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

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

Stock Code 股份代號: 1699

Annual Report 年報 2012

China Putian Food Holding Limited is

**LEADING VERTICALLY INTEGRATED** pork products supplier

中國普甜食品控股有限公司為

**領先的垂直一體化**豬肉供應商

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# Corporate Information

## DIRECTORS

### Executive Directors

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

### Independent Non- Executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

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

## LEGAL ADVISOR

Cheung Tong & Rosa Solicitors

## COMPLIANCE ADVISOR

Cinda International Capital Limited

## AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

## PRINCIPAL BANKERS

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

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## COMPANY WEBSITE

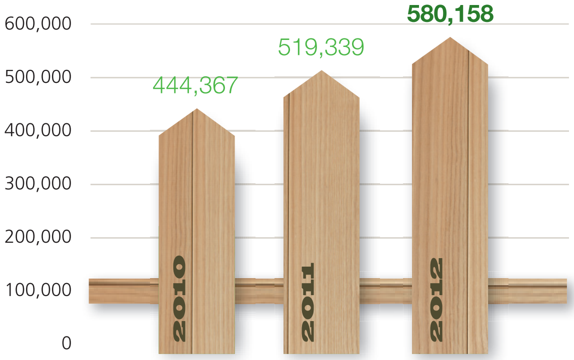
www.putian.com.hk

## STOCK CODE

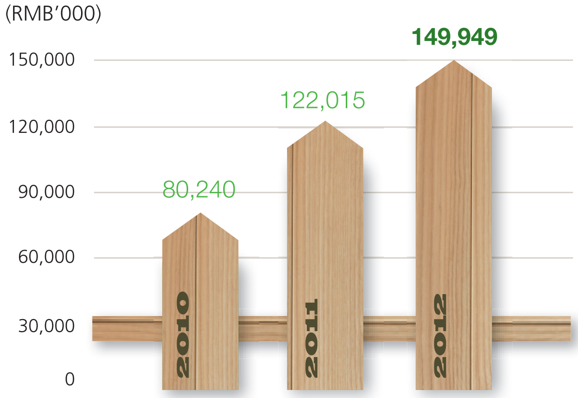
1699

# Financial Highlights

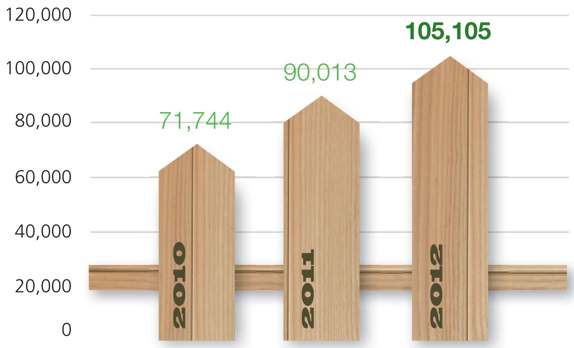
## Revenue
(RMB'000)




## Gross profit
(RMB'000)




## Net profit
(RMB'000)




## Revenue by products
(RMB'000)


| | Year 2010<br>RMB'000 | Year 2011<br>RMB'000 | **Year 2012<br>RMB'000** |
|---|---|---|---|
| Revenue | 444,367 | 519,339 | **580,158** |
| Gross profit | 80,240 | 122,015 | **149,949** |
| Net profit | 71,744 | 90,013 | **105,105** |
| Revenue by products | | | |
| — Retail | 76,058 | 236,454 | **301,812** |
| — Wholesale | 365,285 | 282,885 | **278,346** |
| — Commodity hogs | 3,024 | — | **—** |

# Chairman's Statements

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Putian Food Holding Limited (the "Company"), I am pleased to present the annual results for the year ended 31 December 2012 (the "Reporting Period") of the Company and its subsidiaries (the "Group") to all shareholders.

## BUSINESS REVIEW

2012 represented an important and memorable year for the Group. The successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2012 marked a key milestone for the Group, which not only signified the growth of our business and significant enhancements on our publicity reputation, but also laid down a solid foundation for our future developments ahead.

Net proceeds from listing of the Company on the Stock Exchange of approximately HK$125 million were raised last year, which were planned to be utilized for the construction of six new hog farms and the acquisition of breeder hogs, financing expenses such as the construction costs, land leasing costs, equipment procurement and installation necessary for the construction of farms. Through raising funds in the market, the Group managed to expand its hogs breeding and farming capabilities, and in turn its production capacity. Upon the operation of all those six new hog farms, the production capacity of the Group will be increased.

The Group's overall business has achieved satisfactory performance with growth in both of its revenue and profit. During the Reporting Period, the farming capacity of contract farmers under the Group has enhanced, and the output and number of slaughtered and processed commodity hogs reached 290,000 heads, representing a growth of approximately 10% over the year ended 31 December 2011. As to sales, the Group possessed extensive wholesale and retail networks. As of 31 December 2012, the number of points of sales of the Group in the PRC increased by 19 to 86, which has significantly driven its sales revenue. The Group achieved excellent results with revenue of approximately RMB580,158,000 during the Reporting Period, representing a growth of approximately 11.7% over that for the year ended 31 December 2011; net profit amounted to approximately RMB105,105,000, representing a growth of 16.8% over that for the year ended 31 December 2011.

During the Reporting Period, pork retail business was the highlight for the Group's successful development. China's economy has been growing continuously in recent years. According to the National Bureau of Statistics, the median of disposable income per capita for urban residents was RMB 21,986 in 2012, up by 15% from 2011. In the opinion of the Group, the increase in national income would lead to a robust market demand for premium pork products. Accordingly, the Group captured the domestic development opportunities to strive for developing its pork retail business and increasing the contribution of pork retail sales to the total revenue. During the Reporting Period, the revenue of pork retail sales contributed approximately RMB301,812,000, accounting for 52% of the Group's total revenue.

The success in our retail business expansion is encouraging. As of 31 December 2012, the Group operated 23 direct sales outlets in Zhangzhou City, Putian City and Fuzhou City and the sales generated from direct sales outlets increased to approximately RMB36,185,000, accounting for 6.2% of the Group's total revenue. During the Reporting Period, the Group has newly opened 11 concession counters at supermarkets, thereby increasing the number of domestic concession counters at supermarkets to 63. Sales generated from concession counters at supermarkets amounted to approximately RMB88,781,000, accounting for 15.3% of the Group's total revenue.

Wholesale of pork has remained as the Group's principal business. Since the operation of the Group's slaughterhouse in August 2009, a substantial part of the Group's revenue has been generated by wholesale of pork, mainly whole hog carcasses, heads, intestines and internal organs. The Group's wholesale customers mainly comprised local individual pork product traders. As at 31 December 2012, the Group has entered into contracts with 7 individual pork product traders to expand its distribution channels for wholesale of pork, which will bring along stable revenue sources to the Group in the future.

Looking at the market development in the previous year, under the pressures of climbing raw material costs and labour costs, hog farming costs remained at high level and thus imposed challenges for downstream pork producers. Nonetheless, as the Group had its own farming base and a stable team of contract farmers, it was capable of leveraging on stringent management structure, scalable raw material procurement and intensified feeds delivery to trim its costs to a level comparable with the prior years even in face of the raw material price surge. On the other hand, the expansion of retail business also allowed the Group to access to end-consumers in a more comprehensive manner, hence lowering the loss of profits along the circulation process. In other words, being a pork enterprise with involvement in the entire industry chain, we managed to edge up our profitability.

According to the Development of the National Hog Slaughtering Industry (2010–2015) of the PRC (全國生豬屠宰行業發展規劃綱要(2010–2015年)), the Central Government will eliminate ineligible slaughterhouses and tighten the licensing system, and such strict control on the number of slaughterhouses would bring along more rooms for development and excellent environment for competition for the Group. Meanwhile, in light of the increasing awareness on food safety among the public, the Group was dedicated to ensure that consumers could buy our products with peace of mind, and took the initiatives to establish the first traceable structure on pork product quality in Putian City. In addition, the Group has embarked on the construction of its in-house professional quality laboratory in December 2012, which is envisaged to commence operation in April 2013. By setting up the laboratory, the Group could implement quality control from the derivation of pork products to the researches on nutrients contained in raw materials.

## PROSPECTS

Looking forward, the Group will aim at expanding its market shares and exploring its revenue sources in tandem with continuous expansion of its distribution channels. Apart from proactively establishing new concession counters at supermarkets, the Group will also increase the number of its wholesale customers through identifying potential traders so as to boost revenue generated from wholesale business. It is anticipated that the number of concession counters at supermarkets and direct sales outlets will increase by 10 and 20 respectively in 2013, while the total number of points of retail sales is expected to over 100 by the end of 2013. We hope to enhance the market reputation of our "Putian" brand via the expansion of our retail network. The Group believes that, under the persistent growth of China's economy, its pork wholesale and retail businesses will be continuously benefited.

Six new hog farms will be constructed in an orderly manner in 2013, and are expected to commence operation from the end of the second quarter of 2013. By the end of 2014, the output of commodity hogs bred and raised by the Group is expected to increase from the prevailing 36,000 heads per annum to approximately 360,000 heads per annum.

In respect of new product development, riding on the support on agriculture and slaughtering industries provided by China's 12th Five-Year Plan, the Group has already introduced chilled pork cutting equipment since February 2013 to produce chilled pork products and premium pork products in small packages. Such moves will allow our business expansion to regions outside Fujian Province.

As we recognize the importance of excellent management and communication on uplifting the breeding standard and production efficiency of contract farming, we have always placed great emphasis on the collaboration and communication with the contract farmers. The Group will continue to reinforce trainings on farming techniques for respective farmers and optimize standardized management on contract farming in order to attract more farmers to engage in the hog farming business of the Group.

Quality control is of utmost importance from the perspective of the Group. Firstly, with the operation of the Group's professional quality laboratory equipped with various specialized equipment in April 2013, the Group will be more capable of controlling its quality along various operation and production processes. Secondly, the Group and the Food Science and Nutrition Engineering Institute of China Agriculture University have jointly established the "Food Quality and Safety Research Center" in January 2013. On the back of the top research force in the agriculture sector in China, the Group will actively invest in higher-end technologies on pork quality and safety with an aim to provide a more comprehensive guarantee on its product quality as well as to build up quality guarantee for the Group in the course of pursuing nationwide expansion in the future.

## APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to all shareholders, customers, suppliers and business partners for their unfailing support and trust to the Group. At the same time, I would also like to express my appreciation to the outstanding management team and staff members for their continuous contributions to the Group's business development with their ample experiences and diligence. The Group is fully confident about its prospects and we deeply believe that the Group could leap into another new height for bringing sustainable returns to our shareholders.

By the order of the Board

**Cai Chenyang**
*Chairman and Chief Executive Officer*

Hong Kong, 28 March 2013

# Management Discussion and Analysis

## INDUSTRY REVIEW

In 2012, China's rapid economic development and continuing rise in per capital income fuelled the simultaneous surge of food consumption expenditure by urban and rural households in the PRC. According to Fujian Provincial Bureau of Statistics, the per capita disposable income of urban residents in Fujian Province in 2012 was RMB28,055, representing an increase of 12.6% over 2011. In Fujian Province, the urban residents' food consumption expenditure accounted for 39.4% of their total consumption expenditure, as compared to 46.0% in rural areas. With the increase in personal disposable income, the demand for high quality food among consumers has been growing. The total meat output in Fujian Province was 2,008,500 tons in 2012, representing an increase of 9.8% over 2011, of which the pork output amounted to 1,555,500 tons, representing an increase of 6.1% over 2011. At the end of 2012, the amount of hogs on hand in Fujian Province was 13,408,860 heads, representing an increase of 3.3% over 2011; the output of hogs in Fujian Province was 20,690,500 heads, representing an increase of 6.1% over 2011. From these figures, it can be seen that the demand for pork products from the residents in Fujian Province is continuously increasing, which brings a good development opportunity for the pork wholesale and retail industry.

