SUMPO FOOD HOLDINGS LIMTED

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

Annual Report 2012

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.

CONTENTS

CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
MANAGEMENT DISCUSSION AND ANALYSIS	8
CORPORATE GOVERNANCE REPORT	19
DIRECTORS AND SENIOR MANAGEMENT PROFILE	29
REPORT OF THE DIRECTORS	32
INDEPENDENT AUDITORS' REPORT	41
AUDITED FINANCIAL STATEMENTS	
Consolidated:	
Statement of Comprehensive Income	43
Statement of Financial Position	44
Statement of Changes in Equity	47
Statement of Cash Flows	48
Notes to the Consolidated Financial Statements	50
FIVE YEAR FINANCIAL SUMMARY	111

Corporate Information

Directors

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

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

Audit Committee

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

Remuneration Committee

Mr. Hu Chung Ming *(Committee Chairman)*
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 Limited
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.
Wing Lung Bank Limited

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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town,
Grand Cayman KY1-1110,
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

Chairman's Statement

The Group will **strengthen** its own **crisis awareness**, **seize opportunities** as they arise and set up ambitious goals that we **will make every effort to achieve**. **Through solid work** and **an earnest attitude**, the important mission of achieving the Group's **annual production target can be completed**.

Lin Qinglin

Chairman, executive Director & Chief Executive Officer

Dear Shareholders,

I am pleased to present the annual results of Sumpo Food Holdings Limited ("Sumpo" or the "Company") and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2012 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 turnover amounted to approximately RMB787.5 million (2011: approximately RMB663.0 million), representing a year-on-year increase of approximately 18.8%. Our profit attributable to the owners of the Company arrived at approximately RMB0.1 million (2011: approximately RMB42.8 million), representing a decrease of approximately 99.8% over last year.

BUSINESS REVIEW

From the perspective of corporate development, the Group achieved stable growth during the last year as we were presented with both opportunities and challenges. Affected by the global economic crisis and slowdown in China's economy, the prices of feed ingredients – which make up the largest percentage of our production costs – fluctuated significantly due to extreme weathers; while a sustained sluggish frozen chicken market impacted the overall efficiency of the Group to a considerable degree. Under this adverse situation, all staff of the Group showed great determination in overcoming market challenges and worked together with strong dedication to make progress against the current difficulty, which eventually achieved a certain degree of achievements in all areas and basically accomplished our target expectation for 2012.

During the year, sales of chicken meat products increased by approximately 7.0%; however, lower sales price and the increase in the prices of main ingredients of feeds resulted in significantly lower profits as a whole compared to last year. Through tight and orderly planning at the beginning of the year, our broiler slaughtering production line with capacity of 36 million broilers per year successfully commenced production; this signified that the production upgrade of the Group had again reached a new height. For breeding, the conditions in various breeder farms and broiler breeding farms were satisfactory with over 95% survival rate on average. No material outbreak of disease occurred during the year, attesting the efficacy of our epidemic prevention system for living stocks which the Group had been enforcing very strictly.

In view of the headwinds, the Group made solid efforts in cost control during the year. To this end, we adopted a series of measures, including: adjusting feed formulae based on changes in the ingredients markets to effectively lower feeding costs; changing the feeding methods for breeders and broilers to improve breeding techniques and enhance breeding yield; conducting technological transformations on equipment in processing facilities to increase level of automation and reduce manual processes, which enhanced production efficiency and lowered damage ratio; and regulating procurement processes of materials to lower procurement costs. The Group also continued to increase the ratio of fast-food products to bolster the sales price of our chicken meat products. Building on our existing customer base, we procured new customers and developed modified atmosphere packaging and conducted research on flavoring and deep processing products to enhance the added values of our products and build a solid foundation for the sales volume growth of the Company. Safety and hygiene of our chicken meat products played a crucial role in the success of the Group. We further improved our comprehensive food safety and hygiene system and quality control system to guarantee the quality of our chicken meat products, and thereby successfully established a reputable brand name and a positive image for the Group.

In addition, under the dedicated efforts of our teams, the Group was proudly recognized as a State-Certified Enterprise Technology Center. By earning this recognition, the Group is certified to have possessed a comprehensive technological innovation system, and our scientific developments and innovation capabilities are highly regarded by the relevant departments of the State. Moreover, this exemplifies the wide recognition from various levels of government and the general community with respect to the Group's scale, operation strategy and social image.

PROSPECTS

As we review the past and presage the future, in 2013 the Group is expected to shoulder a monumental task. According to our annual target, we aim to achieve slaughtering volume of 125,000 broilers per day by the end of the year; there will be many obstacles in reaching this target, but this objective of the Group is achievable when all our staff work towards the same goal with dedicated efforts and commitments. As the 18th National Congress of the State concluded that the progress of urbanization will be facilitated to realize doubled GDP and average income per capita in urban and rural population by 2020, and supervision on food safety will be an area of enhancement under the State policy, the broiler industry will be facing both opportunities and challenges ahead. The Group will strengthen its own crisis awareness, seize opportunities as they arise and set up ambitious goals that we will make every effort to achieve. Through solid work and an earnest attitude, the important mission of achieving the Group's annual production target can be completed.

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, we will strive to explore further opportunities and overcome challenges, as we remain steadfast and committed in achieving greater results for Sumpo Food.

LIN QINGLIN
Chairman

26 March 2013

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

BUSINESS REVIEW

We are one of the well-known chicken meat products suppliers in the Fujian Province of the PRC and principally engaged in the trading and manufacturing of chicken meat products, animal feeds and chicken breeds. Our chicken meat products are selling under the " 森寶 (Sumpo)" brand.

In 2012, the Group accelerated its pace in business development and achieved a comprehensive and balanced development. Below are some of the Group's significant business achievements and development in 2012:

1. **Recognized as State-Certified Enterprise Technology Center**

   The corporate team undertook the huge task of applying for the assessment and review of the Group as a State-Certified Enterprise Technology Center. Our thorough planning was well rewarded. In 2012, the Group was recognized by five ministries and commissions (i.e. the National Development and Reform Commission (NDRC), Ministry of Science and Technology, Ministry of Finance, General Administration of Customs and State Administration of Taxation) as a State-Certified Enterprise Technology Center, making us the only state-certified technologically advanced enterprise in Fujian Province in 2012, as well as the first agricultural enterprise to be recognized as a State-Certified Enterprise Technology Center. The recognition as a State-Certified Enterprise Technology Center is considered to be the highest level of honor in technological advancement of an enterprise. It represents the core strength of an enterprise's innovation system, signifies the actual core competitiveness of an enterprise in various aspects including technology, products and brand position, and drives the transformation of an enterprise's mode of development. By earning this recognition, the Group is recognised to have possessed a comprehensive technological innovation system, and our scientific developments and innovation capabilities are highly regarded by the relevant departments of the state. This is an anticipated result cumulating the Group's years of continued persistence on technological innovation and also an honor and a symbol of concrete strength. Most importantly, this exemplifies the wide recognition from various levels of government and the general community with respect to the Group's scale, operation strategy and social image. Mainstream and authoritative media channels have made comprehensive coverage on our achievement.

2. Commencement of production of new processing facilities has boosted steady growth in production and sales

(1) Through tight and orderly planning at the beginning of the year 2012, relocation of the new broiler processing facility was successfully completed. The slaughtering volume of broilers has increased from 55,000 to 80,000 per day.

(2) We organized the construction of a new hatching facility and a new breeder farm. The hatching facility was modified to overcome the difficulties in personnel recruitment due to remote location of the breeder farms. The new hatching facility and breeder farm have commenced operation in March and April of 2012 respectively, and a new batch of chicken breeds was hatched therefrom.

(3) Through modification of selected equipment in existing feeds factories, loading of finished products was changed from manual labor to conveying belt loading. In the meantime, coordination of more rational manpower allocation was emphasized to enhance communication and connection between different production processes to achieve higher productivity. These efforts helped satisfying the demands derived from the Company's increasing breeding volume, setting new monthly production records and laying a good foundation in securing the ordinary provision of feeds.

(4) Building on our existing customer base, we procured new customers and achieved satisfactory developments in terms of customer volume, product portfolio, area coverage and total sales volume. We completed the distributor networks in Shantou, Guangzhou, Shenzhen and Wenzhou, and extended the presence of our fresh products business from Southern Fujian delta region to Shantou and Wenzhou. In addition, we developed modified atmosphere packaging and conducted research on flavoring and deep processing of products to enhance the added values of our products. We worked together with customers to develop small-packed products for exclusive sale in supermarkets, and expanded the business of simple-packed products such as large size packing to lessen the pressure on our processing business. The proportion of high-priced products was also increased to build a foundation for the sales volume growth of the Company.

3. Significant achievements in technological innovation

(1) Refined formulae management

a) We adjusted broiler feed formulae after taking into account changes in the prices of the raw materials to effectively lower the feeds production cost.

b) High quality ingredients were used for broiler feed production. Through adding enzyme preparations, the discrepancies between different production batches were reduced.

(2) Improved feeding method and enhanced breeding techniques

a) In order to accommodate the climate conditions in Southern China, we improved our broiler feeding method through adjustments to feed formulae, nutrition standards, additions and reductions of certain ingredients. As a result, fertilization ratio and yield were thus significantly improved.

b) In order to tackle the fertilization ratio issue, we corrected the breeder feeding method, monitored their weight and used compartmented cage to eliminate overweigh issue and enhance uniformity.

c) Immunity formula for breeders was improved to set up a regular procedure for prevention and treatment of diseases. By monitoring disease trends domestically, we aimed at early discovery and treatment of diseases through combination of Chinese and western methods, in order to cure both the disease and the symptoms and lower disease rates.

d) Facilitated the modernization of farmers' chicken farms to reduce breeding risks, and leveraged on modern chicken farm models to expand the scale of individual farms.

e) Enhanced the breeding density of broilers, modified ventilation and cage compartmentation to improve broiler breeding volume and lower production costs.

