



普甜
PUTIAN

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

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)

Stock Code 股份代號：1699



Interim Report
中期報告 **2012**



China Putian Food Holding Limited is a

**LEADING VERTICALLY
INTEGRATED** pork supplier

中國普甜食品控股有限公司為

領先的垂直一體化

豬肉供應商



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Corporate Information

Directors

Executive Directors

Mr. Cai Chenyang (*Chairman*)
Mr. Cai Haifang
Ms. Cai Shengyin

Independent Non- Executive Directors

Mr. Wu Shiming
Mr. Cai Zirong
Mr. Yu Wenquan

Audit Committee

Mr. Wu Shiming (*Committee Chairman*)
Mr. Cai Zirong
Mr. Yu Wenquan

Remuneration Committee

Mr. Cai Zirong (*Committee Chairman*)
Mr. Wu Shiming
Mr. Yu Wenquan

Nomination Committee

Mr. Yu Wenquan (*Committee Chairman*)
Mr. Wu Shiming
Mr. Cai Zirong

Company Secretary

Mr. Ku Kin Shing, Ignatius *HKICPA, CPA (Aust.)*

Legal Advisor

Cheung Tong & Rosa Solicitors

Compliance Advisor

Cinda International Capital Limited

Auditors

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

Principal Bankers

Bank of China
No. 156, Dongda Road
Chengxiang District
Putian City
Fujian Province, the PRC

Registered Office

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

Principal Place of Business in Hong Kong

No. 3312, 33rd Floor, West Tower
Shun Tak Centre
No. 168–200 Connaught Road
Central, Hong Kong

Head Office and Principal Place of Business in the PRC

Hualin Road, Hualin Industrial Zone
Chengxiang District
Putian City, Fujian Province
the PRC

Cayman Islands Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Company Website

www.putian.com.hk

Stock Code

1699

Management Discussion & Analysis

Business Review

The Group is one of the largest vertically integrated pork suppliers in Fujian Province, the PRC. With the core business of the Company being the sale of pork products of "Putian" brand, the operations of the Group follows a vertically integrated business model with a complete production chain comprising hog farming, hog slaughtering, pork processing, and sales and distribution of pork. Concurrently, the Group's production facilities in Putian City, Fujian Province, consist of a hog farm in compliance with national standards, five large-scale contract farmer bases and the only recognized "2-Star" slaughterhouse in Putian City with a maximum annual slaughtering capacity of two million hogs.

For the six months ended 30 June 2012 (the "Review Period"), the overall production operations of the Group performed well with internal work at all levels proceeding in an orderly manner, which ensured a stable development of the Group and secured resources for future expansion needs. During the Review Period, the Group generated an unaudited revenue of approximately RMB269,499,000 (30 June 2011: approximately RMB216,145,000), representing a growth of 24.7% over that for the same period of last year. The Group recorded an unaudited net profit for the period of approximately RMB42,280,000 (30 June 2011: approximately RMB47,279,000), representing a 10.6% decrease as compared to that for the same period of last year, which was largely due to the decrease in gross profit margin as discussed below and an increase in both selling and administration expenses. The increase in selling expense was mainly due to the expansion of the Group's network of concession counters at supermarkets and direct sales outlets (the "Points of Sales") and a one-off marketing expense for the advertising of the Group's retail network, while that in administration expense was primarily due to the amortisation of the listing expenses.

The major challenge faced by the Group in the first half of the year was the surging procurement costs of both raw materials used as hog feeds (mainly consists of corn and soya meal) and breeder hogs. Besides, the price of raw materials such as corn and that of commodity hogs soared in the first half year of 2012 as compared to that for the same period in 2011, resulting in a decline in the gross profit margin of the Group to 21.7% (30 June 2011: 26.7%) due to an increase in production cost.



Management Discussion & Analysis (Continued)

Nevertheless, since the Group has been operating its business under the corporate vision — “offering high-quality pork products”, the pork products marketed under the Group’s owned brand “Putian” have been becoming more popular and more widely recognized among customers and thus, the sales and distribution channels were substantially enhanced. The retail sales network of the Group expanded from 61 Points of Sales as at 30 June 2011 to 74 Points of Sales as at 30 June 2012. By means of implementing a stringent epidemic prevention system in the hog farms and executing safety control in every production stage, there was no outbreak of severe epidemics during the Review Period.