Under the Development of the National Hog Slaughtering Industry (2010–2015) of the PRC (全國生豬屠宰行業發展規劃綱要 (2010–2015年)) issued by the Central Government, the Central Government will eliminate ineligible slaughterhouses, tighten the licensing system and strictly control the number of slaughterhouses. It also provides that the number of slaughterhouses in cities with population over 5,000,000 people shall not exceed four, and not more than two in other cities at prefecture level or above. The Group's slaughterhouse is the only one that is recognized as a "2-star" slaughterhouse in Putian City, and its slaughtering capacity continues to maintain a leading position in the hog industry in Putian City.

## BUSINESS REVIEW

The Group is one of the largest vertically integrated pork suppliers in Fujian Province, the PRC. With its core business being the sale of pork products of "Putian" brand, the operations of the Group follow a vertically integrated business model with a complete coverage on the production chain comprising hog farming, hog slaughtering, pork processing, and sales and distribution of pork.

For the Reporting Period, it was encouraging that the Group's overall business performance was significantly enhanced. During the Reporting Period, the Group was committed to exploring its distribution channels and sales network to expand its market share, thereby increasing the revenue sources of its pork products and enhancing its market acceptability.

## Management Discussion and Analysis (Continued)

During the Reporting Period, the Group recorded a revenue of approximately RMB580,158,000 (2011: approximately RMB519,339,000), representing a growth of approximately 11.7% over that for the same period of last year. During the Reporting Period, the Group recorded a gross profit of approximately RMB149,949,000 (2011: approximately RMB122,015,000), representing an increase of approximately 22.9% as compared with that for the same period of last year. The gross profit margin increased to 25.8% (2011: 23.5%), which was mainly attributable to the farming of smaller piglets by the Group's contract farmers, thereby lowering the farming costs and in turn improving the Group's overall profitability. Profit for the Reporting Period was approximately RMB105,105,000 (2011: approximately RMB90,013,000), representing an increase of 16.8% over the same period of last year. Earnings per share were RMB15.04 cents (2011: RMB15 cents).

During the Reporting Period, the Group shifted the focus of its sales policy to the retail business. Revenue from retail of pork increased to approximately RMB301,812,000, accounting for 52% of the Group's total revenue. The wholesale of pork business accounted for 48% of the Group's total revenue, amounting to RMB278,346,000 and representing a decrease of 1.6% as compared with that for the corresponding period of last year.

With the continuous expansion of the Group's distribution channels and sales network, the pork products marketed under the Group's owned "Putian" brand have become more popular and more widely recognized among customers, and have brought contribution to the revenue of the Group during the Reporting Period. The points of retail sales of the Group expanded from 67 as at 31 December 2011 to 86 as at 31 December 2012, dispersedly located across Ningde City, Fuzhou City, Putian City, Quanzhou City and Zhangzhou City of Fujian Province. As of 31 December 2012, the Group operates 23 direct sales outlets in Putian City, Zhangzhou City and Fuzhou City. During the Reporting Period, sales from the direct sales outlets were RMB36,185,000, accounted for 6.2% of the Group's total revenue. During the Reporting Period, the Group has opened 11 new concession counters at supermarkets, thereby increasing the number of domestic concession counters at supermarkets to 63. During the Reporting Period, sales generated from concession counters at supermarkets amounted to RMB88,781,000, accounting for 15.3% of the Group's total revenue.

The Group upholds the corporate vision of "offering high-quality pork products" to provide customers with premium, safe and hygienic pork products. By means of continuously implementing a stringent epidemic prevention system in respective hog farms and executing safety control in every production stage, there was no outbreak of severe poultry epidemics during the Reporting Period.

As advised by the PRC legal advisers, there are no rules and regulations in the PRC which set prices or price ranges on the Group's products.

## FINANCIAL REVIEW

### (1) Revenue

The following table sets out a breakdown of the revenue of the Group by sales segments and their relative proportion over the total revenue during the Reporting Period:

| | | 2012 | |
|---|---|---|---|
| **Product classification** | **Whole hog carcass** | **Carcass meat** | **Total** |
| | RMB | RMB | RMB |
| January | 21,511,000 | 23,650,000 | 45,161,000 |
| February | 21,795,000 | 22,337,000 | 44,132,000 |
| March | 21,737,000 | 23,171,000 | 44,908,000 |
| April | 21,819,000 | 22,774,000 | 44,593,000 |
| May | 21,731,000 | 23,230,000 | 44,961,000 |
| June | 21,534,000 | 24,210,000 | 45,744,000 |
| July | 23,579,000 | 24,163,000 | 47,742,000 |
| August | 22,377,000 | 23,889,000 | 46,266,000 |
| September | 23,837,000 | 25,737,000 | 49,574,000 |
| October | 25,089,000 | 26,187,000 | 51,276,000 |
| November | 26,393,000 | 30,491,000 | 56,884,000 |
| December | 26,944,000 | 31,973,000 | 58,917,000 |
| Total | 278,346,000 | 301,812,000 | 580,158,000 |

For the year ended 31 December 2012, the Group's revenue was approximately RMB580,158,000 (2011: approximately RMB519,339,000), representing a growth of approximately 11.7% over that for the same period of last year, primarily due to a rise in sales volume of pork products.

*Revenue from Retail of Pork*

During the Reporting Period, the Group's revenue from retail of pork was approximately RMB301,812,000 (2011: approximately RMB236,454,000), representing a growth of approximately 27.6% over that for the same period of last year and accounting for 52.0% of the Group's total revenue (2011: 45.5%), which was primarily due to the rise in sales volume of retail pork products as the Group has shifted its business focus from wholesale of pork to retail of pork marketed under the Group's own brand.

*Revenue from Wholesale of Pork*

During the Reporting Period, the Group's revenue from wholesale of pork was approximately RMB278,346,000 (2011: approximately RMB282,885,000), representing a decrease of approximately 1.6% over that for the same period of last year and accounting for 48.0% of the Group's total revenue (2011: 54.5%), which was primarily due to the Group's shifting of its business focus to retail of pork marketed under the Group's own brand.

### (2) Gross Profit and Gross Profit Margin

During the Reporting Period, the Group recorded an overall gross profit of approximately RMB149,949,000 (2011: approximately RMB122,015,000), representing an increase of approximately 22.9% over that for the same period of last year, mainly due to the rise in sales volume of pork products. During the Reporting Period, the Group recorded a gross profit margin of approximately 25.8% (2011: 23.5%), representing an increase of 2.3% over that for the same period of last year, which was attributable to the reduction in procurement costs of hogs and in return improving the Group's overall profitability.

*Gross profit and gross profit margin of retail of Pork*

During the Reporting Period, gross profit of retail of pork was approximately RMB86,005,000 (2011: approximately RMB60,359,000), representing a growth of approximately 42.5% over that for the same period of last year. Gross profit margin of retail of pork was approximately 28.5% (2011: 25.5%), representing an increase of 3% over that for the same period of last year, mainly attributable to the reduction in procurement cost as described above.

*Gross profit and gross profit margin of wholesale of Pork*

During the Reporting Period, gross profit of wholesale of pork was approximately RMB63,944,000 (2011: approximately RMB61,656,000), representing a growth of approximately 3.7% over that for the same period of last year. Gross profit margin of wholesale of pork was approximately 23.0% (2011: 21.8%), representing an increase of 1.2% over that for the same period of last year, mainly attributable to the reduction in procurement costs as described above.

## LIQUIDITY AND FINANCIAL RESOURCES

### Use of Proceeds from the Group's Initial Public Offering

The Company was successfully listed on the Main Board of the Stock Exchange on 13 July 2012 by way of placing (the "Placing") and public offer (the "Public Offer") of a total of 200,000,000 shares in the Company at an offer price of HK$0.70 per share.

After deducting the relevant listing expenses, the Group received net proceeds from its initial public offering of approximately RMB101,500,000 as at 13 July 2012. Upon its listing, as of 31 December 2012, the Group has applied the net proceeds partially in accordance with the proposed applications set out in the prospectus of the Company dated 28 June 2012 as follows:

| | **Actual net proceeds from initial public offering** RMB' million | **Amount utilized up to 31 December 2012** RMB' million | **Balance as at 31 December 2012** RMB' million |
|---|---|---|---|
| Leasing the land for six new hog farms | 24.7 | 24.7 | — |
| Construction of the surface building portion for six new hog farms | 43.2 | 3 | 40.2 |
| Acquisition and installation of equipment for six new hog farms | 21.3 | 1 | 20.3 |
| Acquisition of breeder hogs | 12.3 | — | 12.3 |
| Total | 101.5 | 28.7 | 72.8 |

## Financial Resources

The Group primarily finances the capital requirements for its operations by internal cashflow and bank facilities. As at 31 December 2012, cash and cash equivalents amounted to approximately RMB110,851,000 (31 December 2011: approximately RMB13,430,000). As of 31 December 2012, the net cash generated from operating activities amounted to approximately RMB74,769,000 (31 December 2011: approximately RMB87,217,000), the decrease was mainly due to the initial public offering deposits paid, the deposits paid for the acquisition of land use rights and prepayments for the advertising campaigns.

## Borrowings and Pledged Assets

As at 31 December 2012, the total amount of interest-bearing bank borrowings, which were due within one year, was approximately RMB118,000,000 (31 December 2011: approximately RMB70,000,000) and all of which was denominated in Renminbi and bearing interest at a floating rate. As at 31 December 2012, the bank borrowings of RMB98,000,000 was pledged by the Group's property, plant and equipment and two parcels of land with a total book value of approximately RMB148,736,000.

## Gearing Ratio

As at 31 December 2012, the gearing ratio of the Group was 30.8% (31 December 2011: 38.3%). This was calculated by dividing interest-bearing bank borrowing by the total equity of the Group as at 31 December 2012. The decrease in the gearing ratio was mainly due to the Company's completion of initial public offering which increases total equity for the year.

## Foreign Exchange Risk

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

## Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries and associates during the Reporting Period.

### Operating Lease Commitments

As at 31 December 2012, the Group had operating lease commitments of approximately RMB1,554,000 (31 December 2011: approximately RMB2,162,000).

### Contingent Liabilities

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

### Capital Commitments

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

### Human Resources

As at 31 December 2012, the Group had 580 (31 December 2011: 542) employees. Staff costs (including sales commission, staff salaries and welfare expenses, contributions to retirement benefit schemes, and staff and workers' bonus and welfare fund) amounted to approximately RMB19,076,000 (31 December 2011: RMB12,915,000) during the Reporting Period. All of the Group's companies are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

## PROSPECTS

### (1) Further extension of sales network and distribution channels to foster market shares

As at 31 December 2012, 86 points of sales established by the Group were dispersedly located across Ningde City, Fuzhou City, Putian City, Quanzhou City and Zhangzhou City of Fujian Province. During the Reporting Period, the Group's points of sales in the PRC have grown by 19 to 86. The total number of points of sales is anticipated to increase to 116 by the end of 2013. To capture the growth opportunities in the PRC, the Group will ramp up its efforts on the development of its retail of pork operation, and enlarge the proportion of retail of pork in the amount of revenue. The Group will increase the number of operating concession counters at local and international supermarket chain stores for the retail sale of its pork products to cater to the changing shopping behaviors of local Chinese families. By expanding the sales network and distribution channels for its products, the Group's market share in various sales regions would be increased.

### (2) Construction of hog farms for expansion of production capacity

The construction of the first hog farm has commenced during the first quarter of 2013 and is expected to be completed in June 2013. The second to the sixth hog farms will be constructed subsequently by the Group in an orderly manner and are expected to start operations by the first half of 2014. We anticipate that upon the completion of these six new farms, the Group's production capacity will be increased.

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

Benefiting from the support given to agricultural and slaughtering industries by China's 12th Five-Year Plan, the Group will further concern in and carry out more in-depth analysis on social and economic developments in China as well as the trend and change in the pork consumption market. In response to the changing market demands, the Group has actively introduced a series of advanced chilled pork production techniques and facilities. Additionally, the Group will define the new market segments and new products based on the actual market needs. Riding on the competitive edge of its multi-regional sales network, the Group will reduce its sales differentiation to increase the value of its products and generate higher returns for the Group and its shareholders.

