SUMPO

SUMPO FOOD HOLDINGS LIMTED

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

Annual Report 2013

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Corporate Information

Directors

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

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

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

Legal Advisor

Cheung Tong & Rosa Solicitors

Auditors

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Stock Code

1089

Principal Bankers

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

Registered Office in Cayman Islands

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

Place of Business in Hong Kong

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

Head Office and Principal Place of Business in the PRC

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

Company Website

www.sumpofood.com

Chairman's Statement

Dear Shareholders,

I am pleased to present the annual results of Sumpo Food Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2013 for the shareholders' consideration.

TURNOVER AND PROFIT

During the year, the Group continued to develop its chicken meat products and recorded growth for core business with turnover amounted to approximately RMB1,041.8 million (2012: approximately RMB787.5 million), representing a year-on-year increase of approximately 32.3%. Our loss attributable to the owners of the Company was approximately RMB12.8 million (2012: profit attributable to the owners of the Company was approximately RMB0.1 million).

BUSINESS REVIEW

Time flies. Last year has been a hard year for the white-feathered broiler industry in China, the hardest since the Group established 14 years ago. The industry was facing not only severe over-supply and the lingering low price of frozen chicken products but also negative news such as fast-growing chicken, drug residues and successive outbreaks of the H7N9 bird flu. Combined with the global economic crisis and the downturn in China, the overall revenue of the Group was significantly affected, and its net profit turned into net loss, which was rare in recent years. Even under such circumstances, the whole Group was not intimidated but rose to the challenges posed by the external environment. Overcoming obstacles one after another, it achieved a certain degree of achievements in all areas and basically accomplished the target expectation for 2013.

Since the occurrence of the first human infection of H7N9 bird flu, the poultry industry in China has fallen into a downturn. In response to this, the Company immediately took a series of positive measures, including establishing a contingent H7N9 response team, formulating and initiating contingency plans, actively communicating with the authorities, which proved to be effective and contributed to prompt issuance of the bird-flu-free certification to the Company and safeguarded the normal breeding and sales operation of the Company. Food safety is the lifeline of the Company. Upon the reports of fast-growing chicken and drug residues, the Company took positive action to strengthen communication with customers and the authorities to minimize the impact on its products. It also strictly controlled drug used to firmly exclude the usage of forbidden drugs, restricted drugs and externally purchased drugs and strictly implemented drug withdrawal periods. As well as strengthening drug residue testing on broiler products, it proactively advertised its measures including regular inspection during and after processing, animal drug residue tests additional to disease tests already in place imposed on live broilers, during the production process and on meat products. By satisfying needs of customers, the Group safeguarded the normal sales of its broiler products.

PROSPECTS

The achievements and high production and output record in last year solidified our confidence towards future development. However, we are also aware of issues within the Group that must be addressed in its development. We firmly believe that the food sector will have a bright future, yet we always prepare ourselves for any contingency. We will continue to seize opportunities and rise to challenges. We will share the same vision and go straight to our goal. By adhering to the annual production and operation targets, changing our work style, well controlling cost and meeting standards of safe production, we believe the Group will achieve all its operation targets. The Group will perform the fundamentals in the production and marketing steadily to lay a sound foundation for its ambitious development strategies.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my heartfelt gratitude to our shareholders, members of the Board of Directors, senior management and all our staff for their dedication and contribution during the year and also to our clients, suppliers, contract farmers and business partners for their relentless support and trust. Looking forward, we will strive to explore further opportunities and overcome challenges, as we remain steadfast and committed in achieving greater results for the Group.

LIN QINGLIN
Chairman

28 March 2014


森宝
全翅（100g-110g）
1.05kg
GB 16869
12个月

Vertically Integrated Operation

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

Management Discussion and Analysis

BUSINESS REVIEW

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

Business Overview

Last year has been a hard year for the white-feathered broiler industry in China and for the Group. Under such circumstances, the whole Group was not however intimidated but rose to the challenges posed by the external environment. Overcoming obstacles one after another, it made a certain degree of achievements in all areas and basically accomplished our target expectation for 2013. The following is a pragmatic summary of the production and operation of the Group in 2013:

1. **Strengthening equipment modification and input to enhance production capability and efficiency**

    a) Hand delivery was substituted by machines according to the actual situations of the warehouses. This relieved the heavy workload of labour and substantially alleviated the difficulty of recruitment of labourers caused by heavy workload. As products were stacked with pallets, additional two or three stacks could be accommodated. The storage capacity of the warehouses were thus greatly enhanced. This has solved the problem of warehouse space deficiency and improved the capability of existing equipment.

    b) Equipment in the product warehouses was improved and storage capacity of raw material warehouses was greatly enhanced. These alleviated the difficulty of recruitment of labourers caused by dusty environment and heavy workload during the production process and the bottleneck at the middle and lower stream of the process. With the advantage of increased warehouse space, production capability was further improved and raw material costs were reduced.

c) The refrigeration system was modified during the Chinese New Year of 2013 to save expenses on electricity and solve certain problems in the operation.

