	–	(9,306)
Decrease due to sales	–	–	(90,938)	(90,938)
Change in fair value less costs to sell	20	3,474	(1,065)	2,429
As at 31 December 2010 and 1 January 2011	6,873	5,699	7,135	19,707
Increase due to purchases	3,982	–	–	3,982
Increase due to raising (Feeding cost and others)	4,815	–	102,588	107,403
Transfer	(6,581)	6,581	–	–
Decrease due to retirement and deaths	–	(5,703)	–	(5,703)
Decrease due to sales	–	–	(103,294)	(103,294)
Change in fair value less costs to sell	(1,595)	(1,652)	222	(3,025)
As at 31 December 2011	**7,494**	**4,925**	**6,651**	**19,070**

21. BIOLOGICAL ASSETS (continued)

The numbers of biological assets are summarised as follows:

	The Group	
	2011	2010
	'000	'000
Parent Stock Day-Old Chicks and immature breeders	**98**	78
Mature breeders	**93**	91
Chicken breeds	**651**	644
At the end of the year	**842**	813

Analysed for reporting purposes as:

	The Group	
	2011	2010
	RMB'000	RMB'000
Current assets	**6,651**	7,135
Non-current assets	**12,419**	12,572
At the end of the year	**19,070**	19,707

Note:

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

The fair values of biological assets of the Group at the end of each reporting period has been arrived at on the basis of a valuation carried out at that date by the Valuer and have appropriate qualifications and 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 costs to sell of chicken breeds is determined using the market approach. The market approach assumes sales of chicken breeds in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.

21. BIOLOGICAL ASSETS (continued)

Note: (continued)

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

The discount rate adopted in the DCF model for the reporting period is 25.024% (2010: 24.71%).

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

(a) there will be no major change in the existing political, legal and economic conditions in the PRC;

(b) 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;

(c) the interest rates and exchange rates will not differ materially from those presently prevailing;

(d) the breeders are free from any animal diseases, including but not limiting to avian influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;

(e) the life cycle, natural mortality rates and infertility rates of that particular breed of breeders as given by the Group are fair and reasonable and egg laying pattern of that particular breed of breeders is not materially different from that as shown in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives as published by Aviagen Group which is the developer of AA+ branded chicken;

(f) the availability of finance will not be a constraint on the breeding of the breeders;

(g) 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;

(h) 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;

(i) the breeders are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;

(j) the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and

(k) the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the fair value of the breeders.

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**14,471**	20,088	**–**	–
Less: Impairment loss recognised	**(421)**	(450)	**–**	–
	14,050	19,638	**–**	–
Deposits paid, prepayments and other receivables	**91,192**	30,166	**574**	2,442
Less: Impairment loss recognised	**(591)**	(528)	**–**	–
	90,601	29,638	**574**	2,442
Total	**104,651**	49,276	**574**	2,442

Trade receivables

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 30 days	**12,991**	18,796
31 days to 70 days	**615**	745
71 days to 180 days	**422**	74
Over 180 days	**22**	23
	14,050	19,638

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS (continued)

Trade receivables (continued)

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

	The Group	
	2011	2010
	RMB'000	RMB'000
71 days to 180 days	**422**	74
Over 180 days	**22**	23
	444	97

At the end of the reporting period, trade receivables of approximately RMB421,000 (2010: RMB450,000) was impaired and had been fully provided for. These receivables mainly relate to wholesales in unexpected difficult economic situations. The Group does not hold any collateral over these balances. The ageing of these receivables are as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Over 180 days	**421**	450

Movements of impairment loss recognised on trade receivables:

	The Group	
	2011	2010
	RMB'000	RMB'000
At the beginning of the year	**450**	325
Reversal of impairment loss recognised	**(44)**	–
Impairment loss recognised	**15**	125
At the end of the year	**421**	450

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS (continued)

Trade receivables (continued)

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

The trade receivables are denominated in RMB.

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

Deposits paid, prepayments and other receivables

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
IPO deposits paid	**–**	2,442	**–**	2,442
Advances to staff	**1,335**	1,346	**245**	–
VAT recoverable	**5,735**	208	**–**	–
Other receivables	**4,338**	897	**–**	–
Deposits paid to suppliers	**10,224**	14,720	**–**	–
Deposits paid for purchase of property, plant and equipment (Note)	**62,807**	6,397	**–**	–
Deposits paid and prepayments	**6,753**	4,156	**329**	–
	91,192	30,166	**574**	2,442
Less: Impairment loss recognised	**(591)**	(528)	**–**	–
	90,601	29,638	**574**	2,442

Note:

The deposits paid for purchase of property, plant and equipment as at 31 December 2011 was mainly for the construction of slaughtering and processing plant, breeder farms, hatching facility and broiler breeding farms.