### (4) Strengthening the collaboration and communication with contract farmers

During the Reporting period, the Group continued to engage the five existing contract farmers to provide hog farming services. The Group will continue to refine the farming management regulations of contract farming and strengthen the communication with the contract farmers, with a view to uplift the breeding standard and production efficiency of contract farming. In addition, the Group will step up technical farming trainings and enhance standardized management of contract farming, aiming to solve the difficulties and problems which might arise during the farming process. The directors of the Company believe that more farmers will be drawn to become the Group's contract farmers on the basis of mutual development, which in turn will benefit the farming business of the Group.

### (5) Reinforcement of product quality control

The Group will strengthen the quality control on every production stage by executing stringent quality controlling measures, which will then guarantee the stable supply of quality pork. The Group's business model of breeding, slaughter and sales of hogs by itself enables it to monitor every production process from hog farming, production of pork products to end sale more attentively. The Group is committed to enhancing product safety awareness among its staff, increasing the efforts on quality assessment and giving incentives, enforcing a strict acceptance test on raw materials warehousing, regularly assessing suppliers and contract farmers to assure breeding is performed in compliance with the regulations of pollution-free agricultural product, as well as examining the products of the Group with authoritative standards on a regular basis constantly, so as to provide customers with high-quality, healthy and safe pork products.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Cai Chenyang (蔡晨陽)**, aged 43, is a cousin of Mr. Cai Haifang and the elder brother of Ms. Cai Shengyin. Mr. Cai Chenyang became a director of the Company ("Director(s)") on 27 May 2011 and was redesignated as an executive Director and appointed as the chairman and the chief executive officer of the Company on 7 February 2012. He is also the sole shareholder of Zhan Rui Investments Limited (展瑞投資有限公司) ("Zhan Rui") and a Controlling Shareholder of the Company.

Mr. Cai Chenyang has over 11 years of corporate managerial experience. He commenced his career as an entrepreneur in 2001 when he founded Anhui Tianyi Investments Limited (安徽天怡投資有限公司) ("Anhui Tianyi") in Anhui Province of the PRC, and was engaged in the business of real estate development. Mr. Cai Chenyang worked in the Sixth Engineering Architect Department of the Navy of the Liberation Army of the PRC (中國人民解放軍海軍第六工程建築處) as an engineer from around August 1998 to 2001.

Mr. Cai Chenyang established Tianyi (Fujian) Modern Agriculture Development Limited (天怡(福建)現代農業發展有限公司) ("Fujian Tianyi") in April 2005. Since Fujian Tianyi's establishment, Mr. Cai Chenyang has been responsible for formulating the overall business strategy, identifying business opportunities, and overseeing capital financing of the Group.

Mr. Cai Chenyang has received many honorable titles, including inter alia, Executive Member of the Council of World Fujian Youth Association (世界福建青年聯合會理事), China's Outstanding Private Enterprise Business Leader awarded in the 2009 China's Private Enterprise Business Leaders Annual Meeting (2009中國民營企業領袖年會"中國優秀民營企業家"), the Nominated Award of the 7th Fujian Province Ten Outstanding Youth (七屆福建省十大傑出青年提名獎), Outstanding Young Business Leader of the 9th Fujian Province Outstanding Young Business Leaders Associate (第九屆福建省優秀青年企業家) and the Executive Member of the 2nd Fujian Association for Promotion of Integrity (福建省誠信促進會第二屆理事會理事). Mr. Cai Chenyang is also the executive commissioner of the Political Consultation Committee of Putian City, Fujian Province (中國人民政治協商會議福建省莆田市委員).

Mr. Cai Chenyang obtained a diploma in economics and management study from the University of Science and Technology of China (中國科學技術大學) in 2004. Mr. Cai Chenyang finished the curriculum of an EMBA of Xiamen University (廈門大學) in June 2011.

**Cai Haifang (蔡海芳)**, aged 34, is a cousin of Mr. Cai Chenyang and Ms. Cai Shengyin. Mr. Cai Haifang became an executive Director on 7 February 2012.

He worked for Anhui Tianyi as the deputy chief of the sourcing office responsible for materials sourcing and costs control from around 2001 to April 2005. He joined Fujian Tianyi as the deputy chief of the sourcing office in 2005 assisting the establishment of Fujian Tianyi. From 2006 to 2008, he was the manager of the sourcing centre, where he was primarily responsible for the procurement of major assets (including production facilities and breeder hogs) for Fujian Tianyi. He was appointed as the manager of the chief executive office and the head of the sourcing department in 2008, and was responsible for the management of the sourcing department and the administration of the external affairs of Fujian Tianyi. From 2010 to January 2011, he was the assistant to the chief executive officer. In January 2011, Mr. Cai Haifang was promoted to the post of deputy chief executive officer overseeing the administrative office and the sourcing of Fujian Tianyi. Mr. Cai Haifang graduated from a secondary school in Putian, the PRC in 1997.

**Cai Shengyin (蔡盛蔭)**, aged 36, is the younger sister of Mr. Cai Chenyang and a cousin of Mr. Cai Haifang. Ms. Cai Shengyin became an executive Director on 7 February 2012.

She joined Fujian Tianyi as a finance manager in January 2009. She was promoted to the post of chief financial officer in March 2010, primarily responsible for establishing the Group's financial management system, reviewing financial reports and business performance reports, budgetary management and advising the Group on financing strategies and development plans.

She qualified as an International Certified Management Accountant in 2010. She is also a qualified advanced accountant and obtained such qualification from the Ministry of Human Resource and Social Security of the PRC (中國人力資源和社會保障部). Ms. Cai graduated from Curtin University of Technology in Australia with a Master's degree in Professional Accounting in 2006.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**Cai Zirong (蔡子榮)**, aged 61, became an independent non-executive Director on 7 February 2012. Mr. Cai Zirong has over 34 years of experience in financial management. In the period from June 1978 to October 1988, he was the assistant battalion chief of the Finance Unit of the Logistic Department of the 93rd Division (93師後勤部財務科正營級助理員). He has been working in the People's Bank of China as senior management for almost 23 years. He was the Deputy Governor of the People's Bank of China of Putian County from January 1990 to November 1996 and was promoted to the position of Governor in December 1996. From February 2004 to October 2006, Mr. Cai Zirong worked as the Governor of the People's Bank of China of Xianyou County (仙游縣). He was elected as a representative of the 4th People's Congress of Putian City from year 2001 to 2005. Since September 2006, he has been of the rank of Section Chief of the publicity department of Putian City centre branch of the People's Bank of China. Mr. Cai Zirong graduated from People's Liberation Army Nanchang Army School (中國人民解放軍南昌陸軍學校) (now known as People's Liberation Army Nanchang Army College (中國人民解放軍南昌陸軍學院)) with a certificate in finance in 1985.

**Wu Shiming (吳世明)**, aged 37, became an independent non-executive Director on 7 February 2012. He has been the supervisor of the Xiamen Bank Company Limited (廈門銀行股份有限公司) since December 2008. He is a qualified intermediate accountant and he was awarded such qualification in December 2001 by the Ministry of Finance after having passed the national examination jointly organised by the Ministry of Finance and the Ministry of Personnel of the PRC which covered four examination papers, of which two are related to accounting practice (intermediate level), one is in financial management and one is in Economic Law.

Mr. Wu has over 16 years of experience in accounting and financial management. Mr. Wu joined Xiamen Sumpo Group Company Limited (廈門森寶集團有限公司) ("Xiamen Sumpo") in July 1995 as a cashier. He became an accountant in Xiamen Sumpo in January 1996. From January 1998 to November 2001, he was the financial manager of Xiamen Sumpo. Mr. Wu became the general manager of the Guangzhou branch of Xiamen Sumpo in

December 2001 and remained in office until January 2007. Mr. Wu became the deputy general manager of Xiamen Sumpo Electronic Technology Group Limited (廈門森寶電子科技集團有限公司) in January 2007 and held such position until November 2007. From January 2008 onwards, Mr. Wu was the chief financial officer of Xiamen Sumpo. Mr. Wu became the deputy chief executive officer of the major operating subsidiary of Sumpo Food Holdings Limited (森寶食品控股有限公司) ("Sumpo Food", together with its subsidiaries, "Sumpo Food Group"), a company listed on the Stock Exchange (Stock Code: 1089) in November 2010 overseeing its financial and operational performance (including internal control). He is currently an executive director of Sumpo Food in charge of the overall strategic management and the financial management of Sumpo Food Group.

Mr. Wu obtained a diploma in foreign economic enterprise financial accounting at Jimei University (集美大學) in the PRC in 1995 and a degree of finance at Xidian University (西安電子科技大學) in the PRC in March 2011, which is an online learning course.

**Yu Wenquan (余文泉)**, aged 63, became an independent non-executive Director on 7 February 2012. From December 1977 to September 1980, Mr. Yu was the Secretary of the Committee of Youth League of Xitianwei Town of Putian County (莆田縣西天尾公社團委書記). Mr. Yu was the Deputy Chief of the Standing Committee of Changtai Community of Putian County (莆田縣常太公社管委會副主任) from September 1980 to May 1986. He was the Deputy Secretary and the Secretary of the Communist Party of Changtai Community of Putian County (莆田縣常太公社黨委副書記及書記) from June 1986 to October 1987 and from November 1987 to August 1991 respectively. From August 1991 to September 1998, he was in the position of Deputy Head of the Standing Committee of Putian County (莆田縣常委常務副縣長). He served as the Retirement Researcher of the Office of Agriculture (農辦退休調研員) of Putian City from October 1998 until July 2009.

Mr. Yu graduated from the School of Economic and Law (經濟法律學院) of Fujian Normal University (福建師範大學) with a diploma in political economy in 1999.

## SENIOR MANAGEMENT

**Chen Jinliang (陳金良)**, aged 45, has been the deputy general manager of Fujian Tianyi since October 2005. Mr. Chen joined the Group in April 2005 as the manager of the chief executive office. He was promoted to the post of deputy general manager in 2005 and has been responsible for human resources management and infrastructure investment of Fujian Tianyi.

Mr. Chen obtained a diploma in advertising from Xiamen University (廈門大學) in July 2000. From February 1990 to April 2005, he worked for Putian City Television Broadcasting Center (莆田市廣播電視中心), and was once promoted as manager of the news department.

**Yang Zhihai (楊志海)**, aged 36, joined Fujian Tianyi as the deputy chief of the production department in October 2005 and was promoted as the chief of the production department in March 2011. Since July 2000, he worked in Fujian Agriculture University Food Experimental Factory (福建農業大學食品實驗廠) as a technician, production manager and deputy chief of the factory till 2003. In June 2003, Mr. Yang joined Yonghui Industrial Development Company (永輝工業發展有限公司) where he was responsible for its production management and quality control. Mr. Yang participated in the design, construction and establishment of the Group's hog farms and slaughterhouses. Mr. Yang is responsible for, amongst others, the advancement of the Group's production technology, product quality control and logistic flow. Mr. Yang obtained a diploma in food nutrition and quarantine from Fujian Agricultural University (福建農業大學) in July 2000 (now known as Fujian Agriculture and Forestry University (福建農林大學)).

**Cai Qing (蔡青)**, aged 30, a cousin of Mr. Cai Chenyang, Ms. Cai Shengyin and Mr. Cai Haifang, joined Fujian Tianyi in April 2005 and assisted the establishment of Fujian Tianyi and the construction of the Group's hog farm. He became a senior staff of the sales department of Fujian Tianyi in March 2006 and was responsible for market research and development for Fujian Tianyi's products. During the period between July 2007 and December 2009, Mr. Cai Qing was the manager of the marketing department of Fujian Hanjiang Bee Products Developing Centre (福建省涵江蜂產品開發中心). In January 2010, he re-joined Fujian Tianyi and had been the manager of the sales department, responsible for market development in Fuzhou (福州) and Quanzhou (泉州), until he was promoted to be chief of sales department in May 2011. Mr. Cai Qing graduated from Fujian Normal University (福建師範大學) with a diploma in urban landscape gardening (城市園林花卉) in 2005 and obtained a diploma in project management from Xiamen University (廈門大學) in July 2012.