2. Strengthening technology innovation and system verification

a) Composition of feeds was promptly adjusted according to changes in raw material prices. Digestion problems of broilers at middle and later stages were solved. Control over models and hardness of feeds was increased to reduce effect on feed intake by broilers.

b) The breeding density of broilers at our farms was further increased to lower breeding cost and increase efficiency.

c) Innovative power-down alarm of coops was developed by the equipment specialists to enhance broilers' safety coefficiency.

d) The annual inspections of ISO9001 quality management system, ISO14001 environmental management system, ISO22000 food safety management system, OSHA18001 occupational health management system, GAP good agricultural practices, feed mill ISO9001 quality management system and ISO22000 food safety management system were passed.

3. Improvement in slaughtering volume of broilers and developing farmers steadily

a) Affected by the bird flu incident and low price of meat products, the Company adjusted its annual production and operation plan. Under the adjusted plan, farmers developed in a rational pace, and the scale of the Company's existing breeding and that of contracted breeding farms under construction met daily slaughter needs.

b) Development of contracted farmers: coops of the farmers continued to be modernized to reduce breeding risks. There were 32 new contracted farmers with close modernized breeding farms during the year.

4. Strengthening procurement management and expand procurement channels

a) For larger purchase of raw material and feed additive, quotations were obtained from multiple suppliers and orders were made through tender to better control costs.

b) Cooperation with food companies at the source districts was strengthened and in-depth inspection at the districts was conducted to establish supplier network and reduce stops in the supply chain and thus decrease cost of wheat. For corn, corn from Jilin and Liaoning had higher quality and were at lower price, and quality companies were selected as suppliers.

c) The tariff quota for corn import was actively applied to cut corn cost.

d) To grasp purchase opportunities to minimize raw material costs. More orders were made to increase inventory when the price was low and less orders and contract purchase when the price was high.

5. Solidifying the base of existing customers and exploring for new customers and strengthening the development of products with high unit price

a) We strengthened the communication and liaison with fast-food chains and become a major regional supplier.

b) We fostered development of business with regional distributors to better consolidate regional markets.

c) We devoted in the development of fresh meat products to enhance added-value.

FINANCIAL REVIEW

1. Revenue

Our revenue derived from the sales of chicken meat products, animal feeds and chicken breeds represented approximately 62.1%, 31.1% and 6.8% of our total revenue respectively for the year ended 31 December 2013.

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

	For the year ended 31 December			
	2013	**% of total**	2012	% of total
	RMB'000	**revenue**	RMB'000	revenue
Revenue				
Chicken meat products	**646,824**	**62.1**	509,371	64.7
Animal feeds	**323,964**	**31.1**	225,101	28.6
Chicken breeds	**71,059**	**6.8**	53,009	6.7
Total	**1,041,847**	**100.0**	787,481	100.0

Our total revenue increased by approximately 32.3% from approximately RMB787.5 million for the year ended 31 December 2012 to approximately RMB1,041.8 million for the year ended 31 December 2013, primarily due to the increase in overall sales volume.

Chicken meat products

Revenue from sales of our chicken meat products business increased by approximately 27.0%, from approximately RMB509.4 million for the year ended 31 December 2012 to approximately RMB646.8 million for the year ended 31 December 2013, primarily as a result of the increase in the sales volume of our chicken meat products.

Animal feeds

Revenue from sales of our animal feeds business increased by approximately 43.9% from approximately RMB225.1 million for the year ended 31 December 2012 to approximately RMB324.0 million for the year ended 31 December 2013, primarily as a result of the increase in the selling price and the sales volume of animal feeds.

Chicken breeds

Revenue from sales of our chicken breeds business increased by approximately 34.2%, from approximately RMB53.0 million for the year ended 31 December 2012 to approximately RMB71.1 million for the year ended 31 December 2013, primarily due to the increase in the sales volume of chicken breeds.