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS (continued)

Movements of impairment loss recognised on deposits paid, prepayments and other receivables are as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
At the beginning of the year	**528**	528
Reversal of impairment loss recognised	**(11)**	–
Impairment loss recognised	**74**	–
At the end of the year	**591**	528

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2011	2010
	RMB'000	RMB'000
Held for trading:		
Listed securities		
– Equity securities listed in the PRC	**92**	122

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

24. HELD TO MATURITY INVESTMENT

	The Group	
	2011	2010
	RMB'000	RMB'000
Unlisted debt securities: (Note)		
– Current assets	**1,000**	–
– Non-current assets	**–**	1,000
	1,000	1,000

Note:

Held-to-maturity debt securities are measured at amortised cost less any impairment losses. They had fixed interests and had matured in January 2012. None of these assets has been past due or impaired at the end of the reporting period.

25. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**144,001**	40,421	**2,731**	–
Pledged bank deposits (Note 37)	**12,780**	63,951	**–**	–
	156,781	104,372	**2,731**	–

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 0.5% per annum during the reporting period (2010: 0.36%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of approximately RMB140,540,000 (2010: RMB39,934,000) which are not freely convertible into other currencies.

26. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**20,744**	37,950	**–**	–
Bills payables	**–**	54,579	**–**	–
Deposits received	**492**	518	**–**	–
Accruals and other payables	**29,558**	21,823	**918**	925
	50,794	114,870	**918**	925

26. TRADE AND OTHER PAYABLES (continued)

The ageing analysis of trade payables is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 30 days	**19,132**	35,214
31 to 90 days	**995**	2,205
91 to 180 days	**96**	39
Over 180 days	**521**	492
	20,744	37,950

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

27. BANK BORROWINGS

	The Group	
	2011	2010
	RMB'000	RMB'000
Bank borrowings-secured	**50,000**	89,950
Bank borrowings-unsecured	**–**	15,000
	50,000	104,950
Loan from other bank facilities	**630**	1,260
Total bank borrowings	**50,630**	106,210

27. BANK BORROWINGS (continued)

Carrying amount repayable:

	The Group	
	2011	2010
	RMB'000	RMB'000
On demand or within one year	**30,630**	104,950
More than one year but less than two years	**–**	1,260
Over five years	**20,000**	–
Total bank borrowings	**50,630**	106,210
Less: Amounts due within one year shown under current liabilities	**(30,630)**	(104,950)
	20,000	1,260

Bank borrowings at:

	The Group	
	2011	2010
	RMB'000	RMB'000
– floating interest rate	**23,000**	17,000
– fixed interest rate	**27,630**	89,210
	50,630	106,210

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

	The Group	
	2011	2010
Bank borrowings	**2.4%-7.0%**	2.4%-5.6%

27. BANK BORROWINGS (continued)

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**35,419**	8,692
Prepaid lease payments	**45,229**	4,828
	80,648	13,520

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount	**20,000**	1,260
Fair value	**12,994**	1,146

28. DEFERRED REVENUE

At the end of the reporting period, the Group has unused government grants in relation to the construction of qualifying assets of approximately RMB21,269,000 (2010: RMB4,477,000). The deferred revenue will be recognised upon construction of qualifying assets. The government grants are not repayable.

29. SHARE CAPITAL

The Group and the Company

	Number of shares	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:			
On the date of incorporation and at 31 December 2010 (Note (a))	3,800,000	380	304
Increase of ordinary shares of HK$0.1 each (Note(b)(i))	3,996,200,000	399,620	319,696
At 1 January and 31 December 2011 ordinary shares of HK$0.1 each	4,000,000,000	400,000	320,000
Issued and fully paid:			
On the date of incorporation (Note (a))	1	–	–
Issue of shares for the Reorganisation (Note (b)(ii))	4,999	–	–
At 1 January 2011 ordinary shares of HK$0.1 each	5,000	–	–
Issue of ordinary shares by way of public offer (Note (c))	400,000,000	40,000	33,984
Shares capitalisation (Note (d))	1,199,995,000	119,999	101,951
Shares issued pursuant to exercise of the over-allotment option (Note (e))	60,000,000	6,000	5,072
At 31 December 2011 ordinary shares of HK$0.1 each	1,660,000,000	165,999	141,007

29. SHARE CAPITAL (continued)

Notes:

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

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

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

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

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

(c) On 11 January 2011, a total of 400,000,000 shares at par were issued by way of placing and public offer at a price of HK$0.68 per share. Net proceeds from such issue amounted to approximately HK$244.1 million. Dealings in these shares on the Main Board of the Stock Exchange commenced on 11 January 2011.

(d) On 11 January 2011, the Company implemented a capitalisation issue of 1,199,995,000 shares during the share offer for listing. The Directors authorised, and resolved to capitalise HK$119,999,500 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 1,199,995,000 shares.