(3) Technological transformation of equipment in processing facilities

a We conducted technological transformation on production facilities to lower various costs, for example: technological transformation on pipeline operation for testing of internal organ products, technological transformation on steam consumption through introduction of advanced accessories, and technological transformation on unloading line for chicken carcasses.

b) We leveraged on the more technologically advanced equipment to formulate and adopt comprehensive equipment maintenance scheme. The maintenance condition of the current set of equipment was highly appreciated by the visiting experts.

c) The new broiler slaughtering facility conducted testing upon completion of relocation to ensure that the operations of production equipment were up to production standards, and all production indicators exceeded industrial average levels.

4. Improvements in various management systems

(1) Regulated raw material procurement to lower procurement costs

a) Auction procurement was adopted on commodity materials and feed additives, to ensure better cost control.

b) Supplier management was strengthened by properly organizing the information of suppliers, which includes the three types of enterprise certificates, industry permits (e.g. feed additives production permit, import and export permits, etc.) and relevant product testing reports. Assessment was conducted on each supplier and only those passing the tests were included in the list of qualified suppliers.

c) Our cooperation with China Grain Reserves Corporation was enhanced and it became our key wheat supplier. As this type of large-scale state-owned grain reserve corporation provides better security in grain quality and resource. We also enhanced cooperation with trading companies in the grain-producing regions to move forward our procurement channels through direct procurement of wheat from Anhui and corn from Central Plain (Henan, Hebei), which resulted in effectively lower cost of feed ingredients.

(2) *Improved office operations and enhanced policies to ensure solid corporate foundation*

a) To consummate the information infrastructure of the Group, the EAS system was developed and deployed to improve the office conditions of the Group, to optimize resources allocation and to economize management costs. The supply chain of EAS went online before the end of the year.

b) Improved the rules and policies of the Company and initiated follow-up assessments on the tasks of each department. Archive management was also strengthened to allow more convenient and efficient information query process.

c) Moved forward the establishment of enterprise production safety standardization and implementation of four aspects of fire safety. The construction of environmental protection infrastructure in the production units, modification of integrated reuse of garbage, and establishment of a complete environmental protection management policy to better satisfy environmental protection requirements in the production conditions of the production units were completed.

FINANCIAL REVIEW

1. Revenue

Our revenue derived from the sales of chicken meat products, animal feeds and chicken breeds represented approximately 64.7%, 28.6% and 6.7% of our total revenue respectively for the year ended 31 December 2012.

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			
	2012 RMB'000	**% of total revenue**	2011 RMB'000	% of total revenue
Revenue				
Chicken meat products	**509,371**	**64.7**	476,124	71.8
Animal feeds	**225,101**	**28.6**	150,965	22.8
Chicken breeds	**53,009**	**6.7**	35,952	5.4
Total	**787,481**	**100.0**	663,041	100.0

Our total revenue increased from approximately RMB633.0 million for the year ended 31 December 2011 to approximately RMB787.5 million for the year ended 31 December 2012, primarily due to the increase in sales volume in general.

Chicken meat products

Revenue from sales of our chicken meat products business increased by approximately 7.0%, from approximately RMB476.1 million for the year ended 31 December 2011 to approximately RMB509.4 million for the year ended 31 December 2012, primarily as a result of the increase in the sales volume of our chicken meat products.

Animal feeds

Revenue from sales of our animal feeds business increased by approximately 49.1% from approximately RMB151.0 million for the year ended 31 December 2011 to approximately RMB225.1 million for the year ended 31 December 2012, primarily as a result of the increase in the sales volume of animal feeds.

Chicken breeds

Revenue from sales of our chicken breeds business increased by approximately 47.4%, from approximately RMB36.0 million for the year ended 31 December 2011 to approximately RMB53.0 million for the year ended 31 December 2012, primarily due to the increase in the sales volume of chicken breeds.

2. 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			
	2012 RMB'000	**% of total gross profit**	2011 RMB'000	% of total gross profit
Gross Profit				
Chicken meat products	**27,595**	**39.7**	95,887	78.8
Animal feeds	**14,152**	**20.4**	3,158	2.6
Chicken breeds	**27,786**	**39.9**	22,653	18.6
Total	**69,533**	**100.0**	121,698	100.0

	For the year ended 31 December	
	2012 %	2011 %
Gross Profit Margin		
Chicken meat products	**5.4**	20.1
Animal feeds	**6.3**	2.1
Chicken breeds	**52.4**	63.0
Overall	**8.8**	18.4

Gross profit decreased from approximately RMB121.7 million for the year ended 31 December 2011 to approximately RMB69.5 million for the year ended 31 December 2012. Our overall gross profit margin decreased from approximately 18.4% for the year ended 31 December 2011 to approximately 8.8% for the year ended 31 December 2012, primarily due to the decrease in selling prices of chicken meat products and escalating raw material prices and operating costs during the year.

Chicken meat products

Gross profit from our chicken meat products business decreased by approximately 71.2%, from approximately RMB95.9 million for the year ended 31 December 2011 to approximately RMB27.6 million for the year ended 31 December 2012. The gross profit margin for our chicken meat products business decreased from approximately 20.1% for the year ended 31 December 2011 to approximately 5.4% for the year ended 31 December 2012. This was primarily due to the decrease in selling prices of chicken meat products and escalating raw material prices and operating costs during the year.

Animal feeds

Gross profit from our animal feeds business increased by approximately 348.1%, from approximately RMB3.2 million for the year ended 31 December 2011 to approximately RMB14.2 million for the year ended 31 December 2012. The gross profit margin for our animal feeds business increased from approximately 2.1% for the year ended 31 December 2011 to approximately 6.3% for the year ended 31 December 2012. This was primarily due to the increase in the selling prices of animal feeds during the year.

Chicken breeds

Gross profit from our chicken breeds business increased by approximately 22.7%, from approximately RMB22.7 million for the year ended 31 December 2011 to approximately RMB27.8 million for the year ended 31 December 2012. The gross profit margin for our chicken breeds business decreased from approximately 63.0% for the year ended 31 December 2011 to approximately 52.4% for the year ended 31 December 2012. This was primarily due to the increase in breeding costs during the year.

3. Other Revenue and Gain

Other revenue and gain decreased by approximately 6.1%, from approximately RMB16.6 million for the year ended 31 December 2011 to approximately RMB15.6 million for the year ended 31 December 2012, primarily as a result of the decrease in sales of side products and related products for the year ended 31 December 2012.

4. Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 1.1%, from approximately RMB13.4 million for the year ended 31 December 2011 to approximately RMB13.6 million for the year ended 31 December 2012, primarily as a result of an increase in the transportation expenses related to the sales of our products.

5. Administrative Expenses

Administrative expenses decreased by approximately 12.8%, from approximately RMB47.1 million for the year ended 31 December 2011 to approximately RMB41.0 million for the year ended 31 December 2012. The decrease was mainly the result of no one-off expenses such as pre-operation cost for the establishment of the new slaughtering and processing plant and the cost for application on issuance of Taiwan depository receipt as that happened in 2011.

6. Other Operating Expenses

Other operating expenses increased by approximately 19.7%, from approximately RMB22.7 million for the year ended 31 December 2011 to approximately RMB27.2 million for the year ended 31 December 2012, mainly due to the increase in the feeding cost of mature breeders during the year.

7. Finance Costs

Finance costs increased by approximately 32.6%, from approximately RMB5.2 million for the year ended 31 December 2011 to approximately RMB6.9 million for the year ended 31 December 2012, primarily as a result of the increase in bank borrowings.

8. Taxation

Income tax expense reversed from approximately RMB1.2 million for the year ended 31 December 2011 to income tax credit of approximately RMB3.8 million for the year ended 31 December 2012, primarily as a result of the recognition of deferred tax assets in relation to deferred revenue during the year.

LIQUIDITY AND FINANCIAL RESOURCES

1. Financial Resources

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital requirements. As at 31 December 2012, cash and cash equivalents and pledged bank deposits amounted to approximately RMB167.1 million (2011: approximately RMB156.8 million), most of which were denominated in Renminbi.

2. Borrowings and Pledged Assets

As at 31 December 2012, the total amount of interest-bearing bank borrowings were approximately RMB158.5 million (2011: approximately RMB50.6 million), except for a bank borrowing of approximately RMB31.5 million as at 31 December 2012 (2011: Nil) which was denominated in Hong Kong dollars, all the Group's bank borrowing were denominated in Renminbi, with interest rates ranged from 2.9% to 6.6% per annum.

As at 31 December 2012, the bank borrowings were secured by the Group's bank deposits, property, plant and equipment and prepaid lease payments with total carrying value of approximately RMB179.1 million (2011: approximately RMB80.6 million).

3. Gearing Ratio

As at 31 December 2012, the gearing ratio of the Group was approximately 21.4% (2011: approximately 8.2%). This was calculated by dividing interest-bearing bank borrowings with the total assets of the Group as at 31 December 2012. The increase in the gearing ratio was mainly due to increase of bank borrowings during the year.

OUTLOOK

1. Focus on technological advancement and strive to initiate more projects

a) The recognition of the Group as a State-Certified Enterprise Technology Center provides us with the opportunity to leverage on our postdoctoral research work station and to introduce more postdoctoral research and development projects, which will help strengthen our level of technological innovation and technology content, and enable our self-initiated innovations in feed processing, breeding management, disease control and new product development. This is expected to enhance our core competitiveness and facilitate our rapid development.

b) After receiving the state's certification as an Enterprise Technology Center, the state will provide focused support and subsidies through various means, including project initiation, tax relief and construction of technology center, to equip the enterprise with the conditions and capabilities to undertake the nation's industry upgrade and technology innovation projects, and become the technological leader and product standard setter for the new products of its respective area. In the meantime, in order to drive the technological advancement of the whole industry, we would fully utilize the existing platforms of the State-Certified Enterprise Technology Center and provincial engineering and technology research center to seek more policy project grants. We would also actively prepare for the filing to become a "new and high technology enterprise" and draw up concrete planning in basic filing work to apply for the State Engineering Research Center certification. These are the important and effective means of driving the healthy growth of the Group, and also a naturally-chosen path to enhance our competitiveness as an industry leader.

c) We explored methods in adjusting the nutrition indicators of broiler feeds for use in summer, in order to lower the consumption of high-priced ingredients and lower the feed costs without compromising breeding results. Different rigidity, diameter and powder content standards suitable for different seasons will be formulated to ensure stable feed quality.

d) As drug residues has increasingly been placed under public spotlight, the Group will regulate drug use and enforce strict gate-keeping on drug intake, drug withdrawal period and meat quality testing to avoid market risks. For the broiler business department, emphasis will be placed on guidance and training of broilers breeding to improve breeding results, while for the service business department, additional guidance will be given on the operation of a modern chicken farm to ensure satisfactory results from the use of modern chicken farms.