2. **Gross Profit and Gross Profit Margin**

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

	For the year ended 31 December			
	2013 RMB'000	**% of total gross profit**	2012 RMB'000	% of total gross profit
Gross Profit				
Chicken meat products	**10,239**	**17.1**	27,595	39.7
Animal feeds	**14,661**	**24.6**	14,152	20.4
Chicken breeds	**34,773**	**58.3**	27,786	39.9
Total	**59,673**	**100.0**	69,533	100.0

	For the year ended 31 December	
	2013 %	2012 %
Gross Profit Margin		
Chicken meat products	**1.6**	5.4
Animal feeds	**4.5**	6.3
Chicken breeds	**48.9**	52.4
Overall	**5.7**	8.8

Gross profit decreased from approximately RMB69.5 million for the year ended 31 December 2012 to approximately RMB59.7 million for the year ended 31 December 2013. Our overall gross profit margin decreased from approximately 8.8% for the year ended 31 December 2012 to approximately 5.7% for the year ended 31 December 2013, primarily due to the decrease in selling prices of chicken meat products and escalating raw material prices and operating costs during the year.

Chicken meat products

Gross profit from our chicken meat products business decreased by approximately 63.0%, from approximately RMB27.6 million for the year ended 31 December 2012 to approximately RMB10.2 million for the year ended 31 December 2013. The gross profit margin for our chicken meat products business decreased from approximately 5.4% for the year ended 31 December 2012 to approximately 1.6% for the year ended 31 December 2013. This was primarily due to the decrease in selling prices of chicken meat products and escalating raw material prices and operating costs during the year.

Animal feeds

Gross profit from our animal feeds business increased by approximately 3.5%, from approximately RMB14.2 million for the year ended 31 December 2012 to approximately RMB14.7 million for the year ended 31 December 2013. The gross profit margin for our animal feeds business decreased from approximately 6.3% for the year ended 31 December 2012 to approximately 4.5% for the year ended 31 December 2013. This was primarily due to the increase in the raw material costs of animal feeds during the year.

Chicken breeds

Gross profit from our chicken breeds business increased by approximately 25.2%, from approximately RMB27.8 million for the year ended 31 December 2012 to approximately RMB34.8 million for the year ended 31 December 2013. The gross profit margin for our chicken breeds business decreased from approximately 52.4% for the year ended 31 December 2012 to approximately 48.9% for the year ended 31 December 2013. This was primarily due to the increase in breeding costs during the year.

3. Other Revenue and Gain

Other revenue and gain increased by approximately 63.5%, from approximately RMB15.6 million for the year ended 31 December 2012 to approximately RMB25.5 million for the year ended 31 December 2013, primarily as a result of the increase in sales of side products and related products for the year ended 31 December 2013 and the increase in government grants.

4. Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 46.3%, from approximately RMB13.6 million for the year ended 31 December 2012 to approximately RMB19.9 million for the year ended 31 December 2013, primarily as a result of an increase in the transportation expenses related to the sales of our products.

5. Administrative Expenses

Administrative expenses decreased by approximately 6.3%, from approximately RMB41.0 million for the year ended 31 December 2012 to approximately RMB38.4 million for the year ended 31 December 2013, due to the decrease in withholding tax in relation to the dividend paid to the Company by its PRC subsidiary.

6. **Other Operating Expenses**

Other operating expenses increased by approximately 25.0%, from approximately RMB27.2 million for the year ended 31 December 2012 to approximately RMB34.0 million for the year ended 31 December 2013, mainly due to the increase in the feeding cost of mature breeders during the year.

7. **Finance Costs**

Finance costs increased by approximately 59.4%, from approximately RMB6.9 million for the year ended 31 December 2012 to approximately RMB11.0 million for the year ended 31 December 2013, primarily as a result of the increase in bank borrowings.

8. **Taxation**

Income tax credit reversed from approximately RMB3.8 million for the year ended 31 December 2012 to income tax expense of approximately RMB0.7 million for the year ended 31 December 2013, primarily as a result of the increase in taxable profit attributable to the sale of animal feeds during the year.

LIQUIDITY AND FINANCIAL RESOURCES

1. **Financial Resources**

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital requirements. As at 31 December 2013, cash and cash equivalents and pledged bank deposits amounted to approximately RMB108.7 million (2012: approximately RMB167.1 million), most of which were denominated in Renminbi.

2. **Borrowings and Pledged Assets**

As at 31 December 2013, the total amount of interest-bearing bank borrowings were approximately RMB187.0 million (2012: approximately RMB158.5 million), which were denominated in Renminbi, with interest rates ranged from 5.0% to 6.0% per annum.