Financial Review

(1) Revenue

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

	For the six months ended 30 June			
	2012	% of total revenue	2011	% of total revenue
	RMB'000 (Unaudited)		RMB'000 (Unaudited)	
Revenue				
Retail of pork	139,505	51.8	81,225	37.6
Wholesale of pork	129,994	48.2	134,920	62.4

The total unaudited revenue of the Group increased from approximately RMB216,145,000 for the six months ended 30 June 2011 to approximately RMB269,499,000 for the six months ended 30 June 2012, primarily due to a rise in sales volume of pork products.





Management Discussion & Analysis (Continued)

Revenue from Retail of Pork

The unaudited revenue from retail of pork of the Group increased 71.8% from approximately RMB81,225,000 for the six months ended 30 June 2011 to approximately RMB139,505,000 for the six months ended 30 June 2012, primarily due to a rise in sales volume of retail pork products.

Revenue from Wholesale of Pork

The unaudited revenue from wholesale of pork of the Group recorded a slight decrease of 3.7% from approximately RMB134,920,000 for the six months ended 30 June 2011 to approximately RMB129,994,000 for the six months ended 30 June 2012, primarily due to the decrease in sales volume of wholesale pork products.

(2) Gross Profit and Gross Profit Margin

The following table sets out the total gross profit and gross profit margin of the Group by sales segments during the Review Period:

	For the six months ended 30 June			
	2012		2011	
	RMB'000 (Unaudited)	Gross profit margin	RMB'000 (Unaudited)	Gross profit margin
Gross profit and gross profit margin				
Retail of pork	34,330	24.6%	23,737	29.2%
Wholesale of pork	24,132	18.6%	33,911	25.1%

The overall unaudited gross profit of the Group increased from approximately RMB57,648,000 for the six months ended 30 June 2011 to approximately RMB58,462,000 for the six months ended 30 June 2012, principally owing to a rise in sales volume of pork products. The overall gross profit margin of the Group decreased from approximately 26.7% for the six months ended 30 June 2011 to approximately 21.7% for the six months ended 30 June 2012 as a result of rising costs of raw materials and labour.

Gross profit and gross profit margin of Retail of Pork

The gross profit of retail of pork increased from approximately RMB23,737,000 for the six months ended 30 June 2011 to approximately RMB34,330,000 for the six months ended 30 June 2012. The gross profit margin of retail pork dropped from approximately 29.2% for the six months ended 30 June 2011 to approximately 24.6% for the six months ended 30 June 2012, primarily due to rising costs of raw materials and labour.

Gross profit and gross profit margin of Wholesale of Pork

The gross profit of wholesale of pork decreased from approximately RMB33,911,000 for the six months ended 30 June 2011 to approximately RMB24,132,000 for the six months ended 30 June 2012. The gross profit margin of wholesale of pork dropped from approximately 25.1% for the six months ended 30 June 2011 to approximately 18.6% for the six months ended 30 June 2012, primarily due to rising costs of raw materials and labour.

Management Discussion & Analysis (Continued)

Liquidity and Financial Resources

Financial Resources

The Group primarily finances the capital requirements for operations by internally generated cashflow and bank facilities. As at 30 June 2012, cash and cash equivalents amounted to approximately RMB7,711,000 (31 December 2011: approximately RMB13,430,000).

The net cash generated from operating activities decreased from approximately RMB30,694,000 for the six months ended 30 June 2011 to approximately RMB1,003,000 for the six months ended 30 June 2012, mainly due to the initial public offering deposits paid, deposits paid for the acquisition of land use rights and prepayment for the advertising campaign.

Borrowings and Pledged Assets

As at 30 June 2012, the total amount of interest-bearing bank borrowings was approximately RMB70,000,000 which was due within one year (31 December 2011: approximately RMB71,529,000, of which approximately RMB1,529,000 was interest-free loans from national supporting policy), all of which was denominated in Renminbi and on a floating interest rate.

As at 30 June 2012, the bank borrowings were guaranteed by the Group's property, plant and equipment and two parcels of land with total carrying value of approximately RMB70,000,000 (31 December 2011: approximately RMB70,000,000 guaranteed by Mr. Cai Chenyang and was released before the listing of the Company's shares on the Stock Exchange).

Gearing Ratio

As at 30 June 2012, the gearing ratio of the Group was 22.4% (31 December 2011: 26.2%). This was calculated by dividing bank borrowings with the total assets of the Group as at 30 June 2012. The decrease in the gearing ratio was mainly due to the repayment of loan from government.