2. Enhancing internal control to consolidate foundation for development

(1) Reduce energy consumption and lower costs and step up production quality

As production scale expands, the Group experiences challenges from various aspects, including mounting raw material, fuel, ingredient and labor costs, as well as the sustained low price of frozen products and gradual aging of equipment. All production units will strive to reduce energy consumption to lower costs, starting from the smallest details in operations. At the same time, more efforts will be made to reinforce on-site supervision, to ensure strict control and to lower maintenance costs and accessory costs.

(2) *Strict control on procurement costs to ensure quality of purchased items*

By improving the procurement management system which enables quality and price comparison, and imposing strict control on distribution timing and acceptance standards of broilers, the Group will conduct better sourcing and assessment on suppliers and will manage the procurement costs for raw materials, supplementary materials, labor protection items, packaging materials, machinery and equipment more stringently. Through widening procurement channels, the number of intermediaries will be reduced, so that materials can be sourced directly from grain-producing regions.

(3) *Ensuring tight grasp on safety and pursuing better environmental protection*

a) The Group will enhance on-site safety management by providing better safety and fire prevention trainings for employees, completing the qualification filing and reviewing the safety production standard classification of the Group, and launching works which focused on "hidden defect inspection and correction". The Group would carry out integrated correction and treatment on highlighted issues and weak links of key areas, key equipment and key positions, in order to utilize the establishment of safety standardization and implementation of four aspects of fire safety as the basis of safety management standardization.

b) Improvements will be made to the operational management of sewage treatment in the processing facility to ensure the smooth operation of environmental facilitates in all plants and sites and to ensure they are up to the required environmental protection requirements. For new construction projects, the relevant feasibility studies, approvals and preliminary work for constructing environmental protection-related elements will be completed.

3. Accurate market positioning and adopting differential marketing strategies

To overcome market fluctuations, the Group will increase its input in advertising to enhance brand awareness, through which we will seek accurate market positioning to formulate practicable strategies that focus on differential marketing. Leveraging on the Group's brand advantages and product qualities, we will seek to tap into new markets in the southwestern region and expand our presence in Guangzhou and Shenzhen. Through accelerating our industry layout development and enhancing utilization rate of chicken supply resources, we will increase the sales proportion of products with high added value, develop niche in fast-food markets and consolidate our development in wholesale markets. We will strengthen our marketing efforts in supermarkets, modified atmosphere packaging, flavorings and fresh products. Cross-region sale of products will be tackled and loan risks will be properly managed. Logistics and distribution will be enhanced through sales team building. All business staff shall work honestly and diligently with endurance in order to combine our rich market experience with accurate scientific findings to achieve market gains through the continued development of the Company.

4. **Focusing on staff education to develop an echelon of talents**

(1) We will focus on staff education to develop a talent mechanism to recruit talented professionals, stimulate their energy and utilize their expertise for the best development of the the Group, and consistently carry out the concept of "emphasizing the use of quality talent in task completion and work completion" in order to always place talent nurturing as the top priority. By adopting the strategy of "recruiting and retaining talents", dedicated schemes will be set up to focus on nurturing talents internally and ensuring sufficient back-up and core talents are maintained, while professionals are sourced externally depending on the actual development needs of the the Group. As a result, an echelon of talents will be formed to provide staff with comprehensive career prospects. The nurturing and consolidation of core members that embrace Sumpo culture will provide a source of powerful reserve for the establishment and development of new initiatives.

(2) The heads of all levels of departments will take the lead in organizing training for their respective departments, by launching various types of trainings, including: interactive training, textbook-based training, recorded training, sharing of experience, and on-the-job training. These learning models emphasize on feedback and sharing of information. At the same time, problem-solving trainings based on actual cases are organized to tackle new problems arising over the course of work, which are solution-oriented workshops that encourages feedback and opinion to summarize experiences and knowledge. This type of training solves actual problems in work while providing education to the employees. Meanwhile, the establishment of corporate culture will be emphasized to enhance the cohesion and sense of belonging of corporate staff. Our corporate mission in motivating our staff will help achieving meeting production and operation targets. By mobilizing the positive and active attitude and creativity of the staff, the Group will establish a working environment built upon a coherent, spirited and determined workforce.

OTHER INFORMATION

1. **Human Resources**

At 31 December 2012, the Group had 1,462 employees. Employee costs, excluding directors' emoluments, totalled approximately RMB12.7 million for the year (2011: approximately RMB10.6 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.

2. **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").

As at 31 December 2012, approximately 61% and approximately 45% 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.

3. 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.

4. Material Acquisitions and Disposal of Subsidiaries

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

5. Contractual and Capital Commitments

As at 31 December 2012, the Group had operating lease commitments of approximately RMB6.3 million (2011: approximately RMB6.9 million).

As at 31 December 2012, the Group had capital commitments of approximately RMB10.9 million (2011: approximately RMB142.7 million).

6. Contingent Liabilities

As at 31 December 2012, the Group had no material contingent liabilities (2011: Nil).

7. 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 2012, 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 RMB18.2 million was used to finance the costs of establishing our new breeder farms;
– Approximately RMB13.2 million was used to finance the costs of establishing our new hatching facilities;
– Approximately RMB0.2 million was used to finance the costs of establishing our broiler breeding farms;
– Approximately RMB99.0 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 RMB71.6 million remained unused, which were deposited with licensed banks and financial institutions in Hong Kong and the PRC.

Corporate Governance Report

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, which was renamed and revised as the Corporate Governance Code on 1 April 2012 (the "**Revised 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 year, the Company has complied with the Revised CG Code save as disclosed in the paragraph headed "Chairman and Chief Executive Officer" below and the paragraph headed "Corporate Governance Code and Corporate Governance Report" under the section headed "Report of the Directors" in this report.

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 year.

Board of Directors

Board Composition

The Board currently comprises a combination of three executive Directors and three 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 *(resigned on 15 May 2012)*
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 29 to 31 of this annual report.

The Company has appointed three independent non-executive Directors representing 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 2012 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.

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 Revised 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 Revised CG Code, the Board meets regularly and at four times a year at approximately quarterly intervals. During the year ended 31 December 2012, eight meetings had been held by the Board. The attendance of each individual Director of the Board in the Board meetings and general meetings is contained in the following table:

	Number of attendance/Total	
	Board Meetings	**General Meetings**
Executive Directors		
Mr. Lin Qinglin	8/8	1/2
Mr. Wu Shiming	8/8	2/2
Mr. Yin Shouhong	8/8	1/2
Independent non-executive Directors		
Mr. Hu Chung Ming	8/8	0/2
Mr. Liao Yuan *(resigned on 15 May 2012)*	1/8	0/2
Mr. Chau On Ta Yuen	8/8	0/2
Mr. Wei Ji Min	8/8	1/2

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 three independent non-executive Directors representing over half of the Board. Among the three 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.

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training by reading relevant materials with an emphasis on the roles, functions and duties of a Director of a listed company in compliance with the requirement of the Revised Code on continuous professional development during the year under review:

Directors	Corporate Governance/ Updates on Laws, Rules and Regulation	Accounting/Financial /Management or Other professional Skills
Executive Directors		
Mr. Lin Qinglin	√	√
Mr. Wu Shiming	√	√
Mr. Yin Shouhong	√	√
Independent Non-executive Directors		
Mr. Hu Chung Ming	√	√
Mr. Chau On Ta Yuen	√	√
Mr. Wei Ji Min	√	√

Audit Committee

The Audit Committee comprises three independent non-executive Directors, with Mr. Hu Chung Ming as the chairman. Other two members are 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 *(resigned on 15 May 2012)*	1/2
Mr. Chau On Ta Yuen	2/2
Mr. Wei Ji Min	2/2

Remuneration Committee

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

The primary duties of the Remuneration Committee are to determine with delegated responsibility the remuneration packages of individual executive directors and senior management and 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 *(resigned on 15 May 2012)*	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 three members of the Nomination Committee, two 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.

In 2012, there was one Nomination Committee meeting during which the Nomination Committee reviewed the structure, size and composition of the Board and assessed the independence of the independence non-executive Directors and the attendance record of the Directors at the meeting is as follows:

	Number of attendance/Total
Mr. Lin Qinglin	1/1
Mr. Hu Chung Ming	1/1
Mr. Chau On Ta Yuen	1/1

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.

Company Secretary

The position of Company Secretary is held by Mr. Ng Kin Sun, a member of the Hong Kong Institute of Certified Public Accountant who is an employee of the Company. The Company Secretary reported to the Board chairman/chief executive officer from time to time. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations are followed.

During the year under review, Mr. Ng Kin Sun has taken not less than 15 hours of relevant professional training and has fulfilled the requirement pursuant to Rule 3.29 of the Listing Rules.

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 2012. 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 Limited whose term of office will expire upon the forthcoming annual general meeting.

HLB Hodgson Impey Cheng Limited, 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 2012.

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 2012, 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 Limited, paid/payable for the year is set out as follows:

	2012	2011
	RMB'000	RMB'000
Audit services	**750**	700
Report on the Group's continuing connected transactions	**100**	83
Total	**850**	783

Communications with Shareholders and Investors

The Company endeavours to uphold a high level of corporate transparency. Keeping shareholders, investors, analysts, bankers and other stakeholders informed of our corporate strategies and business operations has been one of the key objectives of our investor relations team.

Communication with Shareholders and Procedures for putting forward proposals at general meetings

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Group's website at www.sumpofood.com. Viewers can also send enquiries and proposals putting forward for shareholders' consideration at shareholder meetings to the Board or senior management by email at sumpofood@prasia.net or by phone at 852-2583 9938 or directly by raising questions at the general meeting of the Company.