As at 31 December 2013, the bank borrowings were secured by the Group's bank deposits, property, plant and equipment and prepaid lease payments with total carrying value of approximately RMB101.5 million (2012: approximately RMB179.1 million).

3. **Gearing Ratio**

As at 31 December 2013, the gearing ratio of the Group was approximately 24.7% (2012: approximately 21.4%). This was calculated by dividing interest-bearing bank borrowings with the total assets of the Group as at 31 December 2013. The increase in the gearing ratio was mainly due to increase of bank borrowings during the year.

OUTLOOK

1. **Focused professionalism and clear delineation of power and responsibility**

   The Group will formulate clear business development strategies that are comprehensively consistent with the corporate development policies of the Group. The Group will strive to be professional and devoted in integrating features as an agricultural industrialized company: large area of land, unified strategies (in particular for breeding), planning in advance, unified command and rational business modes. The Group will strengthen establishment of target incentive systems to unify responsibility, right and interest.

2. **Stabilization of production and operation**

   Five basic business segments, namely procurement, raw materials, breeding, processing and sales will be established and stabilized, according to characteristics of an integrated broiler company. Business operation to enhance management efficiency and management standards will be gradually optimized and all production standards will be improved, so as to lay a foundation for development of all segments.

3. **Improvement to and optimization of style of work and workflow**

   The Group will be efficiency-oriented as well as be a harmonious company by putting the right person at the right position. The Group will be fair and just to staff by evaluating them according to their performance and merit. The management should proactively take the role of leadership. Department heads should oversee the big picture and adopt disciplined attitude. Communication and liaison among departments are to be strengthened, so that responsibilities would be taken up actively and complementary with others, as work has to be done with all departments working closely together in a supportive manner. Those departments at the leading position should be responsible and other departments would try their best to work correspondingly. Internal management and corporate management modes will be improved. Establishment of the corporate culture and strength will be improved. Work style will be changed into a strong sense of dedication to the position and the work. The Group will put more effort on building solidarity and to be motivated and be strictly economical and be hard working for healthy development. The Group will adjust unreasonable work-flow and optimize work-flow of finance, administration and human resources. The production departments should understand the operation departments and work accordingly, while the operation departments are to be fair and just and to operate by the book.

4. **Formulation of rational marketing strategies to meet market needs**

The Group will further improve the procurement management system by expanding procurement channels of raw materials of feeds and reducing intermediaries in procurement. The Group will better control cost of raw materials of feeds by continual application for tariff quota of corn to utilize the price gap also between domestic price of corn and foreign sources to cut costs. The sales department will utilize its developing regional advantage to foster communication and liaison with fast-food chains to avoid competition in production and price. The Group will also implement differentiated marketing strategy to enlarge the ratio of sales to large fast-food chains. To organize and solidify sales channels by basing on the mode of "distributors+agents+partners" in targeted expansion of regional markets, so that product sales channels will be diversified and the overall value of products will be enhanced.

5. **Enhance the "production safety" and "breeding safety"**

Scientific and improved safe production regulating systems will be established to commence in-depth production safety management. Training enhancing safety awareness will be provided to all staff. The Group will also increase assessment and strengthen implementation of production safety accountability to build a long-term mechanism of safe production. The production process will be required to strictly comply with requirements to promote production safety of the Group. The Group will enhance food safety awareness of all staff by reinforcing on-site inspection at breeding factories and farms to eliminate risks and facilitate the healthy and sustainable development of the Group.

6. **Strengthening technology and the awareness of cost control**

With intensified market competition, the profit margin of the Group is being suppressed. The Group will therefore strengthen management on details through technology innovation. Without affecting quality of its products, it will reinforce cost control to reduce costs. It will take a serious attitude in commencing energy saving and emission reduction. It will promote advanced equipment and technology to strengthen management on power supply and use of factories and reduce related expenses. It will introduce advanced infrared testing equipment which can conduct quick analysis on raw material of feeds and feed products to shorten testing time, better control quality of raw material of feeds and feed products and thus ensure quality of feeds.

OTHER INFORMATION

1. **Human Resources**

As at 31 December 2013, the Group had 1,563 employees. Employee costs, excluding directors' emoluments, totalled approximately RMB16.6 million for the year (2012: approximately RMB12.7 million). All of the Group members are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

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

2. Foreign Exchange Risk

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

3. Material Acquisitions and Disposal of Subsidiaries

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

4. Contractual and Capital Commitments

As at 31 December 2013, the Group had operating lease commitments of approximately RMB5.9 million (2012: approximately RMB6.3 million).