## COMPANY SECRETARY

**Ku Kin Shing, Ignatius (谷建聖)**, aged 51, joined the Group in May 2011 as the financial controller. He is responsible for the financial reporting matters of the Group in Hong Kong, including preparation of financial reports and ensuring the Group's compliance with the Listing Rules and other statutory requirements. In addition, he is responsible for implementing internal control and corporate governance and practices, as well as liaising with external parties and regulatory bodies in respect of the Group's financial matters.

Mr. Ku has over 20 years of experience in finance and accounting and had worked in an international accounting firm prior to joining the Group. He previously held the position of financial controller in a listed company in Singapore. Mr. Ku holds a Bachelor of Commerce (Accounting) degree from the University of Canberra, Australia. He is a member of the Australian Society of Certified Practicing Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

# Corporate Governance Report

## INTRODUCTION

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relationships with its employees, business partners, shareholders and investors.

## CORPORATE GOVERNANCE PRACTICES

During the period from the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2012 (the "Listing Date") to 31 December 2012 (the "Period"), 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviation from the provisions A.2.1 of the Code.

### 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.

During the Period, Mr. Cai Chenyang 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. Cai 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.

The Company understands the importance to comply with the Code Provision A.2.1 and will continue to consider the feasibility of appointing a separate chief executive officer.

## DIRECTORS

### The Board

The Board, led by the chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

During the Period, the Board held one meeting.

The attendance records of each Director at the Board meetings and general meetings during the Period are set out below:

| Directors | Board Meetings/ Board Meetings eligible to attend | *General Meetings/ General Meetings eligible to attend |
|---|---|---|
| *Executive Directors* | | |
| Mr. Cai Chenyang | 1/1 | N/A |
| Mr. Cai Haifang | 1/1 | N/A |
| Ms. Cai Shengyin | 1/1 | N/A |
| *Independent non-executive Directors* | | |
| Mr. Wu Shiming | 1/1 | N/A |
| Mr. Cai Zirong | 1/1 | N/A |
| Mr. Yu Wenquan | 1/1 | N/A |

* During the Period, no general meeting was convened.

## Chairman and Chief Executive

As stated above, the Company has not separated the roles of chairman and chief executive officer during the Period. Mr. Cai Chenyang is both the chairman and chief executive officer of the Company.

## Board Composition

The Board of the Company currently comprises the following Directors:

*Executive Directors*
Mr. Cai Chenyang *(Chairman and Chief Executive Officer)*
Mr. Cai Haifang
Ms. Cai Shengyin

*Independent Non-executive Directors*
Mr. Wu Shiming
Mr. Cai Zirong
Mr. Yu Wenquan

An updated list of the Directors is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the Director is an independent non-executive Director and expresses the respective roles and functions of each Director.

Details of the biographies of the Directors are given under the section "Biographical Details of Director and Senior Management" of this annual report.

Save for Mr. Cai Haifang and Ms. Cai Shengyin being Mr. Cai Chenyang's cousin and younger sister respectively, there are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

During the Period, the Board at all times met the requirements for having at least three independent non-executive Directors and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules.

## Appointments, re-election and Removal

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of each of his independence to the Company. The Company considers all of the independent non-executive Directors to be independent in accordance with the Listing Rules and the Code Provision A.4.3 and confirms that year of service of all independent non-executive Directors is less than 9 years.

Under the Company's Article of Association, at each annual general meeting, not less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years, and a retiring Director shall be eligible for re-election.

All independent non-executive Directors of the Company are appointed for a term of three years, subject to rotation and re-election in accordance with the Code Provision A.4.1.

## Nomination Committee

The Nomination Committee was established on 22 June 2012. The Committee currently comprises three independent non-executive Directors, namely:

*Independent Non-Executive Directors*
Mr. Yu Wenquan *(Chairman)*
Mr. Wu Shiming
Mr. Cai Zirong

The Nomination Committee is governed by its terms of reference adopted by the Board on 22 June 2012 which is available at both the Company's website and the Stock Exchange 's website.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors; and
- make recommendations to the Board on the appointment or re-appointment of Directors.

Details of procedure for shareholders to propose a person for election as a Director of the Company are outlined in "Procedures for Shareholders to propose a person for election as a Director" which is available on the Company's website.

On 28 March 2013, the Nomination Committee held a meeting to review the structure, size and composition of the Board, the policy for nomination of Directors and to assess the independence of the independent non-executive Directors.

Mr. Yu Wenquan, Mr. Wu Shiming and Mr. Cai Zirong attended the meeting of the Nomination Committee held on 28 March 2013.

## Responsibilities of Directors

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 Code on continuous professional development during the Period:

| Directors | Corporate Governance/ Updates on Laws, Rules and Regulation | Accounting/ Financial/ Management or Other professional Skills |
|---|---|---|
| *Executive Directors* | | |
| Mr. Cai Chenyang | ✓ | ✓ |
| Mr. Cai Haifang | ✓ | ✓ |
| Ms. Cai Shengyin | ✓ | ✓ |
| *Independent Non-executive Directors* | | |
| Mr. Wu Shiming | ✓ | ✓ |
| Mr. Cai Zirong | ✓ | ✓ |
| Mr. Yu Wenquan | ✓ | ✓ |

## Securities Transactions Guidelines

The Board has adopted a code of conduct regarding Directors' securities transaction on the same terms as the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors who have confirmed that during the Period, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2012 are set out on pages 28 to 29 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employee, who, because of his office or employment, is likely to be in possession of inside information in relation to the Company or its securities, in respect of their dealings in the Company's securities.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### Remuneration of Directors

The Remuneration Committee was established on 22 June 2012. It consults the Board chairman about their remuneration proposals for executive Directors. It meets from time to time and at least annually to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference adopted by the Board on 22 June 2012. The terms of reference are made available on the Company's website and the Stock Exchange's website.

The Remuneration Committee consists of three members, all of whom are independent non-executive Directors, namely:

*Independent Non-executive Directors*
Mr. Cai Zirong *(Chairman)*
Mr. Wu Shiming
Mr. Yu Wenquan

On 28 March 2013, the Remuneration Committee held a meeting to review the emolument policy and the levels of remuneration paid to the Directors and senior management of the Group and the framework for determining the remuneration package.

Mr. Mr. Cai Zirong, Mr. Wu Shiming and Yu Wenquan attended the meeting of the Remuneration Committee held on 28 March 2013.

### Emolument Policy and Long-Term Incentive Plan

Long-term incentive plan primarily consists of share options to subscribe for the shares of the Company. The emoluments payable to the Directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

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 independent non-executive Directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- Directors' fee, which is usually paid annually; and
- share options which are awarded subject to the discretion of the Board.

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

## ACCOUNTABILITY AND AUDIT

The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditors' Report" on pages 31 to 32 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the consolidated financial statements set out on pages 33 to 91 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## Financial Reporting

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Managerial Discussion and Analysis" set out in pages 6 to 12 in this report.

The management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

## Internal Controls

The Board is responsible for ensuring that an effective internal control system is maintained within the Company. The Directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of internal controls.

The Company has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive Directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units.

The Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company's internal audit department independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Group's business. The head of the Company's internal audit department reports to the Audit Committee, and submits regular reports for its review in accordance with the approved review and audit mechanisms. The department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the system of internal control of the Group.

External auditors will also report on the weakness in the Group's internal control and accounting procedure which have come to their attention during the course of audit. During the Period, no critical internal control issues have been identified.

## Compliance Adviser

Pursuant to the compliance adviser agreement entered into between the Company and Cinda International Capital Limited ("CICL"), CICL has been appointed as the compliance adviser as required under the Listing Rules for the period from the Listing Date to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the year ending 31 December 2013. CICL has received a fee for acting as the Company's compliance adviser during the Period.

Pursuant to Rule 3A.23 of the Listing Rules, CICL will advise the Company 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 net 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.

## Audit Committee

The Audit Committee currently comprises three members, namely Mr. Wu Shiming, Mr. Cai Zirong and Mr. Yu Wenquan, all of whom are independent non-executive Directors, Mr. Wu Shiming is the chairman of the Audit Committee. He is a qualified intermediate accountant and was awarded such qualification in December 2011 by the Ministry of Finance after having passed the national examination jointly organized by the Ministry of Finance and the Ministry of Personnel of the PRC and with profound financial expertise.

The Audit Committee meets at least 2 times a year to review the Company's interim and annual results.

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee is governed by its terms of reference, which are adopted by the Board on 22 June 2012. The terms of reference are made available on the Company's website and the Stock Exchange's website.

During the Period, the Audit Committee met one time and the attendance of each member at the Audit Committee meeting is as follows:

| Members of Audit Committee | Number of committee meetings attended/eligible to attend |
|---|---|
| Mr. Wu Shiming *(Chairman)* | 1/1 |
| Mr. Cai Zirong | 1/1 |
| Mr. Yu Wenquan | 1/1 |

The Audit Committee meeting was attended by the Company's financial controller. The external auditors are present on discussion of the audit of financial results and audit planning.

The work completed by the Audit Committee during the Period included consideration of the completeness and accuracy of the 2012 interim financial statements, the Group's compliance with statutory and regulatory requirements and the developments in accounting standards and the effect on the Group.

On 28 March 2013, the Audit Committee held a meeting to review the completeness and accuracy of the 2012 annual financial statements, the Group's compliance with statutory and regulatory requirements, the developments in accounting standards and the effect on the Group, the internal control reports submitted by the internal audit department of the Company, the risk management system and the financial reporting system.

Mr. Wu Shiming, Mr. Yu Wenquan and Mr. Cai Zirong attended the meeting of the Audit Committee held on 28 March 2013.

For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

| | |
|---|---|
| Audit services | RMB1,000,000 |
| Non-audit services (which include taxation compliance and agreed-upon procedures) | HK$14,400 |

## DELEGATION BY THE BOARD

### Management functions

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- corporate governance duties.

The Board adheres to following principles when it delegates authority to the management:

- delegation is on an "as needed" basis;
- authority is delegated to positions rather than individuals;
- delegated authority is in proportion with assigned responsibility;
- delegated authority is related to the delegate's existing area of responsibility;
- no employee shall approve his own expenditure;
- an authority may only be changed, or an exception granted to it, by the original delegator;
- the extent of delegation by the Board to a board committee, executive Directors or management should not significantly hinder or reduce the ability of the Board as a whole to perform its functions;
- when the Board delegates aspects of its management and administrative functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company; and
- delegating their functions does not absolve Directors from their responsibilities or from applying the required levels of skill, care and diligence.

The Directors clearly understand the above delegation arrangements of the Company.

The types of decisions that the Board has delegated to the management include:

- approving, assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the nomination and appointment of personnels other than the members of the Board, senior management and auditors;

- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

## COMPANY SECRETARY

The position of Company Secretary is held by Mr. Ku Kin Shing, Ignatius, 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 Period, Mr. Ku Kin Shing, Ignatius has taken no less than 15 hours of relevant professional training. He has fulfilled the requirement pursuant to Rule 3.29 of the Listing Rules in proportion to the Period over one full financial year.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group 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.

### Shareholders Convening 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.

Such shareholder(s) of the Company who has satisfied the condition under article 58 of the Company's Article shall be entitled to convene an extraordinary general meeting by written requisition to the Board by post to the Company's principal place of business in Hong Kong.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. In addition to the general meetings, press conferences and analyst briefings are held subsequent to the interim and final results announcements in which the Directors and management are available to answer questions about the Group. Investors can also submit enquiries and proposals of the Board and management by calling Ms. Cai Shengyin at (852) 3582 4666, or via email to general@fjtianyicn.com, or directly through questions and answers session at shareholders' meetings.

During the Period, there are no changes to the Company's Memorandum and Articles of Association. 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.

## CONCLUSION

Going forward, the Group will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information including annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website http://www.putian.com.hk.