Procedures for Shareholders to convene an extraordinary general meeting

Pursuant to article 58 of the Company's Articles of Association, any one or more shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, shareholders may hold the extraordinary general meeting, and all reasonable expenses incurred by the shareholders as a result of the failure of the Board shall be reimbursed to the shareholders by the Company.

Constitutional Documents

In 2012, certain amendments to the articles of association of the Company have been made in light of the amendments made to the Listing Rules and the Revised Code. Certain other amendments in relation to cosmetic changes have also been made. All these amendments are disclosed on page 14 to 15 of the circular of the Company published on 5 April 2012. An up-to-date version of the Company's Memorandum and Articles of Association are available on the Company's website and the website of the Stock Exchange.

Directors and Senior Management Profile

Executive Directors

Mr. Lin Qinglin, aged 58, 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 37, 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. Wu was appointed as an independent non-executive director of China Putian Food Holding Limited (Stock Code: 1699) on 7 February 2012.

Mr. Yin Shouhong, aged 45, 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 40, 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. Chau On Ta Yuen, aged 65, became an independent non-executive Director of our Company on 17 December 2010. Mr. Chau currently holds directorship in many other companies. In respect of companies listed in Hong Kong, Mr. Chau was an executive director of Everbest Energy Holdings Limited (恒發世紀控股有限公司) (Stock Code: 0578, the name of that company was subsequently changed to Dynamic Energy Holdings Limited (合動能源控股有限公司) on 23 November 2007), a company listed on the Main Board of the Stock Exchange, from March 2000 to November 2006; an independent non-executive director of Everpride Biopharmaceutical Company Limited (中遠威生物製藥有限公司) (Stock Code: 8019, the name of that company was subsequently changed to Hao Wen Holdings Limited (皓文控股有限公司) in March 2010), a company listed on the Growth Enterprise Market of the Stock Exchange, from June 2003 to August 2009; and an independent non-executive director of Buildmore International Limited (建懋國際有限公司) (Stock Code: 0108) from December 2008 to September 2010. Mr. Chau is currently the chairman of China Ocean Shipbuilding Industry Group Limited (中海船舶重工集團有限公司) (Stock Code: 0651) where his directorship commenced in September 2007. Mr. Chau has also been an independent non-executive director of (i) Good Fellow Resources Limited (金威資源控股有限公司 (Stock Code: 0109) since July 2007 and (ii) Come Sure Group (Holdings) Limited (錦勝集團(控股)有限公司) (Stock Code: 0794) since February 2009, all of which are companies listed on the Main Board on the Stock Exchange.

Mr. Chau completed a course in Chinese literature at Xiamen University (厦門大學) in August 1968. Mr. Chau is currently a member of the 12th National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十二屆全國委員會) and deputy officer of the Social and Legal Affairs Committee of the Chinese People's Political Consulative Conference (全國政協社會和法制委員會). 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 65, 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 41, 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 41, 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 43, 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 43, 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 18 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.

Report of the Directors

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 2012.

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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 49.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012.

Summary of Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus and restated/reclassified as appropriate, is set out on pages 111 to 112 of this report.

Closure of Register of Members

The register of members will be closed from 21 May 2013 to 23 May 2013, 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 20 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 17 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 32 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 2012, the Company's reserves available for distribution to equity holders comprising share premium account less accumulated losses, amounted to approximately RMB92.3 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 47 and note 33 to the consolidated financial statements respectively.

Major Customers and Suppliers

For the year ended 31 December 2012, sales to the Group's largest and five largest customers accounted for approximately 12.2% and approximately 23.1% of the Group's total sales respectively. For the year ended 31 December 2012, the largest and five largest suppliers of the Group accounted for approximately 6.9% and approximately 23.0% of the Group's total purchases respectively.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year ended 31 December 2012.

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 *(resigned on 15 May 2012)*
Mr. Chau On Ta Yuen
Mr. Wei Ji Min

In accordance with Article 84 of the Company's Articles, Messrs. Wu Shiming and Hu Chung Ming 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 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 29 to 31 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. 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.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and calibre, the Company provides a competitive remuneration package to its executive Directors and senior management. This comprises basic monthly salary and long term incentive plan which includes share option scheme to subscribe for the shares of the Company. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The fees and any other reimbursement or emolument payable to the Directors and senior management are set out in notes 11 and 12 to the consolidated financial statements.

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

As at 31 December 2012, 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 2012, 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 (now known as Fujian Ronghecheng Food Group Company Limited ("Fujian Ronghecheng")), an associate of Mr. Lin Qinglin, pursuant to which the Group agreed to supply to Fujian Ronghecheng:

   (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 Ronghecheng per year will not exceed RMB918,000, RMB1,836,000 and RMB2,754,000 for the years ended 31 December 2010, 2011 and 2012, respectively.

For the year ended 31 December 2012, the aggregate amount of purchase price paid by Fujian Ronghecheng was approximately RMB965,000.

The Group entered into renewed supply agreements (side products) with Fujian Ronghecheng on 28 December 2012 to renew such agreements with substantially the same terms for a term of three years commencing from 1 January 2013 to 31 December 2015 (both days inclusive). For further details of renewed supply agreements (side products), please refer to the Company's announcement dated 28 December 2012.

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, 2011 and 2012, respectively.

   For the year ended 31 December 2012, the aggregate amount of purchase price paid by Xiamen Oporto was approximately RMB171,000.

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 Ronghecheng 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 Ronghecheng per year will not exceed RMB1,430,000, RMB1,770,000 and RMB2,810,000 for the years ended 31 December 2010, 2011 and 2012, respectively.

For the year ended 31 December 2012, the aggregate amount of purchase price paid by Fujian Ronghecheng was approximately RMB287,000.

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 2012 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 2012.

Corporate Governance Code and Corporate Governance Report

For the year ended 31 December 2012, the Company has adopted and complied with all applicable code provisions under the "Corporate Governance Code and Corporate Governance Report" (the "Code") as set forth in Appendix 14 to the Listing Rules except for the deviation from the provisions A.2.1 and A.6.7 of the Code as detailed below.

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual.

For the year ended 31 December 2012, Mr. Lin Qinglin holds the positions of the Chairman of the Board and the Chief Executive officer of the Company. The Board believes that vesting the role of both positions in Mr. Lin provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged business commitments which must be attended to by Mr. Hu Chung Ming, Mr. Liao Yuan and Mr. Chau On Ta Yuen being independent non-executive directors of the Company, were not present at the annual general meeting of the Company held on 9 May 2012.

Auditors

The accounts for the year were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. 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, 26 March 2013

Independent Auditors' Report

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

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

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

We have audited the consolidated financial statements of Sumpo Food Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 110, which comprise the consolidated and the company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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.

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 2012 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 Limited
Chartered Accountants
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029
Hong Kong, 26 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	6	**787,481**	663,041
Cost of sales		**(717,948)**	(541,343)
Gross profit		**69,533**	121,698
Other revenue and gain	7	**15,594**	16,607
Change in fair value less costs to sell of biological assets	22	**(2,956)**	(3,025)
Net gain/(loss) on financial assets at fair value through profit or loss	10	**2,204**	(1,296)
Fair value of agricultural produce on initial recognition	21	**69,827**	64,920
Reversal of fair value of agricultural produce due to hatch and disposals	21	**(68,403)**	(62,260)
Selling and distribution expenses		**(13,559)**	(13,409)
Administrative expenses		**(41,038)**	(47,061)
Finance costs	8	**(6,890)**	(5,198)
Other operating expenses		**(27,191)**	(22,713)
(Loss)/profit before taxation		**(2,879)**	48,263
Taxation	9	**3,808**	(1,159)
Profit for the year	10	**929**	47,104
Other comprehensive income for the year, net of income tax:			
Exchange differences on translating foreign operations		**–**	10
Other comprehensive income for the year, net of income tax		**–**	10
Total comprehensive income for the year		**929**	47,114
Profit for the year attributable to:			
Owners of the Company		**80**	42,840
Non-controlling interests		**849**	4,264
		929	47,104
Total comprehensive income for the year attributable to:			
Owners of the Company		**80**	42,850
Non-controlling interests		**849**	4,264
		929	47,114
Earnings per share	15		
Basic and diluted (RMB cents per share)		**0.00**	2.59

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

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	17	**328,858**	226,528
Investment property	18	**995**	1,031
Biological assets	22	**14,509**	12,419
Prepaid lease payments	19	**51,949**	53,247
Deferred tax assets	16	**4,712**	839
		401,023	294,064
Current assets			
Inventories	21	**68,835**	54,118
Biological assets	22	**4,715**	6,651
Trade receivables	23	**24,279**	14,050
Deposits paid, prepayments and other receivables	24	**43,926**	90,601
Prepaid lease payments	19	**1,298**	1,298
Financial assets at fair value through profit or loss	25	**30,895**	92
Held-to-maturity investment	26	**–**	1,000
Pledged bank deposits	27	**36,000**	12,780
Cash and bank balances	27	**131,137**	144,001
		341,085	324,591
Current liabilities			
Trade payables	28	**19,312**	20,744
Accruals, deposits received and other payables	29	**65,688**	30,329
Bank borrowings	30	**158,492**	30,630
		243,492	81,703
Net current assets		**97,593**	242,888
Total assets less current liabilities		**498,616**	536,952

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Equity			
Share capital	32	**141,007**	141,007
Reserves	33	**324,864**	338,336
Equity attributable to owners of the Company		**465,871**	479,343
Non-controlling interests		**13,229**	16,340
Total equity		**479,100**	495,683
Non-current liabilities			
Bank borrowings	30	**–**	20,000
Deferred revenue	31	**19,516**	21,269
		19,516	41,269
Total equity and non-current liabilities		**498,616**	536,952

Approved by the Board of Directors on 26 March 2013 and signed on its behalf by:

Lin Qinglin	**Wu Shiming**
Executive Director	*Executive Director*

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

Statement of Financial Position

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	17	**684**	863
Investment in subsidiaries	20	**–**	–
		684	863
Current assets			
Deposits paid, prepayments and other receivables	24	**508**	574
Amount due from a subsidiary	20	**220,781**	221,130
Cash and bank balances	27	**12,329**	2,731
		233,618	224,435
Current liability			
Accruals, deposits received and other payables	29	**959**	918
		959	918
Net current assets		**232,659**	223,517
Total assets less current liabilities		**233,343**	224,380
Equity			
Share capital	32	**141,007**	141,007
Reserves	33	**92,336**	83,373
Total equity		**233,343**	224,380

Approved by the Board of Directors on 26 March 2013 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 2012

	Equity attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000 Note 33(a)	Statutory reserve RMB'000 Note 33(b)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 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 32(a))	33,984	197,107	–	–	–	–	–	231,091	–	231,091
Shares capitalisation (Note 32(b))	101,951	(101,951)	–	–	–	–	–	–	–	–
Shares issued pursuant to exercise of the over-allotment option (Note 32(c))	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 and 1 January 2012	141,007	113,622	17,423	5,205	39,306	38,193	124,587	479,343	16,340	495,683
Profit for the year	–	–	–	–	–	–	80	80	849	929
Total comprehensive income for the year	–	–	–	–	–	–	80	80	849	929
Dividend paid to owners of the Company (Note 14(a))	–	–	–	–	–	–	(13,552)	(13,552)	–	(13,552)
Dividend paid to non-controlling interests (Note 14(b))	–	–	–	–	–	–	–	–	(3,960)	(3,960)
Transfer to statutory reserve	–	–	–	–	2,037	–	(2,037)	–	–	–
As at 31 December 2012	**141,007**	**113,622**	**17,423**	**5,205**	**41,343**	**38,193**	**109,078**	**465,871**	**13,229**	**479,100**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Operating activities		
(Loss)/profit before taxation	(2,879)	48,263
Adjustments for:		
Interest income	(1,333)	(2,844)
Interest expenses	6,890	5,198
Loss/(gain) on disposal of property, plant and equipment	1	(1)
Depreciation and amortisation	23,676	15,052
Impairment loss recognised on trade receivables	3	15
Impairment loss recognised on other receivables	343	74
Reversal of impairment recognised on trade receivables	(16)	(44)
Reversal of impairment recognised on other receivables	(116)	(11)
Fair values of agricultural produce on initial recognition	(69,827)	(64,920)
Reversal of fair values of agricultural produce due to hatch and disposals	68,403	62,260
Net (gain)/loss on financial assets at fair value through profit or loss	(2,204)	1,296
Change in fair values less costs to sell of biological assets	2,956	3,025
Operating cash flows before movements in working capital	25,897	67,363
Increase in biological assets	(3,110)	(2,388)
(Increase)/decrease in trade receivables	(10,216)	5,617
Decrease/(increase) in deposits paid, prepayments and other receivables	47,672	(61,026)
Increase in inventories	(13,293)	(5,194)
Decrease in trade payables	(1,432)	(71,785)
Increase in accruals, deposits received and other payables	35,638	7,709
(Decrease)/increase in deferred revenue	(1,753)	16,792
Cash generated from/(used in) operations	79,403	(42,912)
Interest paid	(6,890)	(5,198)
Income tax paid	(623)	(1,109)
Net cash generated from/(used in) operating activities	71,890	(49,219)

	2012 RMB'000	2011 RMB'000
Investing activities		
Interest received	**388**	2,844
Proceeds from disposal of property, plant and equipment	**91**	4,761
Purchase of property, plant and equipment	**(124,764)**	(103,770)
Net proceeds from trading of financial assets at fair value through profit or loss	**(28,599)**	(1,266)
Proceeds from held-to-maturity investment	**1,000**	–
(Increase)/decrease in pledged bank deposits	**(23,220)**	51,171
Net cash used in investing activities	**(175,104)**	(46,260)
Financing activities		
Proceeds from bank borrowings	**181,492**	50,000
Repayments of bank borrowings	**(73,630)**	(105,580)
Proceeds from issue of ordinary shares	**–**	265,579
Share issuing expenses	**–**	(10,950)
Dividend paid to non-controlling shareholder	**(3,960)**	–
Dividend paid to owners of the Company	**(13,552)**	–
Net cash generated from financing activities	**90,350**	199,049
Net (decrease)/increase in cash and cash equivalents	**(12,864)**	103,570
Cash and cash equivalents at beginning of the year	**144,001**	40,421
Effect of foreign exchange rate changes, net	**–**	10
Cash and cash equivalents at end of the year	**131,137**	144,001

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 20 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 2012.

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets
HKFRS 7 (Amendments)	Disclosure – Transfer of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's and the Company's financial performance and positions for the current and priors year's and/or the disclosures set out in these consolidated financial statements.

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

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.

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
HKFRS 7 (Amendments)	Disclosure-Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 9 & HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011)	Investment Entities[3]
HKFRS 13	Fair Value Measurement[2]
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)	Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[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

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include 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.

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 recognition 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 of financial liabilities attributable to change in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 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 Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

For other new and revised 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.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC) – Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKFRS 7 and HKAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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

HKAS 19 Employee Benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension as set or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009-2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 1 Presentation of Financial Statements;
- amendments to HKAS 16 Property, Plant and Equipment; and
- amendments to HKAS 32 Financial Instruments: Presentation.

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

HKAS 1 (Amendments)

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

- amendments to HKAS 16 Property, Plant and Equipment; and

  Amendments to HKAS 16

  The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

- amendments to HKAS 32 Financial Instruments: Presentation.

  Amendments to HKAS 32

  The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 existing 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 liabilities or assets 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 arrangements 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 assessment, 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.

Where 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 of a subsidiary 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are limited to the fixed percentage contributions payable.

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

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

The carrying amount of deferred tax assets is reviewed at the end of each 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Property, plant and equipment

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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

Net realisable value is the estimated selling price 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 value 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: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the 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.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement 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 is included in the 'other operating expenses' line item.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Held-to-maturity investments

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

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets 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) 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 assets, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

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 payables, accruals, deposits received 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 a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

Related parties transactions

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

(a) A person or entity that is preparing the financial statements of the Group;

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

   (i) has control or join 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.

(c) 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 partent, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties transactions (Continued)

(c) (Continued)

(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 (b).

(vii) A person identified in (b)(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 related parties.

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).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Group accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

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

(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.

(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 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.

(g) Estimate of fair value of financial instruments

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

- the fair value 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 prices and ask prices respectively; and

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

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 2012

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment results					
External segment revenue	509,371	53,009	225,101	–	787,481
Inter-segment revenue	568,645	51,241	106,939	(726,825)	–
Segment revenue	1,078,016	104,250	332,040	(726,825)	787,481
Segment results	24,161	32,589	13,455	–	70,205
Unallocated revenue and gain					15,594
Unallocated selling and distribution expenses					(13,559)
Unallocated administrative expenses					(41,038)
Unallocated other operating expenses					(27,191)
Profit from operations					4,011
Finance costs					(6,890)
Loss before taxation					(2,879)
Other segment items included in the consolidated statement of comprehensive income					
Interest income					
– allocated	1,301	29	2	–	1,332
– unallocated					1
					1,333
Interest expenses					
– allocated	4,610	1,739	–	–	6,349
– unallocated					541
					6,890
Depreciation of property, plant and equipment					
– allcoated	18,626	2,267	1,249	–	22,142
– unallocated					200
					22,342
Amortisation of prepaid lease payments					
– allocated	1,140	10	148	–	1,298
Impairment loss recognised on trade receivables					
– allocated	3	–	–	–	3
Impairment loss recognised on other receivables					
– allocated	313	30	–	–	343

5. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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 gain					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					
– allocated	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 assets and liabilities

31 December 2012

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment assets and liabilities					
Segment assets	**537,686**	**98,851**	**40,923**	**–**	**677,460**
Unallocated assets					**64,648**
Total assets					**742,108**
Segment liabilities	**170,125**	**53,272**	**2,667**	**–**	**226,064**
Unallocated liabilities					**36,944**
Total liabilities					**263,008**
Capital expenditures					
– allcoated	**109,245**	**14,823**	**931**	**–**	**124,999**
– unallcoated					**17**
					120,516
31 December 2011					
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					
– allcoated	102,148	639	28	–	102,815
– unallcoated					955
					103,770

5. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

	2012 RMB'000	2011 RMB'000
Segment assets for reportable segment	**677,460**	582,369
Unallocated:		
Property, plant and equipment	**5,685**	19,474
Investment property	**995**	1,031
Deferred tax assets	**4,712**	839
Cash and bank balances	**12,786**	3,069
Pledged bank deposits	**36,000**	5,180
Deposits paid, prepayments and other receivables	**4,470**	6,693
Total assets	**742,108**	618,655

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

	2012 RMB'000	2011 RMB'000
Segment liabilities for reportable segment	**226,064**	97,359
Unallocated:		
Bank borrowings	**31,492**	3,630
Deferred revenue	**3,097**	20,423
Accruals, deposits received and other payables	**2,355**	1,560
Total liabilities	**263,008**	122,972

Geographical information

The Group's revenue, assets, liabilities and capital expenditures 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 is as follows:

	The Group 2012 RMB'000	2011 RMB'000
Chicken meat products	**509,371**	476,124
Animal feeds	**225,101**	150,965
Chicken breeds	**53,009**	35,952
	787,481	663,041

Information about major customers

For the year ended 31 December 2012, revenue generated from one customer (2011: one customer) of the Group amounting to RMB96,068,000 (2011: RMB85,908,000) 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 2012 and 2011.