Foreign Exchange Risk

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

Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries and associated companies during the Review Period.

Operating Lease Commitments

As at 30 June 2012, the Group had operating lease commitments of approximately RMB1,422,000 (31 December 2011: approximately RMB2,162,000).



Management Discussion & Analysis (Continued)

Contingent Liabilities

As at 30 June 2012, the Group had no material contingent liabilities (30 June 2011: Nil).

Human Resources

As at 30 June 2012, the Group had 554 employees. Staff costs, including directors' emoluments, totalled approximately RMB8,529,000 during the Review Period. 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.

Prospects

(1) Further extension of distribution network to foster market shares

As at 30 June 2012, the 74 Points of Sales established by the Group dispersedly located across Fuzhou City, Putian City, Quanzhou City and Zhangzhou City of Fujian Province. The total Points of Sales is anticipated to be increased to 80 by the end of 2012. The distribution network of the Group's products will then be extended, helping the Group to enlarge the market share in various sales regions.

(2) Reinforcement of product quality control

The Group will strengthen the quality control on every production stage by executing stringent quality controlling measures, which guarantees the supply of quality pork safe for consumption. Such measures include enhancing product safety awareness among the staff, increasing the effort in quality assessment and giving incentives, enforcing a strict acceptance test on raw materials, increasing the percentage of hogs to undergo urinary checking before slaughtering, regularly assessing suppliers and contract farmers to assure breeding is performed in compliance with pollution-free agricultural product regulations and examining the products of the Group with authoritative standards on a regular basis.

(3) Introduction of pork chilling facilities to develop the market of value-added products

Benefiting from the special attention given to agricultural and slaughtering industries by "China's 12th Five-Year Plan", the Group will put more concern in and carry out more in-depth analysis on social and economic developments in China as well as the trend in the pork consumption market. In response to the changes in market demands, the Group will actively introduce a series of advanced chilled pork production techniques and facilities, and will continue to adjust the product portfolio. Additionally, the Group will develop and define the new market segments and new products based on the market needs. Riding on the competitive edge of multi-regional sales network, the Group will continue to balance its product sale differentiation to maximize the value of the products and generate higher returns for the Group and its shareholders.

Management Discussion & Analysis (Continued)

(4) Construction of hog farms for expansion of production capacity

The Group plans to build six additional hog farms in Putian City which include one for farming breeder hogs, three for farming commodity hogs (grow up to 60-day old) and two for farming commodity hogs (grow up to 180-day old). The new hog farms will be constructed by stages which will be commenced at the end of August 2012. The first commodity hog farm is expected to start operation by the end of 2012, and the first output of finishers will be put on sale in May 2013. The second to the sixth hog farms will be constructed subsequently and are expected to start operations by the first half year of 2013. The Group believes that its annual hog farming output capacity will be increased from 36,000 hogs to 300,000 hogs by the end of 2014.

(5) Strengthening the collaboration with contract farmers

Currently, the Group engages five large-scale contract farmers to provide hog farming services. The Group will continue to refine the farming management regulations of contract farming and foster frequent communications with the contract farmers on different aspects, with a view to further uplift the breeding standard of contract farming. In addition, the Group will step up technical farming trainings and standardized management of contract farming, aiming to solve problems which might arise during the farming process. The directors of the Company believe that more farmers will be drawn to become the Group's contract farmers on the basis of mutual development, which in turn will lay a solid foundation for the farming strategy of the Group.





Interim Financial Report

The Board of Directors (the "Board") of China Putian Food Holding Limited (the "Company") is pleased to present the unaudited condensed interim financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2012. These condensed consolidated interim financial statements have not been audited but reviewed by the Audit Committee.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Revenue	4	269,499	216,145
Cost of sales		(211,037)	(158,497)
Gross profit		58,462	57,648
Other revenue and gains	5	1,480	762
Change in fair value less costs to sell of biological assets	11	2,427	685
Selling and distribution expenses		(9,333)	(4,777)
Administrative expenses		(8,136)	(5,022)
Finance costs		(2,563)	(1,946)
Other operating expenses		(57)	(71)
Profit before taxation		42,280	47,279
Taxation	6	—	—
Profit for the period	7	42,280	47,279
Other comprehensive (loss) / income			
Exchange differences on translating foreign operations		(117)	5
Other comprehensive (loss) / income for the period, net of tax		(117)	5
Total comprehensive income for the period		42,163	47,284
Dividends	8	—	8,333
Earnings per share	9		
Basic and diluted (RMB cents)		7.05	7.88