As at 31 December 2013, the Group did not have any capital commitments (2012: approximately RMB10.9 million).

5. Contingent Liabilities

As at 31 December 2013, the Group had no material contingent liabilities (2012: Nil).

6. Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the issuance of new shares of the Company (the "Shares") at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 January 2011 and after the exercise of the over-allotment options on 28 January 2011 amounted to approximately HK$283.9 million (approximately RMB231.7 million). As at 31 December 2013, the net proceeds were partially applied in accordance with the proposed applications set out in the Prospectus and the announcement of the Company dated 28 November 2011, as follow:

- Approximately RMB32.0 million was used to finance the costs of establishing our new breeder farms;
- Approximately RMB13.2 million was used to finance the costs of establishing our new hatching facilities;
- Approximately RMB0.2 million was used to finance the costs of establishing our broiler breeding farms;
- Approximately RMB99.0 million was used to finance the costs of establishing our new slaughtering and processing plant;
- Approximately RMB29.5 million was used to finance the Group's general working capital and general corporate services; and
- Approximately RMB57.8 million remained unused, which were deposited with licensed banks and financial institutions in the PRC.

Corporate Governance Report

INTRODUCTION

The Company believes that good corporate governance will not only improve management accountability and investor confidence, but will also lay a good foundation for the long-term development of the Company. Therefore the Company will strive to develop and implement effective corporate governance practices and procedures.

The Company has adopted a corporate governance code based on the revised code on corporate governance (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Throughout the year, the Company has complied with the Code Provisions with the following exceptions:

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

For the year ended 31 December 2013, Mr. Lin Qinglin holds the positions of the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that vesting the role of both positions in Mr. Lin provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

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

Due to other pre-arranged business commitments which must be attended to by Mr. Chau On Ta Yuen, being an independent non-executive director of the Company, was not present at the annual general meeting of the Company held on 23 May 2013.

Non-Competition Undertakings

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

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

DIRECTORS

The Board

The Board of Directors, 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.

The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the directors in person or through other electronic means of communication.

During the year of 2013, the Board held 4 regular meetings at about quarterly intervals with no additional meetings. As regards general meeting, the Company held the annual general meeting on 23 May 2013.

The attendance records of each director at the Board meetings and general meetings in 2013 are set out below:

Directors	Regular Board Meetings	General Meetings
Executive Directors		
Mr. Lin Qinglin (Chairman and Chief Executive Officer)	4/4	1/1
Mr. Wu Shiming	4/4	1/1
Mr. Yin Shouhong	4/4	1/1
Independent non-executive directors		
Mr. Hu Chung Ming	4/4	1/1
Mr. Chau On Ta Yuen	4/4	0/1
Mr. Wei Jin Min	4/4	1/1

Notice of regular Board meetings are served to all directors at least 14 days before the meeting while reasonable notice is generally given for other board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they had sufficient time to review the board papers, be adequately prepared for the meeting, keep the directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each director, upon reasonable request, have access to independent professional advice to assist them in performing their duties to the Company, at the Company's expense. When needed and upon making request to the Board, directors may obtain independent professional advice at the Company's expense in carrying out their duties.

Minutes of all Board meetings and Audit Committee and Remuneration Committee and Nomination Committee meetings are kept by the Company Secretary. All of the above minutes record the discussions and decisions reached by the relevant members in sufficient detail the matters considered and decisions reached, including any concern raised by directors or dissenting views expressed. Any director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all directors or committee members for their record.

According to the current Board practice, any material transaction, which involves a conflict of interests between a substantial shareholder or a director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive directors. Directors are abstained from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its directors and officers arising out of corporate activities.

Chairman and Chief Executive Officer

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

As the Company's Chairman, Mr. Lin Qinglin is responsible for, among others,:

- ensuring, with the assistance of the management, that the directors receive adequate, accurate, clear, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings;

- providing leadership for the Board;

- ensuring that the Board works effectively, performs its responsibilities, discuss all key and appropriate issues in a timely manner, with good corporate governance practices and procedures;

- drawing up, approving and considering whether to include the matters proposed by other directors into the agenda for each Board meeting. This responsibility have been delegated to the Company Secretary or a designated director;

- encouraging all directors to fully and actively contribute to the Board's affairs and express different views and discuss issues in sufficient depth before reaching any consensus in board decisions;

- facilitating the effective contribution of directors, in particular, non-executive directors, and promote the constructive relations between executive and non-executive directors;

- holding one meeting with the independent non-executive directors (including independent non-executive directors) without the executive directors present during the year of 2013. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed; and

- ensuring the effective communication between the Board and the shareholders as a whole through different channels, including (i) printed or electronic copies (as elected by shareholders) of corporate communications required by the Listing Rules; (ii) the annual general meeting which provides a forum for shareholders to raise comments and exchange views with the Board; (iii) the Company's website which allows the shareholders to acquire the updated and key information on the Group and to provide feedback for the Company; and (iv) handling of the enquiries from shareholders and investors generally.