# Report of the Directors

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

## CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 May 2011. The Company was successfully listed on the Main Board of the Stock Exchange on 13 July 2012 by way of Placing and Public Offer of a total of 200,000,000 shares in the Company at an offer price of HK$0.70 per share.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are hog farming, hog slaughtering and sale of pork. There were no significant changes in the nature of the Group's 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 the date are set out in the consolidated financial statements on pages 33 to 36.

The Board recommends a final dividend of HK 1 cent per share (2011: Nil) to shareholders whose names appear on the register of members of the Company on 7 June 2013. Subject to the approval by the shareholders at the forthcoming annual general meeting of such final dividend payment to be held on 30 May 2013, the final dividend will be paid on or about 28 June 2013.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the published financial statements and the Prospectus and restated/reclassified as appropriate, is set out on page 92 of this report.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 28 May 2013 to 30 May 2013, both days inclusive, on which no transfer of shares will be effected. In order to determine the eligibility of shareholders to attend 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 27 May 2013.

The register of members will be closed from 5 June 2013 to 7 June 2013, both days inclusive, on which no transfer of shares will be effected. In order to determine the entitlements of the shareholders to the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 4 June 2013.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in Note 32 to the consolidated financial statements.

The purpose of the Share Option Scheme is to recognize and motivate the contribution of employees and other person(s) who may make a contribution to the Group and to provide incentives and help the Company retain its existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

The Company, by resolution in general meetings, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Subject to the aforesaid, the Share Option Scheme shall be valid and effective for a period of ten (10) years commencing from the adoption of the Share Option Scheme, after which no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects.

The Share Option Scheme is conditional upon (1) the passing of the necessary resolutions by the shareholders in general meeting to approve the Share Option Scheme; (2) the Listing Committee granting approval of the listing of, and permission to deal in, the shares as mentioned in the Prospectus, and any shares to be issued pursuant to the exercise of options under the Share Option Scheme; (3) the commencement of dealings in shares on the Stock Exchange.

At the date of this annual report, no option has been granted or agreed to be granted.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Article 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 and retained profits, amounted to approximately RMB18.2 million.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, sales to the Group's largest and five largest customers accounted for approximately 9.0% and approximately 44.9% of the total sales respectively. For the year ended 31 December 2012, the largest and five largest suppliers of the Group accounted for approximately 18.6% and approximately 61.6% 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 RE-ELECTION OF DIRECTORS

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

### Executive Directors:

Mr. Cai Chenyang *(Chairman and Chief Executive Officer)*
Mr. Cai Haifeng
Ms. Cai Shengyin

### Independent non-executive Directors:

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

In accordance with Article 84 of the Company's Articles, Mr. Cai Chenyang and Mr. Wu Shiming 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 13 to 16 of this report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors of the Company namely, Mr. Cai Shenyang, Mr. Cai Haifeng and Ms. Cai Shengyin, has entered into a service contract with the Company for a term of three years commencing from 7 February 2012 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. Wu Shiming, Mr. Cai Zirong and Mr. Yu Wenquan, being the independent non-executive Directors of the Company for an initial terms of three years commencing from 7 February 2012, subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles.

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

## DIRECTORS' INTEREST 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 meeting. Other emoluments are determined by the remuneration committee pursuant to the Company's Articles with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2012, the interests and short positions of the Directors in shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in the Listing Rules were as follows :

### Long positions in Shares

| Name of Director | Capacity/nature of interest | Number of ordinary shares held | Approximate percentage of issued capital |
|---|---|---|---|
| Mr. Cai Chenyang *(Note 1)* | Interest of controlled corporation | 408,000,000 | 51% |

Save as disclosed above, none of the Directors had any interests and short positions in the shares of the Company or any of its associated corporation (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' INTEREST IN SHARES

As at 31 December 2012, the interest or short position of the persons (other than the Directors of the Company) in 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 Division 2 and 3 of Part XV of the SFO were as follows:

### Long position in Shares of the Company

| Name of shareholders | Capacity/nature of interest | Number of ordinary shares held | Approximate percentage of issued capital |
|---|---|---|---|
| Zhan Rui Investments Limited *(Note 1)* | Beneficial owner | 408,000,000 | 51% |
| Charming Investment Holdings Limited | Beneficial owner | 60,000,000 | 7.5% |
| Ms. Lee Ming Hin *(Note 2)* | Interest of controlled corporation | 60,000,000 | 7.5% |
| Long Excel Limited | Beneficial owner | 60,000,000 | 7.5% |
| Mr. Chi Chi Hung Kenneth *(Note 3)* | Interest of controlled corporation | 60,000,000 | 7.5% |

Notes:

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

(2) Ms. Lee Ming Hin is deemed to be interested in 60,000,000 shares, which are held by Charming Investment Holdings Limited, a corporation controlled by Ms. Lee Ming Hin.

(3) Mr. Chi Chi Hung Kenneth is deemed to be interested in 60,000,000 shares, which are held by Long Excel Limited, a corporation controlled by Mr. Chi Chi Hung Kenneth.

Save as disclosed above, as at the date of this report, no person, (other than the Directors of the Company) had any interests or short positions in the 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.

## CONNECTED TRANSACTION

There were no connected transactions and continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules for the Reporting Period.

The related party transactions in relation to the key management personnel remuneration as disclosed in Note 37 to the consolidated financial statements in this annual report are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.31(6) of the Listing Rules.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## PURCHASE, SALES 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.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had adopted the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the year. The Company has complied with all the code provisions of the Code during the year, save for the exception explained in the Corporate Governance Report in this report.

## AUDITORS

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

On behalf of the Board

**Cai Chenyang**
*Chairman and Chief Executive Officer*

Hong Kong, 28 March 2013

# Independent Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

**TO THE SHAREHOLDERS OF CHINA PUTIAN FOOD HOLDING LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Putian Food Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 91, which comprise the consolidated and 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**
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 March 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| Revenue | 6 | 580,158 | 519,339 |
| Cost of sales | | (430,209) | (397,324) |
| Gross profit | | 149,949 | 122,015 |
| Other revenue and gains | 7 | 3,549 | 2,459 |
| Change in fair value less costs to sell of biological assets | 20 | 4,259 | (2,891) |
| Selling and distribution expenses | | (20,334) | (11,480) |
| Administrative expenses | | (26,129) | (15,628) |
| Finance costs | 8 | (6,042) | (4,281) |
| Other operating expenses | | (147) | (181) |
| Profit before taxation | | 105,105 | 90,013 |
| Taxation | 9 | — | — |
| **Profit for the year** | 10 | 105,105 | 90,013 |
| **Other comprehensive income for the year, net of income tax:** | | | |
| Exchange differences on translating foreign operations | | 870 | 673 |
| Other comprehensive income for the year, net of income tax | | 870 | 673 |
| **Total comprehensive income for the year** | | 105,975 | 90,686 |
| **Earnings per share** | 15 | | |
| — Basic (RMB cents per share) | | 15.04 | 15.00 |
| — Diluted (RMB cents per share) | | 15.04 | 15.00 |

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

# Consolidated Statement of Financial Position

As at 31 December 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *16* | **166,672** | 141,935 |
| Prepaid lease payments | *17* | **90,426** | 20,762 |
| Biological assets | *20* | **3,545** | 3,070 |
| | | **260,643** | 165,767 |
| **Current assets** | | | |
| Inventories | *19* | **9,270** | 4,029 |
| Biological assets | *20* | **45,536** | 40,028 |
| Trade receivables | *21* | **77,927** | 40,432 |
| Deposits paid, prepayments and other receivables | *22* | **13,547** | 8,868 |
| Prepaid lease payments | *17* | **3,588** | 476 |
| Cash and bank balances | *23* | **110,851** | 13,430 |
| | | **260,719** | 107,263 |
| **Current liabilities** | | | |
| Trade payables | *24* | **7,978** | 6,269 |
| Accruals, deposits received and other payables | *25* | **8,203** | 3,339 |
| Amount due to a shareholder | *26* | **—** | 307 |
| Bank borrowings | *29* | **118,000** | 70,000 |
| Deferred revenue | *31* | **253** | 377 |
| | | **134,434** | 80,292 |
| **Net current assets** | | **126,285** | 26,971 |
| **Total assets less current liabilities** | | **386,928** | 192,738 |

## Consolidated Statement of Financial Position (Continued)

As at 31 December 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 32 | 65,178 | 7 |
| Reserves | 33 | 317,802 | 186,873 |
| **Total equity** | | 382,980 | 186,880 |
| **Non-current liabilities** | | | |
| Loan from government | 30 | — | 1,529 |
| Deferred revenue | 31 | 3,948 | 4,329 |
| | | 3,948 | 5,858 |
| **Total equity and non-current liabilities** | | 386,928 | 192,738 |

Approved by the Board of Directors on 28 March 2013 and signed on its behalf by:

**Cai Chenyang**
*Executive Director*

**Cai Shengyin**
*Executive Director*

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

# Statement of Financial Position

As at 31 December 2012

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | *18* | 81 | — |
| | | 81 | — |
| **Current assets** | | | |
| Amounts due from subsidiaries | *18* | 82,968 | — |
| Deposits paid and prepayments | *22* | 330 | — |
| Cash and bank balances | *23* | 3,601 | — |
| | | 86,899 | — |
| **Current liabilities** | | | |
| Amount due to related companies | *27* | — | 74 |
| Amount due to a subsidiary | *18* | 631 | — |
| Accruals and other payables | *25* | 3,016 | — |
| | | 3,647 | 74 |
| **Net current assets/(liabilities)** | | 83,252 | (74) |
| **Total assets less current liabilities** | | 83,333 | (74) |
| **Equity** | | | |
| Share capital | *32* | 65,178 | — |
| Reserves | *33* | 18,155 | (74) |
| **Total equity** | | 83,333 | (74) |

Approved by the Board of Directors on 28 March 2013 and signed on its behalf by:

**Cai Chenyang**
*Executive Director*

**Cai Shengyin**
*Executive Director*

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

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

| | Share Capital RMB'000 | Share Premium* RMB'000 | Exchange reserve* RMB'000 Note (a) | Statutory reserve* RMB'000 Note (b) | Other reserve* RMB'000 Note (c) | Retained earnings* RMB'000 | Proposed final dividend* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| As at 1 January 2011 | 9 | — | — | 10,425 | 53,080 | 97,257 | — | 160,771 |
| Profit for the year | — | — | — | — | — | 90,013 | — | 90,013 |
| Other comprehensive income for the year | — | — | 673 | — | — | — | — | 673 |
| Total comprehensive income for the year | — | — | 673 | — | — | 90,013 | — | 90,686 |
| Issue of shares | 7 | — | — | — | — | — | — | 7 |
| Effect of reorganisation | (9) | — | — | — | 9 | — | — | — |
| Transfer to statutory reserve | — | — | — | 10,065 | — | (10,065) | — | — |
| Dividend paid | — | — | — | — | — | (64,584) | — | (64,584) |
| As at 31 December 2011 and 1 January 2012 | 7 | — | 673 | 20,490 | 53,089 | 112,621 | — | 186,880 |
| Profit for the year | — | — | — | — | — | 105,105 | — | 105,105 |
| Other comprehensive income for the year | — | — | 870 | — | — | — | — | 870 |
| Total comprehensive income for the year | — | — | 870 | — | — | 105,105 | — | 105,975 |
| Issue of shares under corporate reorganisation *(note 32(d))* | 81 | — | — | — | — | — | — | 81 |
| Issue of shares under the capitalisation issue *(note 32(e))* | 48,802 | (48,802) | — | — | — | — | — | — |
| Issue of shares under the global offering *(note 32(e))* | 16,295 | 97,768 | — | — | — | — | — | 114,063 |
| Effect of reorganisation | (7) | — | — | — | (74) | — | — | (81) |
| Share issuing expenses | — | (23,938) | — | — | — | — | — | (23,938) |
| Transfer to statutory reserve | — | — | — | 11,441 | — | (11,441) | — | — |
| Proposed final dividend | — | (6,519) | — | — | — | — | 6,519 | — |
| As at 31 December 2012 | 65,178 | 18,509 | 1,543 | 31,931 | 53,015 | 206,285 | 6,519 | 382,980 |

* These reserve accounts comprise of the consolidated reserves of approximately RMB317,802,000 (2011: RMB186,873,000) in the consolidated statements of financial position as at 31 December 2012.