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	10	137,948	141,935
Prepaid lease payments		20,523	20,762
Biological assets	11	2,949	3,070
		161,420	165,767
Current assets			
Inventories		5,263	4,029
Biological assets	11	50,311	40,028
Trade receivables	12	55,554	40,432
Deposits paid, prepayments and other receivable	13	32,195	8,868
Prepaid lease payments		476	476
Cash and bank balances		7,711	13,430
		151,510	107,263
Current liabilities			
Trade payables	14	3,953	6,269
Deposits received, accruals and other payables	15	5,607	3,339
Amount due to a shareholder		—	307
Bank borrowings	17	70,000	70,000
Deferred revenue		253	377
		79,813	80,292
Net current assets		71,697	26,971
Total assets less current liabilities		233,117	192,738



Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2012

	<i>Notes</i>	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Equity			
Share capital	16	81	7
Reserves		228,962	186,873
Total equity		229,043	186,880
Non-current liabilities			
Loan from government		—	1,529
Deferred revenue		4,074	4,329
		4,074	5,858
Total equity and non-current liabilities		233,117	192,738

The accompanying notes form an integral part of the financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Share capital RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2011 (Audited)	9	—	10,425	53,080	97,257	160,771
Profit for the period	—	—	—	—	47,279	47,279
Other comprehensive income for the period	—	5	—	—	—	5
Total comprehensive income for the period	—	5	—	—	47,279	47,284
Issue of shares	7	—	—	—	—	7
Effect of reorganisation	(9)	—	—	9	—	—
Transfer to statutory reserve	—	—	4,933	—	(4,933)	—
Dividend paid	—	—	—	—	(8,333)	(8,333)
As at 30 June 2011 (Unaudited)	7	5	15,358	53,089	131,270	199,729
As at 1 January 2012 (Audited)	7	673	20,490	53,089	112,621	186,880
Profit for the period	—	—	—	—	42,280	42,280
Other comprehensive loss for the period	—	(117)	—	—	—	(117)
Total comprehensive (loss)/ income for the period	—	(117)	—	—	42,280	42,163
Issue of shares	81	—	—	—	—	81
Effect of reorganisation	(7)	—	—	(74)	—	(81)
Transfer to statutory reserve	—	—	4,708	—	(4,708)	—
As at 30 June 2012 (Unaudited)	81	556	25,198	53,015	150,193	229,043

The accompanying notes form an integral part of the financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Net cash generated from operating activities	1,003	30,694
Net cash used in investing activities	(4,521)	(19,498)
Net cash (used in)/generated from financing activities	(2,087)	3,076
Net (decrease)/increase in cash and cash equivalents	(5,605)	14,272
Cash and cash equivalents at the beginning of the period	13,430	23,732
Effect of foreign exchange rate changes	(114)	3
Cash and cash equivalents at the end of the period	7,711	38,007

The accompanying notes form an integral part of the financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2012

1. Basis of Preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair value. The condensed consolidated interim financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial statements are unaudited but have been reviewed by the Audit Committee.

2. Significant Accounting Policies

The accounting policies adopted in preparing the condensed consolidated interim financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2011 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA as discussed below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2012.

The applicable new and revised HKFRSs adopted in the condensed consolidated interim financial statements are set out below:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
HKFRS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets

The application of the above new and revised HKFRSs has had no material effect on the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

2. Significant Accounting Policies (Continued)

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ¹
HKAS 19 (As revised in 2011)	Employee Benefits ²
HKAS 27 (As revised in 2011)	Separate Financial Statements ²
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ³
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ²
HKFRS 1 (Amendments)	Government Loans ²
HKFRS 7 (Amendments)	Disclosure — Offsetting Financial Assets and Financial Liabilities ²
HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure ⁴
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interest in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs Contained in Annual Improvements 2009–2011 issued in June 2012 ²

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2014.

⁴ Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of the impact of the above HKFRSs upon initial application but is not yet in a position to state whether the above HKFRSs would have a significant impact on the Group's and the Company's results of operations and financial position.