Board Composition

The Board of the Company currently comprises the following directors:

Executive Directors

Mr. Lin Qinglin *(Chairman and Chief Executive Officer)*

Mr. Wu Shiming

Mr. Yin Shouhong

Independent Non-executive Directors

Mr. Hu Chung Ming

Mr. Chau On Ta Yuen

Mr. Wei Ji Min

An updated list of the Company's directors by category identifying their role and function 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.

The Company identifies the independent non-executive directors in all corporate communications which disclose the names of directors.

Details of the biographies of the directors are given under the section "Directors and Senior Management Profile" of this annual report on pages 33 to 35.

None of the directors is related to each other.

The independent non-executive directors play an important role on the Board. Accounting for half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. Throughout the year of 2013, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number of independent non-executive directors has represented at least one-third of the Board.

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 his independence to the Company. The Company has assessed the independence and considers all of the independent non-executive directors to be independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.

The Company confirms that year of service of all INEDs is less than 9 years.

Under article 84 of 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 and every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every 3 years while those retiring directors shall be eligible for re-election. Any director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such annual general meeting.

Under the Code Provision A.4.1, independent non-executive directors should be appointed for a specific term, subject to re-election.

The terms of appointment for the independent non-executive directors of the Company are as follows:

Name of independent non-executive director	Terms of Appointment
Mr. Hu Chung Ming	Hold office until the conclusion of the AGM to be held in 2016
Mr. Chau On Ta Yuen	Hold office until the conclusion of the AGM to be held in 2014
Mr. Wei Ji Min	Hold office until the conclusion of the AGM to be held in 2014

In accordance with the said provision of the Articles of Association and the Code Provision A.4.1, in the annual general meeting ("AGM") held on 23 May 2013, one-third of the directors (namely Mr. Wu Shiming and Mr. Hu Chung Ming) were subject to retirement by rotation and were re-elected.

Nomination of Directors

On 28 March 2012, the Board has established a nomination committee (the "Nomination Committee") pursuant to the requirements of the Code, to provide a framework and set the standards for the appointment of high quality directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

Responsibilities of Directors

The Company Secretary works closely with the newly appointed directors both immediately before and after his/her appointment to acquaint the newly appointed directors with the duties and responsibilities as a director of the Company and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed director. The package also includes information relating to the operations and business of the Group. The directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Guidelines for directors issued by the Company Registry of Hong Kong and The Hong Kong Institute of Directors have been forwarded to each director for his/her information and ready reference.

The Board views that the independent non-executive directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board Meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit, Remuneration and Nomination Committee.

The directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which he/she is charged with. The contribution made by the directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and board committee meetings indicates the constant participation of all directors, including executive, independent non-executive and other non-executive directors and ensures the better understanding of the views of shareholders by all directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the directors made inquiries during the Board meetings and board committee meetings. The queries raised by directors have received a prompt and full response.

Induction and Continuous Professional Development

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 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 year under review:

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

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding directors' securities transaction on the same terms/on terms no less exacting than 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 and they have confirmed that throughout the year ended 31 December 2013, 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 2013 are set out on pages 40 to 41 of this annual report.

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

DELEGATION BY THE BOARD

Management Functions

The Board delegates its powers and authorities from time to time to the Board Committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

The Board has adopted a set of consolidated memorandum of duties setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the company.

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

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- 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 entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnels other than the member 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.

For aspects of management and administration functions delegated to the management, the Board has given clear directions as to the management's power, particularly as to where management should report back and obtain prior board approval.

The functions reserved to the Board and those delegated to management have been formalised and are reviewed periodically to ensure that they remain appropriate.