*Notes:*

(a) **Exchange reserve**

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

(b) **Statutory reserve**

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

(c) **Other reserve**

Upon the completion of the reorganisation on 10 February 2012, the amount of approximately RMB53,015,000 represented the difference between the Company's share of nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation as detailed in the prospectus of the Company dated 28 June 2012.

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<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **105,105** | 90,013 |
| Adjustments for: | | |
| Interest income | **(637)** | (156) |
| Finance costs | **6,042** | 4,281 |
| Amortisation of financial guarantee liabilities | **—** | (31) |
| Amortisation of prepaid lease payments | **2,284** | 476 |
| Depreciation of property, plant and equipment | **9,054** | 7,168 |
| Change in fair values less costs to sell of biological assets | **(4,259)** | 2,891 |
| **Operating cash flows before movements in working capital** | **117,589** | 104,642 |
| (Increase)/decrease in inventories | **(5,241)** | 3,475 |
| Increase in biological assets | **(1,725)** | (2,308) |
| Increase in trade receivables | **(37,495)** | (3,826) |
| Increase in deposits paid, prepayments and other receivables | **(4,679)** | (5,022) |
| Increase/(decrease) in trade payables | **1,709** | (5,172) |
| Increase/(decrease) in accruals, deposits received and other payables | **4,864** | (4,318) |
| Decrease in deferred revenue | **(253)** | (254) |
| **Net cash generated from operating activities** | **74,769** | 87,217 |
| **Investing activities** | | |
| Interest received | **386** | 58 |
| Purchases of prepaid lease payment | **(75,060)** | — |
| Purchases of property, plant and equipment | **(33,795)** | (29,772) |
| **Net cash used in investing activities** | **(108,469)** | (29,714) |
| **Financing activities** | | |
| Interest paid | **(5,791)** | (4,183) |
| Proceeds from bank borrowings | **188,000** | 70,000 |
| Repayment of bank borrowings | **(141,780)** | (70,000) |
| Proceeds from issue of ordinary share | **114,063** | — |
| Share issuing expenses | **(23,938)** | — |
| Advance from a shareholder | **—** | 282 |
| Dividends paid to owners of the Company | **—** | (64,584) |
| Repayment to a shareholder | **(307)** | — |
| **Net cash generated from/(used in) financing activities** | **130,247** | (68,485) |
| **Net increase/(decrease) in cash and cash equivalents** | **96,547** | (10,982) |
| **Cash and cash equivalents at beginning of the year** | **13,430** | 23,732 |
| **Effect of foreign exchange rate changes** | **874** | 680 |
| **Cash and cash equivalents at end of the year** | **110,851** | 13,430 |

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 27 May 2011. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

The principal activity of the Company is investment holdings. The activities of its principal subsidiaries are set out in Note 18 to the consolidated financial statements.

Pursuant to the reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Wellname Investments Limited ("Wellname Investments"), the then holding companies of all other companies comprising the Group, and consequently became the holding company of the Group. The Reorganisation was completed on 10 February 2012.

The Company's shares were listed on the Main Board of the Stock Exchange on 13 July 2012. The controlling shareholder of the Company is Zhan Rui Investments Limited, a company incorporated in British Virgin Islands.

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.

## 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 prior year's and/or the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

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

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 2009-2011 Cycle[1] |
| HKFRS 1 (Amendments) | First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans[1] |
| HKFRS 7 (Amendments) | Disclosure — Offsetting Financial Assets and Financial Liabilities[1] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 9 & HKFRS 7 (Amendments) | Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3] |
| HKFRS 10 | Consolidated Financial Statements[1] |
| HKFRS 11 | Joint Arrangements[1] |
| HKFRS 12 | Disclosure of Interests in Other Entities[1] |
| HKFRS 10, HKFRS 11 & HKFRS 12 (Amendments) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities — Transition Guidance[1] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011) | Investment Entities[1] |
| HKFRS 13 | Fair Value Measurement[1] |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[4] |
| HKAS 19 (as revised in 2011) | Employee Benefits[1] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| HKAS 32 (Amendments) | Presentation — Offsetting Financial Assets and Financial Liabilities[2] |
| HK(IFRIC)-Int 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

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

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.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the 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.

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

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

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 C*onsolidation — 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.

## 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)

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 — Nonmonetary 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.

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.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

### 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.

### 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.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

### 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*.

*Amendments to HKAS 1*

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.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

### Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012 (continued)

*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*

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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for biological assets, 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.

Prior to the Reorganisation, the Company and its subsidiaries were directly or indirectly controlled by the same shareholders. Accordingly, the Reorganisation has been accounted for as a reorganisation of businesses under common control in a manner similar to a uniting of interests. The consolidated financial statements of the Group for the year ended 31 December 2011 have been prepared on the merger basis as if the Company has been the holding company of these companies comprising the Group since 1 January 2011, or since the dates of their incorporation or establishment.

## 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. 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. 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) *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 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (Continued)

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Retirement benefit costs

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

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

### 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 the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## 3. 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 recognised so as to write off the cost of assets, other than construction in progress, less their residual values over their useful lives, using the straight-line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Inventories

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

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

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.

### 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. 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 represent loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

**Effective interest method**

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

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

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

*Financial assets (continued)*

**Impairment of financial assets (Continued)**

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 within 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

*Financial liabilities and equity*

**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 instrument**

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, amount due to a shareholder and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

*Financial liabilities and equity (continued)*

**Effective interest method**

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

Interest expense is recognised on an effective interest basis.

*Derecognition*

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

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

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

### Related parties transactions

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

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

(i) has control or 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties transactions (Continued)

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

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

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

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

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

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

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

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

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

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of non-financial assets (other than goodwill) (Continued)

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

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

### Contingent liabilities and contingent assets

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

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.

## 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.

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

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

### (b) Impairment of trade and other receivables

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

### (c) Depreciation and amortisation

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

### (d) Fair values of biological assets

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

The Valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets. Details of the assumptions used are disclosed in note 20.

## 5. SEGMENT INFORMATION

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

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

### Segment revenue

For the year ended 31 December 2012, out of the revenue arising from the sales of pork of approximately RMB580,158,000 (2011: RMB519,339,000) revenue of approximately RMB57,931,000 (2011: RMB57,535,000) arose from sales to the Group's largest customer.

### Information about the major customers

For the year ended 31 December 2012, no single customer contributed 10% or more to the Group's revenue.

For the year ended 31 December 2011, there were four customers contributed 10% or more to the Group's revenue. Their contributions were approximately RMB57,535,000, RMB54,618,000, RMB54,005,000 and RMB52,091,000 respectively.

## 6. REVENUE

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

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Revenue from | | |
| — Retail of pork | **301,812** | 236,454 |
| — Wholesale of pork | **278,346** | 282,885 |
| | **580,158** | 519,339 |

## 7. OTHER REVENUE AND GAINS

| | For the year ended 31 December | |
|---|---|---|
| | **2012** **RMB'000** | 2011 RMB'000 |
| Interest income on: | | |
| Bank deposits | **386** | 58 |
| Amortisation of deferred revenue | **251** | 98 |
| Total interest income | **637** | 156 |
| Gain on disposal of hog droppings | **203** | 493 |
| Gain on disposal of biological assets | **660** | 667 |
| Net foreign exchange gain | **45** | — |
| Government grants *(Note)* | **1,956** | 972 |
| Amortisation of financial guarantee liabilities | **—** | 31 |
| Sundry income | **48** | 140 |
| | **3,549** | 2,459 |

*Note:*

Government grants include subsidies income received by a subsidiary of the Group which operates in the PRC in accordance with the subsidy policies of local government authorities and in relation to the construction of hog farms and slaughterhouse. Subsidies income received by a subsidiary of the Group is recognised in the 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 hogs farm and slaughterhouse are recognised as deferred revenue (note 31(a)). The government grants recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

## 8. FINANCE COSTS

| | For the year ended 31 December | |
|---|---|---|
| | **2012** **RMB'000** | 2011 RMB'000 |
| Interest on: | | |
| — Bank borrowings wholly repayable within five years | **5,791** | 4,183 |
| — Interest-free government loan | **251** | 98 |
| | **6,042** | 4,281 |

## 9. TAXATION

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

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

| | For the year ended 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Profit before taxation | **105,105** | 90,013 |
| Tax at the applicable income tax rate | **27,368** | 23,147 |
| Tax exemption for subsidiary operating in the PRC | **(29,487)** | (23,159) |
| Tax effect of expenses not deductible for tax purpose | **560** | — |
| Tax effect of income not taxable for tax purpose | **(8)** | — |
| Tax effect of tax loss not recognised | **1,567** | 12 |
| Income tax expenses | **—** | — |

As at 31 December 2012 and 2011, no unutilised tax loss was approved by Hong Kong Inland Revenue Department. No deferred tax asset has been recognised in respect of tax losses due to the unpredictability of future profit streams.

*Notes:*

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

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

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

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

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

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

## 9. TAXATION (CONTINUED)

*Notes: (Continued)*

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

## 10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

| | For the year ended 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Staff costs | | |
| including directors' emoluments *(Note 11)* | **18,016** | 12,134 |
| Retirement scheme contributions | **1,060** | 781 |
| Total staff costs | **19,076** | 12,915 |
| Depreciation of property, plant and equipment *(Note 16)* | **9,054** | 7,168 |
| Amortisation of prepaid lease payments *(Note 17)* | **2,284** | 476 |
| Total depreciation and amortisation | **11,338** | 7,644 |
| Auditors' remuneration | **1,000** | 4 |
| Operating lease rental expenses | **1,915** | 1,423 |

## 11. DIRECTORS' EMOLUMENTS

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

| | For the year ended 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Directors' fees | **956** | — |
| Salaries, allowances and benefits in kind | **267** | 288 |
| Discretionary bonus | **—** | — |
| Retirement schemes contributions | **28** | 7 |
| | **1,251** | 295 |

## 11. DIRECTORS' EMOLUMENTS (CONTINUED)

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

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| *Executive director:* | | | | | |
| Mr. Cai Chenyang *(Notes (a) and (b))* | 373 | 139 | — | 17 | 529 |
| Mr. Cai Haifang *(Note (b))* | 224 | 65 | — | 5 | 294 |
| Ms. Cai Shengyin *(Note (b))* | 224 | 63 | — | 6 | 293 |
| *Independent non-executive director:* | | | | | |
| Mr. Cai Zirong *(Note (b))* | 45 | — | — | — | 45 |
| Mr. Wu Shiming *(Note (b))* | 45 | — | — | — | 45 |
| Mr. Yu Wenquan *(Note (b))* | 45 | — | — | — | 45 |
| | 956 | 267 | — | 28 | 1,251 |
| **2011** | | | | | |
| *Executive director:* | | | | | |
| Mr. Cai Chenyang *(Notes (a) and (b))* | — | 153 | — | 3 | 156 |
| Mr. Cai Haifang *(Note (b))* | — | 67 | — | 2 | 69 |
| Ms. Cai Shengyin *(Note (b))* | — | 68 | — | 2 | 70 |
| *Independent non-executive director:* | | | | | |
| Mr. Cai Zirong *(Note (b))* | — | — | — | — | — |
| Mr. Wu Shiming *(Note (b))* | — | — | — | — | — |
| Mr. Yu Wenquan *(Note (b))* | — | — | — | — | — |
| | — | 288 | — | 7 | 295 |

*Notes:*

(a) Mr. Cai Chenyang who is the chief executive officer of the Company.

(b) The Company's executive directors and independent non-executive directors were all appointed on 7 February 2012.

## 12. EMPLOYEES EMOLUMENTS

The five highest paid individuals during the year included 3 directors (2011: 3). The detail of the emoluments of the remaining 2 (2011: 2) highest paid individuals are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Directors | **1,116** | 295 |
| Senior management | **814** | 704 |
| | **1,930** | 999 |

Details of the remuneration of the above senior management during the reporting period are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Salaries and other benefits | **784** | 703 |
| Retirement scheme contributions | **30** | 1 |
| | **814** | 704 |

The number of these senior management whose remuneration fell within the following band are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 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. LOSS OF THE COMPANY

The net loss for the year dealt with in the financial statements of the Company amounted to RMB6,799,000 (2011: RMB74,000).