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

	The Group 2012 RMB'000	2011 RMB'000
Customer A	**96,068**	85,908

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 2012 RMB'000	2011 RMB'000
Chicken meat products	**509,371**	476,124
Animal feeds	**225,101**	150,965
Chicken breeds	**53,009**	35,952
	787,481	663,041

7. OTHER REVENUE AND GAIN

	The Group	
	2012	2011
	RMB'000	RMB'000
Interest income on:		
Bank deposits	**1,333**	2,764
Held-to-maturity investment	**–**	80
Total interest income	**1,333**	2,844
Sales of side products and related products, net	**6,958**	10,156
Gain on disposal of property, plant and equipment	**9**	17
Government grants (Note)	**5,686**	2,411
Reversal of impairment loss recognised on trade receivables	**16**	44
Reversal of impairment loss recognised on other receivables	**116**	11
Rental income	**316**	187
Sundry income	**1,160**	937
	15,594	16,607

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 statements 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 31). The government grants recognised at the year ended 31 December 2012 are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

8. FINANCE COSTS

	The Group	
	2012	2011
	RMB'000	RMB'000
Interest on:		
Bank borrowings		
– wholly repayable within five years	**5,664**	3,827
– wholly repayable over five years	**1,226**	1,371
	6,890	5,198

9. TAXATION

	The Group	
	2012	2011
	RMB'000	RMB'000
PRC enterprise income tax		
– current year	**65**	1,128
Deferred tax (Note 16)		
– current year	**(3,873)**	31
	(3,808)	1,159

	The Group	
	2012	2011
	RMB'000	RMB'000
(Loss)/profit before taxation	**(2,879)**	48,263
Tax at the PRC Enterprise Income Tax rate of 25% (2011: 25%)	**12,071**	8,918
Tax exemption for subsidiaries operating in the PRC	**(3,335)**	(4,448)
Tax effect of the expense not deductible for tax purpose	**2,811**	375
Tax effect of income not taxable for tax purpose	**(14,214)**	(9,117)
Under provision for previous years	**11**	21
Tax effect of unrecognised temporary difference	**(3,873)**	31
Tax effect of tax loss not recognised	**2,721**	5,379
	(3,808)	1,159

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 ("EIT") at a tax rate of 25% for the years ended 31 December 2012 and 2011, 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 EIT 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.

Fujian Baojishun Food Development Limited ("Fujian Baojishun") is also entitled to EIT exemption with respect to the income derived from the processing of frozen chicken meat products during the period between 1 February 2012 to 31 December 2012.

(ii) Pursuant to the Ministry of Finance's Notice on Preferential EIT (《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 EIT exemption with respect to the income derived from broilers breeding during the reporting period.

Fujian Hetai Poultry Company Limited ("Fujian Hetai") is also entitled to EIT exemption with respect to the income derived from broilers breeding during the period between 15 November 2012 to 31 December 2012.

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

(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 EIT Law, as Xiamen Sumpo Food Trading Limited ("Xiamen Sumpo Food") 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 24% for the year ended 31 December 2011 and 25% for the year ended 31 December 2012.

9. TAXATION (Continued)

Notes: (Continued)

(d) Pursuant to the new PRC EIT 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 2012 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	
	2012	2011
	RMB'000	RMB'000
Staff costs including directors' remuneration (Note 11)	**12,975**	9,670
Contributions to retirement schemes	**1,903**	1,925
Total staff costs	**14,878**	11,595
Depreciation of property, plant and equipment (Note 17)	**22,342**	13,718
Depreciation of investment property (Note 18)	**36**	36
Amortisation of prepaid lease payments (Note 19)	**1,298**	1,298
Total depreciation and amortisation	**23,676**	15,052
Auditors' remuneration	**750**	700
Impairment loss recognised on trade receivables	**3**	15
Impairment loss recognised on other receivables	**343**	74
Research and development costs	**2,401**	2,150
Operating lease rental expenses	**1,281**	1,233
Loss on disposal of property, plant and equipment	**10**	16

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Proceeds on sales	**121,278**	221,145
Less: Cost of sales	**(123,181)**	(222,411)
Net realised loss on financial assets at fair value through profit or loss	**(1,903)**	(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	**4,107**	–
Net gain/(loss) on financial assets at fair value through profit and loss	**2,204**	(1,296)

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	The Group 2012 RMB'000	2011 RMB'000
Directors' fees	**165**	196
Salaries, allowances and benefits in kind	**1,947**	730
Discretionary bonus	**–**	–
Retirement schemes contributions	**64**	43
	2,176	969

Details for the emoluments of each director and chief executive 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
2012					
Chief executive:					
Mr. Lin Qinglin	**–**	**815**	**–**	**10**	**825**
Executive director:					
Mr. Wu Shiming	**–**	**782**	**–**	**12**	**794**
Mr. Yin Shouhong	**–**	**350**	**–**	**42**	**392**
Independent non-executive director:					
Mr. Chau On Ta Yuen	**49**	**–**	**–**	**–**	**49**
Mr. Hu Chung Ming	**49**	**–**	**–**	**–**	**49**
Mr. Liao Yuan (resigned on 15 May 2012)	**18**	**–**	**–**	**–**	**18**
Mr. Wei Ji Min	**49**	**–**	**–**	**–**	**49**
	165	**1,947**	**–**	**64**	**2,176**
2011					
Chief executive:					
Mr. Lin Qinglin	–	–	–	–	–
Executive director:					
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

12. EMPLOYEES EMOLUMENTS

The five individuals whose emoluments were the highest in the group for the year include three (2011: one) directors whose emoluments are reflected in the analysis below:

	The Group	
	2012	2011
	RMB'000	RMB'000
Salaries and other benefits	**736**	1,148
Retirement scheme contributions	**24**	76
	760	1,224

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Nil to RMB880,000 (equivalents to HK$1,000,000)	**2**	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 (2011: Nil).

13. PROFIT/(LOSS) OF THE COMPANY

The net profit for the year dealt with in the financial statements of the Company amounted to RMB22,515,000 (2011: net loss of RMB23,691,000).

14. DIVIDENDS

Dividends recognised as distributions during the year:

	The Group	
	2012	2011
	RMB'000	RMB'000
Final dividend of HK$1.0 cent per share, paid (Note(a))	**13,552**	–
Dividend paid to non-controlling shareholder (Note(b))	**3,960**	–

Notes:

(a) During the reporting period, the Company declared and paid a final dividend of RMB13,552,000 in respect of the year ended 31 December 2011 to the owners of the Company which has been proposed by the directors and was approved by the shareholders on 9 May 2012.

(b) The amount represents dividends paid by the PRC subsidiary to its non-controlling shareholder.

The Company does not recommend the payment of final dividend for the year ended 31 December 2012.

15. EARNINGS PER SHARE

	The Group	
	2012	2011
	RMB'000	RMB'000
Earnings		
Earnings attributable to owners of the Company for the purpose of basic earnings per share	80	42,840

	2012	2011
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	1,660,000	1,654,904

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.

16. DEFERRED TAX ASSETS

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

	The Group
	Deferred revenue
	RMB'000
At 1 January 2011	870
Charge to profit or loss (Note 9)	(31)
At 31 December 2011 and 1 January 2012	839
Credit to profit or loss (Note 9)	3,873
At 31 December 2012	**4,712**

17. 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 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 and 1 January 2012	119,190	71,385	8,650	5,264	110,247	314,736
Additions	652	11,554	6,145	193	106,220	124,764
Disposals	(649)	(163)	(505)	(11)	–	(1,328)
Transfer	106,870	85,708	–	750	(193,328)	–
As at 31 December 2012	**226,063**	**168,484**	**14,290**	**6,196**	**23,139**	**438,172**
Accumulated depreciation						
As at 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 and 1 January 2012	35,689	44,469	3,888	4,162	–	88,208
Provided for the year	7,681	12,603	1,735	323	–	22,342
Disposals	(649)	(148)	(429)	(10)	–	(1,236)
As at 31 December 2012	**42,721**	**56,924**	**5,194**	**4,475**	**–**	**109,314**
Net book values						
As at 31 December 2012	**183,342**	**111,560**	**9,096**	**1,721**	**23,139**	**328,858**
As at 31 December 2011	83,501	26,916	4,762	1,102	110,247	226,528

Note:

The property, plant and equipment with net book amount of approximately RMB 122,648,000 at the end of the reporting period (2011: approximately RMB 35,419,000), are pledged as collaterals for the Group's bank borrowings. Please refer to Note 30 for details.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost			
As at 1 January 2011	–	537	537
Additions	434	–	434
As at 31 December 2011 and 1 January 2012	434	537	971
Additions	17	–	17
As at 31 December 2012	**451**	**537**	**988**
Accumulated depreciation			
As at 1 January 2011	–	–	–
Provided for the year	1	107	108
As at 31 December 2011 and 1 January 2012	1	107	108
Provided for the year	88	108	196
As at 31 December 2012	**89**	**215**	**304**
Net book values			
As at 31 December 2012	**362**	**322**	**684**
As at 31 December 2011	433	430	863

18. INVESTMENT PROPERTY

	The Group	
	2012 RMB'000	2011 RMB'000
Cost		
As at 1 January 2011, 31 December 2011 and 31 December 2012	**1,187**	1,187
Accumulated depreciation		
At the beginning of the year	**156**	120
Charge for the year	**36**	36
At the end of the year	**192**	156
Net book values	**995**	1,031

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

18. INVESTMENT PROPERTY (Continued)

The fair values of the investment property was RMB3,260,000 at the end of the reporting period (2011: RMB2,990,000). The fair values of the investment property of the Group at the end of the reporting periods has been arrived at on the basis of a valuation carried out at that date by Asset Appraisal Limited 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.

19. PREPAID LEASE PAYMENTS

	The Group	
	2012	2011
	RMB'000	RMB'000
Cost		
At the beginning of the year	**57,943**	57,943
Additions	**–**	–
At the end of the year	**57,943**	57,943
Accumulated amortisation		
At the beginning of the year	**3,398**	2,100
Charge for the year	**1,298**	1,298
At the end of the year	**4,696**	3,398
Net book values	**53,247**	54,545
Analysed for reporting purposes as:		
Current assets	**1,298**	1,298
Non-current assets	**51,949**	53,247
	53,247	54,545

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 RMB20,489,000 at the end of the reporting period (2011: approximately RMB45,229,000), are pledged as collaterals for the Group's bank borrowings. Please refer to Note 30 for details.

20. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY

	The Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**–**	–
Amount due from a subsidiary	**220,781**	221,130
	220,781	221,130

Details of the Company's subsidiaries at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation	Paid up capital RMB'000	Percentage of equity interest and voting power attributable to the company Direct %	Indirect %	Principal activities
Sumpo International Holdings Limited	BVI	34	100	–	Investment holding
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	PRC	60,000	–	94.84	Breeding and sales of poultry commodity broilers, chicken breeds, aquatic products and provision of breeding techniques consultancy services
Xiamen Sumpo Food	PRC	30,000	–	94.84	Sales of packaged food products
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
Fujian Baojiashun	PRC	180,000	–	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
Xiamen Xiweida Limited Company ("Xiamen Xiweida")	PRC	10,000	–	94.84	Manufacturing and trading of meat product

21. INVENTORIES

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Frozen meats	**38,164**	22,482
Animal feeds	**1,345**	2,834
Processed foods	**1,214**	242
Agricultural produce	**9,307**	7,883
Raw materials (Note)	**17,482**	19,677
Consumables	**489**	595
Packaging	**834**	405
	68,835	54,118

Note:

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

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold	**664,246**	508,432
Fair value of agricultural produce on initial recognition	**(69,827)**	(64,920)
Reversal of fair value of agricultural produce due to hatch and disposals	**68,403**	62,260
	662,822	505,772

(c) Production quantities of agricultural produce:

	The Group	
	2012	2011
Broiler eggs (units)	**25,882,861**	23,185,815

21. INVENTORIES (Continued)

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

	The Group 2012 RMB'000	2011 RMB'000
At the beginning of the year	**7,883**	5,223
Increase due to lay	**69,827**	64,920
Decrease due to hatch and disposals	**(68,403)**	(62,260)
At the end of the year	**9,307**	7,883

22. 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 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 and 1 January 2012	7,494	4,925	6,651	19,070
Increase due to purchases	4,661	–	–	4,661
Increase due to raising (Feeding cost and others)	9,572	–	104,506	114,078
Transfer	(18,575)	18,575	–	–
Decrease due to retirement and deaths	–	(9,586)	–	(9,586)
Decrease due to sales	–	–	(106,043)	(106,043)
Change in fair value less costs to sell	(1,050)	(1,507)	(399)	(2,956)
As at 31 December 2012	**2,102**	**12,407**	**4,715**	**19,224**

22. BIOLOGICAL ASSETS (Continued)

The numbers of biological assets are summarised as follows:

	The Group	
	2012	2011
	'000	'000
Parent Stock Day-Old Chicks and immature breeders	**41**	98
Mature breeders	**156**	93
Chicken breeds	**495**	651
At the end of the year	**692**	842

Analysed for reporting purposes as:

	The Group	
	2012	2011
	RMB'000	RMB'000
Current assets	**4,715**	6,651
Non-current assets	**14,509**	12,419
At the end of the year	**19,224**	19,070

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 an independent professional 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.

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 15.35% (2011: 25.024%).

In addition, the following principal assumptions have been adopted by an independent professional 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;

22. BIOLOGICAL ASSETS (Continued)

Note: (Continued)

(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 atypical benefits which may influence the fair value of the breeders.

23. TRADE RECEIVABLES

	The Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**24,687**	14,471
Less: Impairment loss recognised	**(408)**	(421)
	24,279	14,050

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	
	2012	2011
	RMB'000	RMB'000
Within 30 days	**23,053**	12,991
31 days to 70 days	**1,226**	615
71 days to 180 days	**–**	422
Over 180 days	**–**	22
	24,279	14,050

23. 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	
	2012	2011
	RMB'000	RMB'000
Overdue by:		
1 to 110 days	**–**	422
Over 110 days	**–**	22
	–	444

At the end of the reporting period, trade receivables of approximately RMB408,000 (2011: RMB421,000) was impaired and had been fully provided for. These receivables mainly relate to wholesales in unexpected difficult economic situations. The ageing of these receivables are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Over 180 days	**408**	421

Movements of impairment loss recognised on trade receivables:

	The Group	
	2012	2011
	RMB'000	RMB'000
At the beginning of the year	**421**	450
Reversal of impairment loss recognised	**(16)**	(44)
Impairment loss recognised	**3**	15
At the end of the year	**408**	421

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.

24. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits paid, prepayments and other receivables	**44,744**	91,192	**508**	574
Less: Impairment loss recognised	**(818)**	(591)	**–**	–
	43,926	90,601	**508**	574

Deposits paid, prepayments and other receivables

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances to staff	**552**	1,335	**–**	245
Amounts due from related parties (Note 37(e))	**1,635**	60	**–**	–
Current tax assets	**279**	–	**–**	–
Deposits paid and prepayments (Note (a))	**12,984**	6,753	**508**	329
Deposits paid for purchase of property, plant and equipment (Note (b))	**3,433**	62,807	**–**	–
Deposits paid to suppliers	**5,154**	10,224	**–**	–
Interest receivables	**945**	80		
Other receivables	**2,095**	4,198	**–**	–
VAT recoverable (Note (c))	**17,667**	5,735	**–**	–
	44,744	91,192	**508**	574
Less: Impairment loss recognised	**(818)**	(591)	**–**	–
	43,926	90,601	**508**	574

Notes:

(a) As at 31 December 2012, an amount of approximately RMB7,594,000 was the deposits paid and prepayments to independent third parties and a related company of the Group in relation to the acquisition of prepaid lease payment.

(b) The deposits paid for purchase of property, plant and equipment as at 31 December 2012 and 2011 was mainly for the construction of slaughtering and processing plant, breeder farms, hatching facility and broiler breeding farms.

(c) As at 31 December 2012, the VAT recoverable was mainly for the machinery and equipment purchased during the year.

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

	The Group	
	2012	2011
	RMB'000	RMB'000
At the beginning of the year	**591**	528
Reversal of impairment loss recognised	**(116)**	(11)
Impairment loss recognised	**343**	74
At the end of the year	**818**	591

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2012	2011
	RMB'000	RMB'000
Held for trading:		
– Listed equity securities in the PRC (Note (a))	**103**	92
– Unlised equity securities in the PRC (Note (b))	**30,792**	–
	30,895	92

Notes:

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

(b) The Group holds 0.56% of the paid up capital of Xiamen Bank Company Limited ("Xiamen Bank"), a company engaged in the business of banking for small and medium size enterprise of the local economy. The directors of the Group do not believe that the Group is able to exercise significant influence over Xiamen Bank.

The unlisted equity securities are measured at fair value and are classified as Level 3 fair value measurement (see note 36(b)). The fair value of the unlisted equity securities are estimated by an independent professional valuer. The valuation was arrived at by reference to market comparables which are the closest proxies to Xiamen Bank with similar industry focus, risk and nature.

26. HELD TO MATURITY INVESTMENT

	The Group	
	2012	2011
	RMB'000	RMB'000
Unlisted debt securities: (Note)		
– Current assets	**–**	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.

27. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**131,137**	144,001	**12,329**	2,731
Pledged bank deposits (Note 40)	**36,000**	12,780	**–**	–
	167,137	156,781	**12,329**	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 0.35% per annum during the reporting period (2011: 0.5%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES (Continued)

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of approximately RMB154,128,000 (2011: RMB140,540,000) which are not freely convertible into other currencies.

28. TRADE PAYABLES

	The Group	
	2012	2011
	RMB'000	RMB'000
Trade payables	**19,312**	20,744

The ageing analysis of trade payables is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 30 days	**18,887**	19,132
31 to 90 days	**391**	995
91 to 180 days	**27**	96
Over 180 days	**7**	521
	19,312	20,744

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

29. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received	**1,819**	492	**–**	–
Other payables for property, plant and equipment (Note)	**17,592**	1,570	**–**	–
Current tax liabilities	**–**	279	**–**	–
Accruals and other payables	**46,277**	27,988	**959**	918
	65,688	30,329	**959**	918

Note:

Included in other payables for property, plant and equipment were mainly payments for the construction of new slaughtering and processing plant in Longyan.

30. BANK BORROWINGS

	The Group 2012 RMB'000	2011 RMB'000
Bank borrowings – secured	**158,492**	50,000
Loan from other bank facilities	**–**	630
Total bank borrowings	**158,492**	50,630

Carrying amount repayable:

	The Group 2012 RMB'000	2011 RMB'000
On demand or within one year	**158,492**	30,630
Over five years	**–**	20,000
Total bank borrowings	**158,492**	50,630
Less: Amounts due within one year shown under current liabilities	**(158,492)**	(30,630)
	–	20,000

Bank borrowings at:

	The Group 2012 RMB'000	2011 RMB'000
– floating interest rate	**81,492**	23,000
– fixed interest rate	**77,000**	27,630
	158,492	50,630

The carrying amount of the Group's bank borrowings are all originally denominated in RMB, which is the functional currency of the Group, except for the bank loans of HK$38,646,000 (equivalent to RMB31,492,000) as at 31 December 2012 (2011: Nil), which were denominated in Hong Kong dollar.

30. BANK BORROWINGS (Continued)

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

	The Group	
	2012	2011
Bank borrowings	**2.9%-6.6%**	2.4%-7.0%

During the reporting period, the Group's bank borrowings were secured by:

(a) the Group's property, plant and equipment with a carrying amount of approximately RMB122,648,000 (2011: RMB35,419,000).

(b) the Group's prepaid lease payments with a carrying amount of approximately RMB20,489,000 (2011: RMB45,229,000); and

(c) the Group's bank deposits of approximately RMB 36,000,000 (2011: RMB12,780,000).

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount	**–**	20,000
Fair value	**–**	12,994

31. 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 RMB19,516,000 (2011: approximately RMB21,269,000). The deferred revenue will be recognised upon construction of qualifying assets. The government grants are not repayable.

32. SHARE CAPITAL

The Group and the Company

	Number of shares	Nominal value of ordinary shares	
		HK$'000	RMB'000
Authorised:			
At 1 January and 31 December 2012 ordinary shares of HK$0.1 each	4,000,000,000	400,000	320,000
Issued and fully paid:			
At 1 January 2011 ordinary shares of HK$0.1 each	5,000	–	–
Issue of ordinary shares by way of public offer (Note (a))	400,000,000	40,000	33,984
Shares capitalisation (Note (b))	1,199,995,000	119,999	101,951
Shares issued pursuant to exercise of the over-allotment option (Note (c))	60,000,000	6,000	5,072
At 31 December 2011, 1 January 2012 and 31 December 2012 ordinary shares of HK$0.1 each	**1,660,000,000**	**165,999**	**141,007**

Notes:

(a) 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.