(e) On 28 January 2011, the over-allotment option as detailed in the Company's Prospectus dated 30 December 2010 was fully exercised and the Company issued an additional 60,000,000 new shares at HK$0.68 per share. The net proceeds from the exercise of the over-allotment option received by the Company were approximately HK$39.8 million.

30. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated financial statement.

(a) Exchange reserve

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

(b) Statutory reserve

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

(c) Other reserve

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

The Company

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2010	35,735	–	35,735
Loss for the year	–	(6,558)	(6,558)
Total comprehensive loss for the year	–	(6,558)	(6,558)
Effect of Group Reorganisation	(35,735)	–	(35,735)
As at 31 December 2010 and 1 January 2011	–	(6,558)	(6,558)
Loss for the year	–	(23,691)	(23,691)
Total comprehensive loss for the year	–	(23,691)	(23,691)
Issue of ordinary shares by way of public offer	197,107	–	197,107
Shares capitalisation	(101,951)	–	(101,951)
Shares issued pursuant to exercise of the over-allotment option	29,416	–	29,416
Share issuing expenses	(10,950)	–	(10,950)
As at 31 December 2011	**113,622**	**(30,249)**	**83,373**

31. 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 a state-managed retirement benefit plan operated by the local government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

32. CAPITAL RISK MANAGEMENT

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

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

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

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Total borrowings	**50,630**	106,210
Total assets	**618,655**	419,757
Gearing ratio (%)	**8%**	25%

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group	
	2011	2010
	RMB'000	RMB'000
Financial assets		
Financial assets at fair value through profit of loss		
– Held for trading	**92**	122
Held to maturity investment	**1,000**	1,000
Loans and receivables (including cash and bank balances)		
– Trade and other receivables	**19,132**	21,353
– Pledged bank deposits	**12,780**	63,951
– Cash and bank balances	**144,001**	40,421
Financial liabilities		
Amortised cost		
– Trade and other payables	**50,302**	114,352
– Bank borrowings	**50,630**	106,210

	The Company	
	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and bank balances)		
– Trade and other receivables	**245**	–
– Amount due from a subsidiary	**221,130**	–
– Cash and bank balances	**2,731**	–
Financial liabilities		
Amortised cost		
– Amount due to a subsidiary	**–**	8,612
– Trade and other payables	**918**	925

33. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

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

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

Credit risk

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

Interest rate risk

(I) Exposure to interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to its bank deposits and interest-bearing bank loans. Interest-bearing bank loans at floating rates expose the Group to interest rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(II) Sensitive analysis

At 31 December 2011, if interest rates at the date had been 100 basis points higher/lower with all other variables held constant, the Group's profit for the year would decrease/increase by RMB3,393,000 (2010: RMB5,424,000). This is mainly attributable to the Group's exposure as result of increase/decrease interest expense on short term bank loans net off with interest income from bank deposits.

33. FINANCIAL INSTRUMENTS (continued)

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

Currency risk

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

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

Business risk

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

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

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

Liquidity risk

The Group is exposed to minimal 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.

33. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

The Group

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2011						
Non-derivative financial liabilities						
Trade and other payables	–	50,302	–	–	50,302	50,302
Bank borrowings	6.7%	32,018	–	30,784	62,802	50,630
		82,320	–	30,784	113,104	100,932

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2010						
Non-derivative financial liabilities						
Trade and other payables	–	114,352	–	–	114,352	114,352
Bank borrowings	5.1%	108,447	1,385	–	109,832	106,210
		222,799	1,385	–	224,184	220,562

33. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

The Company

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2011						
Non-derivative financial liabilities						
Trade and other payables	–	**918**	–	–	–	**918**

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2010						
Non-derivative financial liabilities						
Amount due to a subsidiary	–	8,612	–	–	–	8,612
Trade and other payables	–	925	–	–	–	925
		9,537	–	–	–	9,537

33. FINANCIAL INSTRUMENTS (continued)

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

Fair value of financial instruments

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

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

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

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

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

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

33. FINANCIAL INSTRUMENTS (continued)

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

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

	The Group			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
As at 31 December 2011				
Financial assets				
Financial assets at fair value through profit or loss	**92**	**–**	**–**	**92**

	The Group			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2010				
Financial assets				
Financial assets at fair value through profit or loss	122	–	–	122

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(a) Significant related party transactions

Particulars of significant party transactions during the reporting period are as follows:

			The Group	
			2011	2010
Name of company	**Nature of transaction**	**Relationship**	**RMB'000**	RMB'000
Fujian Sumhua Enterprise Limited ("Fujian Sumhua")	Rental income	Common director in a related company	**187**	96
Fujian Sumhua	Sales of chicken meat	Common director in a related company	**1,015**	1,289
Fujian Sumhua	Sales of side products	Common director in a related company	**772**	777
Xiamen Oporto Catering Management Company Limited	Sales of chicken meat	Common director in a related company (Note 1)	**1,035**	476
Xiamen Sumpo Group Limited ("Xiamen Sumpo")	Rental paid	Common director in a related company (Note 2)	**54**	54
Xiamen Ronghecheng Food Company Limited	Sales of motor vehicle	Common director in a related company (Note 3)	**30**	–

Note:

1. Mr. Lin Genghua (the son of Mr. Lin Qinglin) is the director of Xiamen Oporto Catering Management Company Limited and Xiamen Sumpo Trading.

2. Mr. Lin Qinglin is the director of Xiamen Sumpo and the holding company.

3. Mr. Zhang Xiangyang is the director of Xiamen Ronghecheng Food Company Limited and Fujian Sumpo.

(b) Key management personnel remuneration

	The Group	
	2011	2010
	RMB'000	RMB'000
Short term employee benefits	**1,679**	1,936
Retirement benefits schemes contributions	**127**	125
	1,806	2,061

34. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Mr Yin Shouhong, a director of the Company, and his wife have entered into a personal guarantee agreement on 29 December 2011 with Agricultural Development Bank of China amounting to approximately RMB 27,000,000 to secure a bank borrowing of the Group from 29 December 2011 to 15 December 2012.

35. OPERATING LEASE ARRANGEMENTS

The Group as lessor:

The property held has committed tenant for the next one year.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2011 RMB'000	2010 RMB'000
Within one year	**46**	46
In the second to fifth years, inclusive	**7**	53
	53	99

The Group as lessee:

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

	2011 RMB'000	2010 RMB'000
Within one year	**1,073**	432
In the second to fifth years, inclusive	**3,615**	3,435
After the fifth years	**2,195**	2,429
	6,883	6,296

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

36. COMMITMENTS FOR EXPENDITURE

	The Group	
	2011	2010
	RMB'000	RMB'000
Commitments for acquisition of property, plant and equipment	**142,660**	113,986

37. PLEDGE OF ASSETS

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Bank deposits	**12,780**	63,951
Property, plant and equipment	**35,419**	8,692
Prepaid lease payments	**45,229**	4,828
	93,428	77,471

38. COMPARATIVES

Certain comparative amounts have been reclassified to conform with current year's presentation.

39. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no other significant events that have occurred subsequent to the end of the reporting period.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2012.

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

RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations					
Revenue	**663,041**	633,255	569,242	587,743	436,419
Cost of sales	**(541,343)**	(507,280)	(472,545)	(491,148)	(347,012)
Gross profit	**121,698**	125,975	96,697	96,595	89,407
Other revenue and gains	**16,607**	23,095	13,651	15,264	12,272
Change in fair value less costs to sell of biological assets	**(3,025)**	2,429	3,388	(2,191)	3,058
Net (loss)/gain on financial assets at fair value through profit or loss	**(1,296)**	7	49	(90)	366
Fair value of agricultural produce on initial recognition	**64,920**	58,340	57,952	55,786	34,880
Reversal of fair value of agricultural produce due to hatch and disposals	**(62,260)**	(55,983)	(60,083)	(53,884)	(34,021)
Selling and distribution expenses	**(13,409)**	(10,674)	(9,295)	(9,481)	(8,354)
Administrative expenses	**(47,061)**	(41,786)	(22,406)	(19,444)	(23,951)
Finance costs	**(5,198)**	(10,045)	(8,906)	(9,133)	(4,522)
Other operating expenses	**(22,713)**	(19,315)	(15,470)	(17,663)	(11,293)
Profit before taxation	**48,263**	72,043	55,577	55,759	57,842
Taxation	**(1,159)**	(2,103)	(5,553)	(7,107)	(13,693)
Profit for the year from continuing operations	**47,104**	69,940	50,024	48,652	44,149
Discontinued operation					
Profit/(loss) for the year from discontinued operation	**–**	–	9,371	(2,716)	–
Profit for the year	**47,104**	69,940	59,395	45,936	44,149
Attributable to:					
For continuing and discontinued operations					
Profit attributable to:					
Owners of the Company	**42,840**	61,919	56,985	39,715	42,502
Non-controlling interests	**4,264**	8,021	2,410	6,221	1,647
	47,104	69,940	59,395	45,936	44,149

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**618,655**	419,757	558,730	560,138	439,106
Total liabilities	**(122,972)**	(225,817)	(349,859)	(384,650)	(309,579)
Non-controlling interests	**(16,340)**	(12,076)	(13,843)	(13,344)	(5,723)
	479,343	181,864	195,028	162,144	123,804