## 14. DIVIDENDS

Dividends recognised as distributions during the reporting period are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Dividends recognised as distributions during the year | **—** | 64,584 |

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2012 of HK1 cent per share (approximately RMB0.8 cent per share) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

During the year ended 31 December 2011, the Group declared and paid a dividend of RMB64,584,000 to Mr. Cai Chenyang.

## 15. EARNINGS PER SHARE

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Earnings attributable to owners of the Company for the purpose of basic earnings per share | **105,105** | 90,013 |

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of shares for the purpose of basic earnings per share | **698,621** | 600,000 |

The weighted average number of shares in issue for the year ended 31 December 2011 represented the 600,000,000 ordinary shares that had been in issue, comprising 1,000,000 shares in issue and 599,000,000 shares issued pursuant to the capitalisation issue as if such shares had been outstanding throughout the year ended 31 December 2011. The weighted average number of shares in issue for the year ended 31 December 2012 reflects the issuance of 200,000,000 shares in July 2012 in connection with the Company's initial public offering.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Motor vehicles | Office equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | | | |
| As at 1 January 2011 | 105,051 | 8,257 | 2,698 | 724 | 17,027 | 133,757 |
| Additions | 92 | 1,165 | 2,992 | 1,029 | 24,494 | 29,772 |
| Disposals | 24,157 | — | — | — | (24,157) | — |
| As at 31 December 2011 and 1 January 2012 | 129,300 | 9,422 | 5,690 | 1,753 | 17,364 | 163,529 |
| Additions | 1,303 | 2,400 | 2,881 | 516 | 26,695 | 33,795 |
| Transfer | 11,777 | — | — | — | (11,777) | — |
| Exchange alignment | — | — | (4) | — | — | (4) |
| As at 31 December 2012 | 142,380 | 11,822 | 8,567 | 2,269 | 32,282 | 197,320 |
| **Accumulated depreciation** | | | | | | |
| As at 1 January 2011 | 11,115 | 895 | 2,039 | 377 | — | 14,426 |
| Provided for the year | 5,912 | 547 | 361 | 348 | — | 7,168 |
| As at 31 December 2011 and 1 January 2012 | 17,027 | 1,442 | 2,400 | 725 | — | 21,594 |
| Provided for the year | 6,629 | 901 | 878 | 646 | — | 9,054 |
| As at 31 December 2012 | 23,656 | 2,343 | 3,278 | 1,371 | — | 30,648 |
| **Net book values** | | | | | | |
| **As at 31 December 2012** | **118,724** | **9,479** | **5,289** | **898** | **32,282** | **166,672** |
| As at 31 December 2011 | 112,273 | 7,980 | 3,290 | 1,028 | 17,364 | 141,935 |

*Note:*

Certain buildings with net book amount of approximately RMB127,974,000 as at 31 December 2012 (2011: approximately RMB41,685,000), are pledged as collaterals for the Group's bank borrowings. Please refer to Note 29 for details.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

## 17. PREPAID LEASE PAYMENTS

| | As at 31 December | |
|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 |
| **Cost** | | |
| At the beginning of the year | 23,807 | 23,807 |
| Additions | 75,060 | — |
| At the end of the year | 98,867 | 23,807 |
| **Accumulated amortisation** | | |
| At the beginning of the year | 2,569 | 2,093 |
| Charge for the year | 2,284 | 476 |
| At the end of the year | 4,853 | 2,569 |
| **Net book values** | 94,014 | 21,238 |
| **Analysed for reporting purposes as:** | | |
| Current assets | 3,588 | 476 |
| Non-current assets | 90,426 | 20,762 |
| | 94,014 | 21,238 |

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 RMB20,762,000 as at 31 December 2012 (2011: approximately RMB21,238,000), are pledged as collaterals for the Group's bank borrowings. Please refer to Note 29 for details.

## 18. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM/(TO) SUBSIDIARIES

| | As at 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Unlisted shares, at cost | **81** | — |
| Amounts due from subsidiaries | **82,968** | — |
| Amount due to a subsidiary | **(631)** | — |
| | **82,418** | — |

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

| Name of subsidiary | Place and date of incorporation | Issued/ paid up capital | Percentage of equity interest and voting power attributable to the company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| | | '000 | % | % | |
| Wellname Investments Limited ("Wellname Investments") | The BVI, 13 January 2011 | USD1,000 | 100 | — | Investment holding |
| China Modern Agriculture Holding Limited ("China Modern") | Hong Kong, 13 August 2008 | HK$10,000 | — | 100 | Investment holding |
| Tianyi (Fujian) Modern Agriculture Development Co., Ltd ("Fujian Tianyi)* | The PRC, 26 April 2005 | USD20,000,000 | — | 100 | Slaughtering and processing of livestock, production and sales of meat products |
| Victoria Top Limited ("Victoria Top") | Hong Kong, 23 February 2011 | HK$1 | — | 100 | Dormant |

* Fujian Tianyi is registered as a wholly-foreign-owned enterprise under the PRC law.

## 19. INVENTORIES

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

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Hogs feeds | **2,737** | 1,100 |
| Raw materials *(Note)* | **6,533** | 2,929 |
| | **9,270** | 4,029 |

*Note:*

Included in the raw materials were mainly corn, soya meat, wheat barn and feed premix ready for the mixture of animal feeds.

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

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Carrying amount of inventories sold | **406,920** | 379,000 |

## 20. BIOLOGICAL ASSETS

Movements of the biological assets are as follows:

| | Breeder hogs RMB'000 | Commodity hogs RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2011 | 2,921 | 40,760 | 43,681 |
| Increase due to purchases | 743 | 300,724 | 301,467 |
| Increase due to raising (Feeding cost and others) | 4,125 | 82,480 | 86,605 |
| Transfer | (4,102) | 4,102 | — |
| Decrease due to retirement and deaths | — | (1,258) | (1,258) |
| Decrease due to sales | (392) | (384,114) | (384,506) |
| Change in fair value less costs to sell | (225) | (2,666) | (2,891) |
| As at 31 December 2011 and 1 January 2012 | 3,070 | 40,028 | 43,098 |
| Increase due to purchases | 985 | 304,225 | 305,210 |
| Increase due to raising (Feeding cost and others) | 5,032 | 106,891 | 111,923 |
| Transfer | (5,116) | 5,116 | — |
| Decrease due to retirement and deaths | — | (3,826) | (3,826) |
| Decrease due to sales | (559) | (411,024) | (411,583) |
| Change in fair value less costs to sell | 133 | 4,126 | 4,259 |
| **As at 31 December 2012** | **3,545** | **45,536** | **49,081** |

## 20. BIOLOGICAL ASSETS (CONTINUED)

The numbers of biological assets are as follows:

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| Breeder hogs | **1,670** | 1,509 |
| Commodity hogs | **35,033** | 33,224 |
| | **36,703** | 34,733 |

Analysed for reporting purposes as:

| | As at 31 December | |
|---|---|---|
| | **2012** **RMB'000** | 2011 RMB'000 |
| Current assets | **45,536** | 40,028 |
| Non-current assets | **3,545** | 3,070 |
| At the end of the year | **49,081** | 43,098 |

*Note:*

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

The fair value of biological assets of the Group as at 31 December 2012 and 2011 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 cost to sell of breeder hogs and commodity hogs are determined using the direct comparison approach. The direct comparison approach assumes sales of breeder hogs and commodity hogs in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.

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

(d) the biological assets are properly fed with balance diets such that they are gaining weight in accordance under normal growth rate and are receiving appropriate veterinary care;

## 20. BIOLOGICAL ASSETS (CONTINUED)

*Note: (Continued)*

(e) the biological assets are free from any animal diseases, including but not limiting to Sarcoptic mange, internal parasites, swine influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;

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

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

(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 biological assets.

## 21. TRADE RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **77,927** | 40,432 |

The fair values of trade receivables approximate their carrying amount.

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

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Within 30 days | **53,642** | 39,076 |
| 31 days to 90 days | **24,160** | 1,273 |
| 91 days to 180 days | **121** | 71 |
| Over 180 days | **4** | 12 |
| Total | **77,927** | 40,432 |

## 21. TRADE RECEIVABLES (CONTINUED)

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 are as follows:

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 91 days to 180 days | **121** | 71 |
| Over 180 days | **4** | 12 |
| | **125** | 83 |

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

## 22. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

| | The Group As at 31 December | | The Company As at 31 December | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| IPO deposits paid | **—** | 6,808 | **—** | — |
| Advances to staff *(Note (a))* | **373** | 540 | **—** | |
| Deposits paid for purchase of property, plant and equipment *(Note (b))* | **1,240** | 370 | **—** | — |
| Deposits paid and prepayments *(Note (c))* | **11,934** | 1,150 | **330** | — |
| | **13,547** | 8,868 | **330** | — |

*Notes:*

(a) The amount was mainly for the purchase of raw materials and commodity hogs on behalf of the Group.

(b) The deposit paid for property, plant and equipment as at 31 December 2012 and 2011 was mainly for the purchase of equipment for upgrading of production facilities in the Group's slaughterhouse.

(c) Included in deposits paid and prepayments was RMB10,000,000 for the acquisition of breeder hogs and parental breeder hogs in 2013.

## 23. CASH AND BANK BALANCES

| | The Group As at 31 December | | The Company As at 31 December | |
|---|---|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 | **2012 RMB'000** | 2011 RMB'000 |
| Cash and bank balances | **110,851** | 13,430 | **3,601** | — |

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 0.40% per annum during the reporting period (2011: 0.36%). The bank balances are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of approximately RMB106,823,000 (2011: approximately RMB12,745,000) which are not freely convertible into other currencies.

## 24. TRADE PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Trade payables | **7,978** | 6,269 |

The ageing analysis of trade payables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Within 30 days | **6,477** | 2,298 |
| 31 to 90 days | **494** | 1,590 |
| 91 to 180 days | **516** | 2,194 |
| Over 180 days | **491** | 187 |
| | **7,978** | 6,269 |

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

## 25. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

| | The Group As at 31 December | | The Company As at 31 December | |
|---|---|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 | **2012 RMB'000** | 2011 RMB'000 |
| Deposits received | **299** | 156 | **—** | — |
| Other payables for property, plant and equipment | **297** | 66 | **—** | — |
| Accruals and other payables | **7,607** | 3,117 | **3,016** | — |
| | **8,203** | 3,339 | **3,016** | — |

## 26. AMOUNT DUE TO A SHAREHOLDER

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

## 27. AMOUNT DUE TO RELATED COMPANIES

The amount due to related companies was unsecured, interest-free and repayable on demand.

## 28. FINANCIAL GUARANTEE LIABILITIES

| | As at 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| At the beginning of the year | **—** | 31 |
| Amortisation of financial guarantee liabilities | **—** | (31) |
| At the end of the year | **—** | — |

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

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

## 29. BANK BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Bank borrowings — secured | **118,000** | 70,000 |

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Carrying amount repayable: | | |
| On demand or within one year | **118,000** | 70,000 |

Bank borrowings at:

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| — floating interest rate | **118,000** | 70,000 |

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

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

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **%** | % |
| Bank borrowings | **6.300–6.600** | 6.310–6.560 |

## 29. BANK BORROWINGS (CONTINUED)

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

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Property, plant and equipment *(Note 16)* | **127,974** | 41,685 |
| Prepaid lease payments *(Note 17)* | **20,762** | 21,238 |
| | **148,736** | 62,923 |

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

As at 31 December 2012, the Group's bank borrowings of RMB20,000,000 was guaranteed by the Company's director, Mr. Cai Chenyang (2011: RMB70,000,000).