3. Segment Information

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

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

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

4. Revenue

The Group's revenue comprises the following:

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Revenue from		
— Retail of pork	139,505	81,225
— Wholesale of pork	129,994	134,920
	269,499	216,145

5. Other Revenue and Gains

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Interest income on:		
Bank deposits	12	24
Amortisation of deferred revenue	251	57
Gain on disposal of hog droppings	—	305
Gain on disposal of biological assets	746	212
Government grants	458	127
Amortisation of financial guarantee liabilities	—	31
Sundry income	13	6
	1,480	762



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

6. Taxation

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Profit before taxation	42,280	47,279
Tax at the applicable income tax rate	10,923	12,100
Tax exemption for subsidiary operating in the PRC	(11,606)	(12,158)
Tax effect of tax loss not recognised	683	58
Income tax expenses	—	—

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

7. Profit for the Period

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs		
including directors' remuneration	8,077	5,050
Retirement scheme contributions	452	353
Total staff costs	8,529	5,403
Depreciation of property, plant and equipment	8,516	3,363
Amortisation of prepaid lease payments	238	238
Total depreciation and amortisation	8,754	3,601

8. Dividends

No dividends were declared during the six months ended 30 June 2012 (Six months ended 30 June 2011: RMB8,333,000).

9. Earnings Per Share

The calculation of basic earnings per share for the reporting period is based on the profit attributable to the owners of the Company for the reporting period and on the assumptions that 600,000,000 ordinary shares has been in issue, comprising 1,000,000 shares in issue at 30 June 2011 and 2012 and 599,000,000 shares to be issued pursuant to the capitalisation issue as detailed in the note 19 as if the shares had been outstanding during the reporting period.

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.

10. Movement in Property, Plant and Equipment

During the period, the Group has incurred costs for building, plant and machinery, motor vehicles, office equipment and construction in progress of approximately RMB93,000, RMB165,000, RMB344,000, RMB337,000 and RMB3,594,000.



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

11. Biological Assets

Movements of biological assets are summarised as follows:

	Breeder hogs	Commodity hogs	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2011 (Audited)	2,921	40,760	43,681
Increase due to purchases	743	300,724	301,467
Increase due to raising (Feeding cost and others)	4,125	82,480	86,605
Transfer	(4,102)	4,102	—
Decrease due to retirement and deaths	—	(1,258)	(1,258)
Decrease due to sales	(392)	(384,114)	(384,506)
Change in fair value less costs to sell	(225)	(2,666)	(2,891)
As at 31 December 2011 and 1 January 2012 (Audited)	3,070	40,028	43,098
Increase due to purchases	571	151,787	152,358
Increase due to raising (Feeding cost and others)	2,407	52,848	55,255
Transfer	(2,524)	2,524	—
Decrease due to retirement and deaths	—	(1,973)	(1,973)
Decrease due to sales	(242)	(197,663)	(197,905)
Change in fair value less costs to sell	(333)	2,760	2,427
As at 30 June 2012 (Unaudited)	2,949	50,311	53,260

Note:

The Group's biological assets as at 31 December 2011 and 30 June 2012 have been arrived at on the basis of a valuation carried out by independent qualified professional valuer. Given the nature of the biological assets where market determined prices are available, the fair values less costs to sell have been determined by the market approach based on the market-determined prices as at 31 December 2011 and 30 June 2012 adjusted with such attributes as pig breed and stage of growth in the lifecycle. The resulting gain arising from changes in fair value less costs to sell of biological assets of RMB2,427,000 (Six months ended 30 June 2011: RMB685,000) has been recognised directly in profit or loss for the six months ended 30 June 2012.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

12. Trade Receivables

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Trade receivables	55,554	40,432

The fair values of trade receivables approximate their carrying amounts.

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

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Within 30 days	39,589	39,076
31 days to 90 days	14,947	1,273
91 days to 180 days	1,018	71
Over 180 days	—	12
Total	55,554	40,432

Trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent of default.

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



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

13. Deposits Paid, Prepayments and Other Receivable

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Initial public offering deposits paid	11,319	6,808
Advances to staff	982	540
Deposits paid for purchase of property, plant and equipment	725	370
Deposits paid and prepayments (Note)	19,169	1,150
	32,195	8,868

Note:

Included in deposits paid and prepayment, the amounts of approximately RMB10,600,000 and RMB3,143,000 were deposits paid for the acquisition of land use rights and prepayment for the advertising campaign.