Directors receive the Delegation Guidelines and clearly understand the above delegation arrangements of the Company. The Company has formal letters of appointment for directors setting out the key terms and conditions of their appointment. Details of the terms of appointment of the current Independent non-executive directors are as follows: Mr. Hu Chung Ming, being independent non-executive directors, has entered into a letter of appointment with the Company on 23 May 2013 for a term commencing from 23 May 2013 to the conclusion of the 2016 annual general meeting of the Company. Each of Mr. Chau On Ta Yuen and Mr. Wei Ji Min, being independent non-executive director, has entered into a letter of appointment with the Company on 28 March 2012 for a term commencing from 28 March 2012 to the conclusion of the 2014 annual general meeting of the Company.

Board Committees

Nomination Committee

The Nomination Committee is governed by its terms of reference, which are closely aligned with the relevant Code Provisions requirements and are available at both the Company's website www.sumpofood.com and HKEx's website www.hkex.com.hk.

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;
- make recommendations to the Board on the appointment, re-appointment and succession planning of directors, and any proposed change to the Board to implement the Company's corporate strategy;
- monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Directors

During 2013, one Nomination Committee meeting was held. The attendance records of each member of the Nomination Committee at the said Committee meeting are set out below:

Members of Nomination Committee	Attendance/Number of Meeting(s) held during the tenure of membership
Executive Director	
Mr. Lin Qinglin *(Chairman)*	1/1
Independent Non-executive Directors	
Mr. Hu Chung Ming	1/1
Mr. Chau On Ta Yuen	1/1

During the meeting(s), the Nomination Committee reviewed the followings:

- the review of policy for nomination of directors;
- the review of retirement of executive director and independent non-executive directors;
- the review of the structure, size and composition of the Board;

The Nomination Committee adopted a "Procedure and Criteria for Nomination of Directors" in 2011, the details of which are set out below:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors

   (a) Character and integrity
   (b) The willingness to assume broad fiduciary responsibility
   (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
   (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company
   (e) Significant business or public experience relevant and beneficial to the Board and the company
   (f) Breadth of knowledge about issues affecting the company
   (g) Ability to objectively analyse complex business problems and exercise sound business judgment
   (h) Ability and willingness to contribute special competencies to Board activities
   (i) Fit with the company's culture

2. Criteria Applicable to non-executive directors and independent non-executive directors

   (a) Willingness and ability to make a sufficient time commitment to the affairs of the company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
   (b) Accomplishments of the candidate in his/her field
   (c) Outstanding professional and personal reputation
   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

The Company provides the Nomination Committee with sufficient resources to perform its duties. The Nomination Committee may seek independent professional advice wherever necessary and at the Company's expense, in order to perform its responsibilities.

The Company has adopted a board diversity policy ("Board Diversity Policy") in August 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including professional qualifications and experience, cultural and educational background, gender, age and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Board has set measurable objectives (in terms of gender, skills and experience) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Board will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Company considers that the current composition of the Board is characterised by diversity, whether considered in terms of professional background and skills.

Remuneration Committee

Remuneration of Directors

The Remuneration Committee was established in December 2010 pursuant to Rule 3.25 of the Listing Rules. It consults the Board chairman and/or chief executive about their remuneration proposals for other executive directors. It meets from time to time 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, which are revised by the Board on 28 March 2012 pursuant to the Code. The terms of reference are made available on the Company's website www.sumpofood.com and HKEx's website www.hkex.com.hk.

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

During 2013, one Remuneration Committee meeting was held. The attendance records of each member of the Remuneration Committee at the said Committee meeting are set out below:

Members of Remuneration Committee	**Attendance/Number of Meeting(s) held during the tenure of membership**
Executive Director	
Mr. Lin Qinglin	1/1
Independent Non-executive Directors	
Mr. Hu Chung Ming *(Chairman)*	1/1
Mr. Wei Ji Min	1/1

The work performed by the Remuneration Committee during 2013 included the followings:

- review of the emolument policy and the levels of remuneration paid to the directors and senior management of the Group;
- assessment of the performance of executive directors;
- approval of the terms of executive directors' service contracts;
- recommendation to the Board on the remuneration packages of individual executive directors and senior management;
- discussion and approval of the share option scheme; and
- formulation of new framework for determining the remuneration package in the coming year

The human resource department of the Company provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Audit Committee

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 currently comprises three members, namely Mr. Hu Chung Ming, Mr. Chau On Ta Yuen and Mr. Wei Ji Min. Mr. Hu Chung Ming is the chairman of the Audit Committee. The chairman of the Audit Committee has considerable experience in accounting and financial management. No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he ceased to be a partner of the firm or have any financial interest in the firm (whichever the later). The Audit Committee meets at least two times a year to review the Company's interim and annual results.