## 30. LOAN FROM GOVERNMENT

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Loan from government | **—** | 1,529 |

*Note:*

On 24 March 2009, the Group received an interest-free loan of RMB1,780,000 from the Ministry of Finance of Putian city to finance the construction of property, plant and equipment. The loan is repayable in full at the end of that four-year period. Using prevailing market interest rates of the People's Bank of China for an equivalent loan of 6.90% per annum (2011: 6.90% per annum), the fair value of the loan is estimated at RMB1,250,000 on initial recognition. The difference of between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognised as deferred revenue (note 31).

As at 31 December 2011, the loan from government of RMB1,780,000 was guaranteed by Mr. Cai Chenyan.

Such loan from government had been settled in February 2012.

## 31. DEFERRED REVENUE

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Arising from government grant *(Note (a))* | **4,201** | 4,455 |
| Arising from loan from government *(Note (b))* | **—** | 251 |
| | **4,201** | 4,706 |

Analysed for reporting purposes as:

| | As at 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Current liabilities | **253** | 377 |
| Non-current liabilities | **3,948** | 4,329 |
| | **4,201** | 4,706 |

*Notes:*

(a) As at the end of each reporting periods, the Group has unused government grants in relation to the construction of qualifying assets. The deferred revenue will be recognised upon construction of qualifying assets. The government grant is not repayable.

(b) The deferred revenue arises as a result of the benefit received from an interest-free government loan received in March 2009.

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## 32. SHARE CAPITAL

| | Number of shares | Nominal value of ordinary shares | |
|---|---|---|---|
| | | HK$'000 | RMB'000 |
| *Authorised:* | | | |
| On the date of incorporation and 31 December 2011 ordinary shares of HK$0.1 each *(note (a))* | 3,800,000 | 380 | 317 |
| Increase of ordinary shares *(note (b))* | 39,996,200,000 | 3,999,620 | 3,239,692 |
| At 31 December 2012 | 40,000,000,000 | 4,000,000 | 3,240,009 |
| *Issued and fully paid:* | | | |
| On the date of incorporation and 31 December 2011 *(note (a))* | 1 | — | — |
| Issue of shares under the corporate reorganisation *(note (c))* | 99 | — | — |
| Issue of shares under the corporate reorganisation *(note (d))* | 999,900 | 100 | 81 |
| Issue of shares under the capitalisation issue *(note (e)* | 599,000,000 | 59,900 | 48,802 |
| Issue of shares under the global offering *(note (e))* | 200,000,000 | 20,000 | 16,295 |
| **At 31 December 2012** | 800,000,000 | 80,000 | 65,178 |

*Notes:*

(a) As at the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 3,800,000 shares of HK$0.1 each. One share was issued to the initial subscriber nil paid on 27 May 2011 and such share was transferred to Zhan Rui Investments Limited ("Zhan Rui").

(b) Pursuant to the written resolutions of the sole shareholder of the Company passed on 7 February 2012, the authorised share capital of the Company was increased from HK$380,000 to HK$4,000,000,000 by the creation of an additional 39,996,200,000 shares, such new shares to rank pari passu with the then existing shares in all respects.

(c) On 8 February 2012, the Company allotted and issued 67, 10, 10, 2, 6 and 4 shares nil paid to Zhan Rui, Charming Investment Holdings Limited ("Charming Investment"), Long Excel Limited ("Long Excel"), Wide Sincere Investments Limited ("Wide Sincere"), Giant King Investments Limited ("Giant King") and Kai Rong Holdings Limited ("Kai Rong") respectively.

(d) On 10 February 2012, in exchange and as consideration for the acquisition of the entire issued share capital of 1,000 shares of US$1 each in the capital of Wellname Investments from the existing shareholders, the one nil-paid share held by Zhan Rui referred to in paragraph (a) above and the 99 shares referred to in paragraph (c) above which were issued to the existing shareholders nil-paid on 8 February 2012 were credited as paid up in full at par and 679,932, 99,990, 99,990, 19,998, 59,994 and 39,996 shares were allotted, issued and credited as fully paid to Zhan Rui, Charming Investment, Long Excel, Wide Sincere, Giant King and Kai Rong respectively.

(e) As detailed in the prospectus of the Company dated 28 June 2012, immediately following the Global Offering becoming unconditional and the issue of the Offer Shares, the authorised share capital of the Company was HK$4,000,000,000 divided into 40,000,000,000 shares and the issued share capital of the Company was increased to HK$80,000,000 divided into 800,000,000 shares, all of which are full paid up or credited as fully paid.

## 33. RESERVES

The reconciliation of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individuals components of equity are set out below:

### The Company

| | Share premium RMB'000 | Accumulated loss RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| As at 1 January 2011 | — | — | — | — |
| Loss for the year | — | (74) | — | (74) |
| Total comprehensive loss for the year | — | (74) | — | (74) |
| As at 31 December 2011 and 1 January 2012 | — | (74) | — | (74) |
| Loss for the year | — | (6,799) | — | (6,799) |
| Total comprehensive loss for the year | — | (6,873) | — | (6,873) |
| Issue of shares under the capitalisation issue | (48,802) | — | — | (48,802) |
| Issue of shares under the global offering | 97,768 | — | — | 97,768 |
| Share issuing expenses | (23,938) | — | — | (23,938) |
| Proposed final dividend | (6,519) | — | 6,519 | — |
| As at 31 December 2012 | 18,509 | (6,873) | 6,519 | 18,155 |

## 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 (comprising issued share capital, share premium, reserves and retained earnings).

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

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

| | **The Group As at 31 December** | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Total borrowings *(Note)* | **118,000** | 71,529 |
| Total equity | **382,980** | 186,880 |
| Gearing ratio (%) | **30.8%** | 38.3% |

*Note:*

The borrowings comprise of bank borrowings (Note 29) and loan from government (Note 30).

## 36. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | The Group As at 31 December 2012 RMB'000 | The Group As at 31 December 2011 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and bank balances) | | |
| — Trade receivables | 77,927 | 40,432 |
| — Deposits paid, prepayments and other receivables | 373 | 540 |
| — Cash and bank balances | 110,851 | 13,430 |
| **Financial liabilities** | | |
| Amortised cost | | |
| — Trade payables | 7,978 | 6,269 |
| — Accruals, deposits received and other payables | 7,905 | 3,339 |
| — Amount due to a shareholder | — | 307 |
| — Bank borrowings | 118,000 | 70,000 |
| — Loan from government | — | 1,529 |

| | The Company As at 31 December 2012 RMB'000 | The Company As at 31 December 2011 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and bank balances) | | |
| — Amount due from subsidiaries | 82,968 | — |
| — Cash and bank balances | 3,601 | — |
| **Financial liabilities** | | |
| Amortised cost | | |
| — Amount due to related companies | — | 74 |
| — Amount due to a subsidiary | 631 | — |
| — Accruals and other payables | 3,016 | — |

## 36. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

The Group's major financial instruments include trade receivables, deposits paid, prepayments and other receivables, amount due from a shareholder, trade payables, accruals, deposits received and other payables, 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 amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors believe that the credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

*Interest rate risk*

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

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (note 29). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates arising from the Group's RMB denominated borrowings.

*Interest rate sensitivity analysis*

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB290,000 (2011: RMB209,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

## 36. FINANCIAL INSTRUMENTS (CONTINUED)

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

*Currency risk*

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

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

*Business risk*

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

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

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

*Liquidity risk*

The Group is exposed to minimal 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.

## 36. FINANCIAL INSTRUMENTS (CONTINUED)

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

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 | — | 7,978 | — | — | 7,978 | 7,978 |
| Accruals, deposits received and other payables | — | 7,905 | — | — | 7,905 | 7,905 |
| Bank borrowings | 6.35 | 118,000 | — | — | 118,000 | 118,000 |
| | | 133,883 | — | — | 133,883 | 133,883 |

| | 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 | — | 6,269 | — | — | 6,269 | 6,269 |
| Accruals, deposits received and other payables | — | 3,339 | — | — | 3,339 | 3,339 |
| Amount due to a shareholder | — | 307 | — | — | 307 | 307 |
| Bank borrowings | 5.88 | 70,000 | — | — | 70,000 | 70,000 |
| Loan from government | 6.90 | — | — | 1,780 | 1,780 | 1,780 |
| | | 79,915 | — | 1,780 | 81,695 | 81,695 |

## 36. FINANCIAL INSTRUMENTS (CONTINUED)

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

*Liquidity risk (Continued)*

**The Company**

| | Weighted average interest rate % | On demand or within one year RMB'000 | More than one year but less than two years RMB'000 | More than two years but less than five years RMB'000 | Total undiscounted cash flow RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2012** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Amount due to a subsidiary | — | 631 | — | — | 631 | 631 |
| Accruals and deposits received | — | 3,016 | — | — | 3,016 | 3,016 |
| | | 3,647 | — | — | 3,647 | 3,647 |

| | 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** | | | | | | |
| Amount due to related companies | — | 74 | — | — | 74 | 74 |

### (c) Fair value

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

(i) the fair value of financial assets and financial liabilities (including derivative instruments) 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

(ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input. For an option-based derivative, the fair value is estimated using option pricing model.

## 36. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Fair value (Continued)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate to their fair values.

*Fair value measurements recognised in the 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:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets 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 prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Company has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

There were no transfers between levels 1 and 2 in both years.

## 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) Key management personnel remuneration

| | The Group For the year ended 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Short term employee benefits | **2,007** | 991 |
| Retirement benefits schemes contributions | **58** | 8 |
| | **2,065** | 999 |

**(b)** As at 31 December 2012, the Group's bank borrowings of RMB20,000,000 (2011: RMB70,000,000) were secured by personal guarantees provided by Mr. Cai Chenyang, the Chief Executive Officer, executive director and substantial shareholder of the Group.

## 38. OPERATING LEASE ARRANGEMENTS

### The Group as lessee:

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

| | The Group As at 31 December | |
|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 |
| Within one year | **1,321** | 1,436 |
| In the second to fifth years, inclusive | **233** | 726 |
| | **1,554** | 2,162 |

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

## 39. 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 29):

| | The Group<br>As at 31 December | |
|---|---|---|
| | **2012**<br>**RMB'000** | 2011<br>RMB'000 |
| Property, plant and equipment | **127,974** | 41,685 |
| Prepaid lease payments | **20,762** | 21,238 |
| | **148,736** | 62,923 |

## 40. COMPARATIVE

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

## 41. 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.

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2013.

# Five Years Financial Summary

A summary of the results and of the assets and liabilities 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

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 | 2010 RMB'000 | 2009 RMB'000 | 2008 RMB'000 |
| Revenue | **580,158** | 519,339 | 444,367 | 157,443 | 51,875 |
| Cost of sales | **(430,209)** | (397,324) | (364,127) | (110,819) | (30,499) |
| Gross Profit | **149,949** | 122,015 | 80,240 | 46,624 | 21,376 |
| Other revenue and gain | **3,549** | 2,459 | 605 | 585 | 5,768 |
| Change in fair value less costs to sell of biological assets | **4,259** | (2,891) | 11,173 | (8,516) | (3,470) |
| Selling and distribution expenses | **(20,334)** | (11,480) | (9,441) | (3,114) | (2,163) |
| Administrative expenses | **(26,129)** | (15,628) | (7,000) | (4,933) | (4,589) |
| Finance costs | **(6,042)** | (4,281) | (3,773) | (3,535) | (1,790) |
| Other operating expenses | **(147)** | (181) | (60) | (66) | (82) |
| Profit before taxation | **105,105** | 90,013 | 71,744 | 27,045 | 15,050 |
| Taxation | **—** | — | — | — | — |
| Profit for the year and attributable to owners of the Company | **105,105** | 90,013 | 71,744 | 27,045 | 15,050 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2012 RMB'000** | 2011 RMB'000 | 2010 RMB'000 | 2009 RMB'000 | 2008 RMB'000 |
| Total assets | **521,362** | 273,030 | 256,414 | 250,348 | 109,279 |
| Total liabilities | **(138,382)** | (86,150) | (95,643) | (161,322) | (47,297) |
| Equity attributable to owners of the Company | **382,980** | 186,880 | 160,771 | 89,026 | 61,982 |

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