14. Trade Payable

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Trade payables	3,953	6,269

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

14. Trade Payables (Continued)

The ageing analysis of trade payables at the end of the reporting period is as follows:

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Within 30 days	2,121	2,298
31 days to 90 days	1,721	1,590
91 days to 180 days	55	2,194
Over 180 days	56	187
Total	3,953	6,269

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

15. Deposits Received, Accruals and Other Payables

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Deposits received	154	156
Other payables for property, plant and equipment	66	66
Accruals and other payables	5,387	3,117
	5,607	3,339



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

16. Share Capital

	Number of share	Nominal value of ordinary shares HK\$'000 (Unaudited)	Total RMB'000 (Unaudited)
Authorised:			
At 1 January and 30 June 2012 ordinary shares of HK\$0.1 each	1,000,000	100	81
Issued and fully paid:			
At 1 January 2012 ordinary shares of HK\$0.1 each (Note (a))	1	—	—
Issue of ordinary shares of HK\$0.1 each for reorganisation (Notes (b) and (c))	999,999	100	81
	1,000,000	100	81

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 the initial subscriber nil paid on 27 May 2011 and such share was transferred to Zhan Rui Investments Limited ("Zhan Rui") on the same day.
- (b) On 8 February 2012, the Company allotted and issued 67,10,10,2,6 and 4 shares nil paid to Zhan Rui, Charming Investment Holdings Limited ("Charming Investment"), Long Excel Limited ("Long Excel"), Wide Sincere Investments Limited ("Wide Sincere"), Giant King Investments Limited ("Giant King") and Kai Rong Holdings Limited ("Kai Rong") (collectively referred to as the "Existing Shareholders") respectively.
- (c) On 10 February 2012, in exchange and as consideration for the acquisition of the entire issued share capital of 1,000 share of US\$1 each in the capital of Wellname Investments Limited from the Existing Shareholders, the one nil-paid share held by Zhan Rui referred to in (a) above and the 99 shares referred to in (b) above which were issued to the Existing Shareholders nil-paid on 8 February 2012 were credited as paid up in full at par and 679,932, 99,990, 99,990, 19,998,59,994 and 39,996 shares were allotted, issued and credited as fully paid to Zhan Rui, Charming Investment, Long Excel, Wide Sincere, Giant King and Kai Rong respectively.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

17. Bank Borrowings

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Bank borrowings — secured	70,000	70,000

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Carrying amount repayable: On demand or within one year	70,000	70,000

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

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Bank borrowings at: — floating interest rates	6.310%–6.560%	6.310%–6.560%

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

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

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Property, plant and equipment	39,492	41,685
Prepaid lease payments	20,999	21,238
	60,491	62,923

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



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2012

18. Operating Lease Commitments

The Group as lessee:

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

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Within one year	1,218	1,436
In the second to fifth years, inclusive	224	726
	1,442	2,162

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

19. Events After the End of the Reporting Period

On 13 July 2012, following the completion of the Global Offering and Capitalisation Issue (as defined in the Company's prospectus dated 28 June 2012), an aggregate 799,000,000 shares of HK\$0.1 each of the Company were allotted and issued, credited as fully paid at par to the Company's shareholders at that date.

The Company's shares have been listed on the Main Board of the Stock Exchange since 13 July 2012.

20. Approval of the Interim Financial Information

The condensed consolidated interim financial information were approved and authorised for issue by the Board of Directors on 29 August 2012.

Other Information

Disclosure of Interests

Interests and Short Positions of the Directors and Chief Executive in Shares, Underlying Shares and Debentures of the Company and Associated Corporations

As the Company's shares had yet to be listed on the Stock Exchange as at 30 June 2012, none of the directors and chief executive who had an interest and short positions in shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) was required to be recorded in the register required to be kept under Section 352 of the SFO; or was required as otherwise to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at the date of the listing of the Company's shares on the Stock Exchange on 13 July 2012 (the "Listing Date"), the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be recorded in the register required to be kept under Section 352 of the SFO or which would otherwise be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interest	Number of ordinary shares of the Company held	Approximate percentage of the issued share capital of the Company
Mr. Cai Chenyang (Note 1)	Interest of controlled corporation	408,000,000	51%

Note:

(1) Mr. Cai Chenyang is deemed to be interested in 408,000,000 shares of the Company, which are held by Zhan Rui Investments Limited ("Zhan Rui"), a corporation controlled by Mr. Cai Chenyang.