(b) 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.

(c) 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.

33. 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.

33. RESERVES (Continued)

The Company

	Share premium RMB'000	Accumulated loss RMB'000	Total RMB'000
As at 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
Profit for the year	–	22,515	22,515
Total comprehensive income for the year	113,622	(7,734)	105,888
Dividend paid to owners of the Company	–	(13,552)	(13,552)
As at 31 December 2012	**113,622**	**(21,286)**	**92,336**

34. RETIREMENT BENEFIT PLANS

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

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

35. 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).

35. CAPITAL RISK MANAGEMENT (Continued)

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	
	2012	2011
	RMB'000	RMB'000
Total borrowings	**158,492**	50,630
Total assets	**742,108**	618,655
Gearing ratio (%)	**21%**	8%

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group	
	2012	2011
	RMB'000	RMB'000
Financial assets		
Financial assets at fair value through profit of loss		
– Held for trading	**30,895**	92
Held to maturity investment	**–**	1,000
Loans and receivables (including cash and bank balances)		
– Trade receivables	**24,279**	14,050
– Deposits received, prepayments and other receivables	**1,829**	4,942
– Pledged bank deposits	**36,000**	12,780
– Cash and bank balances	**131,137**	144,001
Financial liabilities		
Amortised cost		
– Trade payables	**19,312**	20,744
– Accruals, deposits received and other payables	**63,869**	29,558
– Bank borrowings	**158,492**	50,630

36. FINANCIAL INSTRUMENTS (Continued)

(a) Categories of financial instruments (Continued)

	The Company	
	2012	2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and bank balances)		
– Deposits received, prepayments and other receivables	**–**	245
– Amount due from a subsidiary	**220,781**	221,130
– Cash and bank balances	**12,329**	2,731
Financial liabilities		
Amortised cost		
– Amount due to a subsidiary	**–**	–
– Accruals, deposits paid and other payables	**959**	918

(b) Financial risk management objectives and policies

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

The Group's major financial instruments include trade receivables, deposits received, prepayments and other receivables, trade payables, accruals, deposits received and other payables, financial assets at fair value through profit or loss, 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.

36. FINANCIAL INSTRUMENTS (Continued)

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

Interest rate risk

(i) Exposure to interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits. However, since the fixed-rate bank deposits were usually placed with short maturity period, the management does not expect there would be significant impact on the results of the Group.

The Group's cash flow interest rate risk relates primarily to variable rate borrowings (see note 30 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interest so as to minimize the fair value 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 2012, 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 RMB89,000 (2011: RMB34,000). 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.

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.

36. FINANCIAL INSTRUMENTS (Continued)

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

Business risk (Continued)

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

Liquidity risk

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

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

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

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 2012						
Non-derivative financial liabilities						
Trade payables	–	19,312	–	–	19,312	19,312
Accruals, deposits paid and other payables	–	63,869	–	–	63,869	63,869
Bank borrowings	5.6%	164,670	–	–	164,670	158,492
		247,851	–	–	247,851	241,673

36. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

The Group (Continued)

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2011						
Non-derivative financial liabilities						
Trade payables	–	20,744	–	–	20,744	20,744
Accruals, deposits paid and other payables	–	29,558	–	–	29,558	29,558
Bank borrowings	6.7%	32,018	–	30,784	62,802	50,630
		82,320	–	30,784	113,104	100,932

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 2012						
Non-derivative financial liabilities						
Accruals, deposits paid and other payables	**–**	**959**	**–**	**–**	**–**	**959**

36. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

The Company (Continued)

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

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).

36. FINANCIAL INSTRUMENTS (Continued)

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

As at 31 December 2012	The Group Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**103**	**–**	**30,792**	**30,895**

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

Reconciliation of Level 3 fair value measurements of financial assets

	The Group **2012** **RMB'000**	2011 RMB'000
As at 1 January 2011 and 1 January 2012	**–**	–
Purchases	**26,696**	–
Fair value gain in profit or loss	**4,096**	–
As at 31 December 2012	**30,792**	–

The above fair value gain included in the consolidated statement of comprehensive income for the current year related to investment in financial assets at fair value through profit or loss (Note 25) held at the end of the reporting period.

37. 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:

Name of company	Nature of transaction	Relationship	The Group 2012 RMB'000	2011 RMB'000
Fujian Ronghecheng Food Corporation ("Ronghecheng Food Corporation"), formerly known as Fujian Sumhua Enterprise Limited	Rental income	Common director in a related company	**316**	187
Ronghecheng Food Corporation	Sales of chicken meat	Common director in a related company	**287**	1,015
Ronghecheng Food Corporation	Sales of side products	Common director in a related company	**965**	772
Xiamen Oporto Catering Management Company Limited ("Xiamen Oporto")	Sales of chicken meat	Common director in a related company (Note (i))	**171**	1,035
Xiamen Sumpo	Rental paid	Common director in a related company (Note (ii))	**58**	54
Xiamen Ronghecheng Food Company Limited	Sales of motor vehicle	Common director in a related company (Note (iii))	**–**	30

Notes:

(i) Mr. Lin Genghua (the son of Mr. Lin Qinglin) is the director of Xiamen Oporto and Xiamen Sumpo Food. Xiamen Oporto had dissolved on 22 May 2012.

(ii) Mr. Lin Qinglin is the director of Xiamen Sumpo and the holding company.

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

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel remuneration

	The Group	
	2012	2011
	RMB'000	RMB'000
Short term employee benefits	**1,788**	1,679
Retirement benefits schemes contributions	**73**	127
	1,861	1,806

(c) Mr. Yin Shouhong, a director of the Company, and his wife have entered into a personal guarantee agreement on 29 November 2012 and 2011 with Agricultural Development Bank of China amounting to approximately RMB 27,000,000 (2011: RMB 27,000,000) to secure a bank borrowing of the Group from 30 November 2012 to 29 November 2013 (2011: 29 December 2011 to 15 December 2012).

(d) Mr. Lin Qinglin, a director of the Company, and his wife have entered into a personal guarantee agreement on 29 November 2012 with Agricultural Development Bank of China amounting to approximately RMB 27,000,000 to secure a bank borrowing of the Group from 30 November 2012 to 29 November 2013.

(e) Amounts due from related parties

As at the end of the reporting period, the Group had the following balances with related parties:

	The Group	
	2012	2011
	RMB'000	RMB'000
Included in other receivables (Note 24):		
– Ronghecheng Food Corporation	**516**	60
– Fujian Sumhui Agriculture Development Limited	**1,119**	–
	1,635	60

Other receivables from related parties are unsecured, interest frees and are expected to be recovered within one year. There was no impairment loss made against these amounts at 31 December 2012.

38. OPERATING LEASE ARRANGEMENTS

The Group as lessor:

The property held has no committed tenant for the next year.

	2012 RMB'000	2011 RMB'000
Within one year	–	46
In the second to fifth years, inclusive	–	7
	–	53

The Group as lessee:

At the end of each reporting date, 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:

	2012 RMB'000	2011 RMB'000
Within one year	897	1,073
In the second to fifth years, inclusive	3,447	3,615
After the fifth years	1,983	2,195
	6,327	6,883

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.

39. COMMITMENTS FOR EXPENDITURE

	The Group	
	2012 RMB'000	2011 RMB'000
Commitments for acquisition of property, plant and equipment	10,937	142,660

40. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group (Note 30):

	The Group	
	2012	2011
	RMB'000	RMB'000
Bank deposits	**36,000**	12,780
Property, plant and equipment	**122,648**	35,419
Prepaid lease payments	**20,489**	45,229
	179,137	93,428

41. COMPARATIVES

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

42. 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.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2013.

Five Year Financial Summary

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				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations					
Revenue	**787,481**	663,041	633,255	569,242	587,743
Cost of sales	**(717,948)**	(541,343)	(507,280)	(472,545)	(491,148)
Gross profit	**69,533**	121,698	125,975	96,697	96,595
Other revenue and gain	**15,594**	16,607	23,095	13,651	15,264
Change in fair value less costs to sell of biological assets	**(2,956)**	(3,025)	2,429	3,388	(2,191)
Net gain/(loss) on financial assets at fair value through profit or loss	**2,204**	(1,296)	7	49	(90)
Fair value of agricultural produce on initial recognition	**69,827**	64,920	58,340	57,952	55,786
Reversal of fair value of agricultural produce due to hatch and disposals	**(68,403)**	(62,260)	(55,983)	(60,083)	(53,884)
Selling and distribution expenses	**(13,559)**	(13,409)	(10,674)	(9,295)	(9,481)
Administrative expenses	**(41,038)**	(47,061)	(41,786)	(22,406)	(19,444)
Finance costs	**(6,890)**	(5,198)	(10,045)	(8,906)	(9,133)
Other operating expenses	**(27,191)**	(22,713)	(19,315)	(15,470)	(17,663)
(Loss)/profit before taxation	**(2,879)**	48,263	72,043	55,577	55,759
Taxation	**3,808**	(1,159)	(2,103)	(5,553)	(7,107)
Profit for the year from continuing operations	**929**	47,104	69,940	50,024	48,652
Discontinued operation					
Profit/(loss) for the year from discontinued operation	**–**	–	–	9,371	(2,716)
Profit for the year	**929**	47,104	69,940	59,395	45,936
Profit attributable to:					
For continuing and discontinued operations					
Profit attributable to:					
Owners of the Company	**80**	42,840	61,919	56,985	39,715
Non-controlling interests	**849**	4,264	8,021	2,410	6,221
	929	47,104	69,940	59,395	45,936

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**742,108**	618,655	419,757	558,730	560,138
Total liabilities	**(263,008)**	(122,972)	(225,817)	(349,859)	(384,650)
Non-controlling interests	**(13,229)**	(16,340)	(12,076)	(13,843)	(13,344)
	465,871	479,343	181,864	195,028	162,144