Save as disclosed above, as at the Listing Date, none of the directors or chief executive 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) which would have to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which would otherwise be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company

As the Company's shares had yet to be listed on the Stock Exchange as at 30 June 2012, no person (other than the directors or chief executive of the Company) or company who or which had an interest and short position in the shares or underlying shares of the Company was required to be recorded in the register required to be kept under Section 336 of the SFO.



Other Information (Continued)

As at the Listing Date, the interests or short positions of the persons (other than the directors or chief executive of the Company) in the shares and underlying shares of the Company which would be required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interests	Number of ordinary shares of the Company held	Approximate percentage of the issued share capital of the Company
Zhan Rui (Note 1)	Beneficial owner	408,000,000	51%
Charming Investment Holdings Limited (Note 2)	Beneficial owner	60,000,000	7.5%
Ms. Lee Ming Hin (Note 2)	Interest of controlled corporation	60,000,000	7.5%
Long Excel Limited (Note 3)	Beneficial owner	60,000,000	7.5%
Mr. Chi Chi Hung Kenneth (Note 3)	Interest of controlled corporation	60,000,000	7.5%

Notes:

- (1) *Mr. Cai Chenyang is deemed to be interested in 408,000,000 shares of the Company, which are held by Zhan Rui, a corporation controlled by Mr. Cai Chenyang.*
- (2) *Ms. Lee Ming Hin is deemed to be interested in 60,000,000 shares of the Company, which are held by Charming Investment Holdings Limited, a corporation controlled by Ms. Lee Ming Hin.*
- (3) *Mr. Chi Chi Hung Kenneth is deemed to be interested in 60,000,000 shares of the Company, which are held by Long Excel Limited, a corporation controlled by Mr. Chi Chi Hung Kenneth.*

Save as disclosed above, as at the Listing Date, no person (other than the directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company which would be required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities of the Company

As the Company's shares had yet to be listed on the Stock Exchange as at 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

Other Information (Continued)

Corporate Governance Practices

The Company has adopted the code provisions of the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules. Save as disclosed below, the Company has complied with all applicable code provisions of the Code since the listing of the Company’s shares on the Stock Exchange on 13 July 2012.

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

Compliance with the Model Code

The Company has adopted the code provisions of the Model Code as its code of conduct regarding directors’ securities transactions. Having made specific enquiry with all the directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions since the listing of the Company’s shares on the Stock Exchange on 13 July 2012.

Audit Committee

The audit committee of the Company (the “Audit Committee”) is primarily responsible for, among other things, reviewing and supervising the financial reporting process and internal control system of the Group, as well as performing other duties and responsibilities as may be assigned by the Board from time to time.

The Audit Committee comprises three independent non-executive directors, namely Mr. Wu Shiming, Mr. Cai Zirong and Mr. Yu Wenquan. The Audit Committee is chaired by Mr. Wu Shiming.

The Audit Committee had reviewed the Group’s interim results for the six months ended 30 June 2012 and took the view that the Company was in full compliance with all applicable accounting standards and regulations and had made adequate disclosures.



Other Information (Continued)

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") which had become effective upon the commencement of dealings of the shares of the Company (the "Shares") on the Stock Exchange on 13 July 2012. As at the date of this report, the Company has not granted any option under the Share Option Scheme.

Set out below is a summary of the Share Option Scheme:

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to recognise and motivate the contribution of employees (which include any full time or part time employee, executive and non-executive director or proposed executive and non-executive director) of the Group and other person(s) who may make a contribution to the Group and to provide incentives and help the Company retain its existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Participants of the Share Option Scheme

The participants of the Share Option Scheme (the "Participant") to whom options may be granted by the Board shall include 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.

Total number of Shares available for issue under the Share Option Scheme

The total number of Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of Shares in issue as at the adoption date immediately following completion of the listing of the Shares of the Company on the Stock Exchange. In addition, the maximum number of Shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of Shares in issue from time to time. As at the date of this report, the Company has not granted any option under the Share Option Scheme.

Maximum entitlement of each Participant

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant to each Participant under the Share Option Scheme shall not exceed 1% of the Shares for the time being in issue. Any further grant of options in excess of this limit is subject to shareholders' approval in a general meeting with the grantee and his associates abstaining from voting. 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 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.

Other Information (Continued)

Period within which the securities must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not be more than 10 years from the date on which an option is granted to any Participant and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

Payment on acceptance of option offer

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.

Basis of determining the subscription price

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.



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