The Audit Committee is governed by its terms of reference, which are revised by the Board on 28 March 2012 pursuant to the Code. The terms of reference are made available on the Company's website www.sumpofood.com and HKEx's website www.hkex.com.hk.

During 2013, the Audit Committee met two times and the attendance of each member at the Audit Committee meetings is as follows:

Members of Audit Committee	**Attendance/Number of Meeting(s) held during the tenure of membership**
Mr. Hu Chung Ming *(Chairman)*	2/2
Mr. Chau On Ta Yuen	2/2
Mr. Wei Ji Min	2/2

The work performed by the Audit Committee during 2013 included consideration of the following matters:

- the completeness and accuracy of the 2013 annual and interim financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- the internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2013; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. HLB Hodgson Impey Cheng Limited as the external auditors

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee has been also provided with sufficient resources to perform its duties.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Messrs. HLB Hodgson Impey Cheng Limited be re-appointed as the Company's external auditor for year 2014.

ACCOUNTABILITY AND AUDIT

Financial Reporting

As at 31 December 2013, the Company had net assets of approximately RMB453.1 million, the Company recorded a loss attributable to equity holders of the Company of approximately RMB12.8 million for the year ended 31 December 2013.

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

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 Auditor's Report" on page 44.

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 financial statements set out on pages 46 to 124 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.

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 on pages 6 to 14 in this report.

The Management provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

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. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness of all material aspects of the internal control system of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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. Annual budgets of the Group and quarterly financial reports have been provided to the Executive Committee of the Board.

Each year, 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 external internal audit firm. 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 external internal audit firm independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Company's business. The external internal audit firm reports to the Audit Committee, and submits regular reports for its review in accordance with the approved review and audit mechanisms. The external internal audit firm 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.

For the year of 2013, no critical internal control issues have been identified.

Connected Transactions: The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with Listing Rules. The connected persons will be required to abstain from voting in the general meetings. Details of the connected transactions of the Company during the year are set out in the Directors' Report.

Auditor's Remuneration

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 included taxation compliance and agreed upon procedures)	RMB100,000

COMPANY SECRETARY

The position of Company Secretary is held by Mr. Ng Kin Sun, a member of the Hong Kong Institute of Certified Public Accountant who is an employee of the Company. The Company Secretary is responsible to the Board and reports to the Board Chairman and the Chief Executive from time to time. All directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

During the year under review, he has to take no less than 15 hours of relevant professional training and has fulfiled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees are available to answer questions at the shareholders' meetings.

The external auditor of the Company HLB Hodgson Impey Cheng Limited also attended the Annual General Meeting held on 23 May 2013 to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

Shareholders' Rights

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.

In compliance with the Code, a Shareholders Communication Policy was formulated in 28 March 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders. The effectiveness of shareholders communication under the shareholders communication policy had been reviewed by the Board during the year.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website www.sumpofood.com. Enquiries and proposals to be put forward at shareholder meetings can also be sent to the board or senior management by sending e-mail to sumpofood@prasia.net, or directly through the questions and answers session at shareholder meetings of the Company.

Directors and Senior Management Profile

Executive Directors

Mr. Lin Qinglin, aged 59, is an executive Director, the Chairman and the Chief Executive Officer of our Company. He is responsible for formulation of the overall development and business strategies of our Group at a strategic level and overseeing major management decisions of our Group.

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

Mr. Wu Shiming, aged 38, is an executive Director and deputy chief executive officer of our Company. He is responsible for overseeing the financial and operational performance of the Group. He is a qualified intermediate accountant and he obtained such qualification after he has passed the national examination jointly organized by the Ministry of Finance and the Ministry of Personnel of the PRC. Mr. Wu has over 15 years of experiences in accounting and financial management. Mr. Wu graduated from a course in foreign economic enterprise financial accounting at Jimei University (集美大學) in 1995. Mr. Wu was appointed as an independent non-executive director of China Putian Food Holding Limited (Stock Code: 1699) on 7 February 2012.

Mr. Yin Shouhong, aged 46, is an executive Director of our Company. Mr. Yin has had over 20 years of experience in the food industry. Mr. Yin has been the assistant to chief executive officer and deputy chief executive officer, responsible for managing the broilers business department and production unit. He commenced his career in the food industry in Anhui Hua Feng Meat and Poultry Joint Venture Company (安徽華豐肉禽聯營公司) as the head of quality control and director of the processing plant from July 1988 to October 2001. Mr. Yin joined Fujian Sumpo in November 2001 as factory manager of the broilers processing plant.

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

Independent non-executive Directors

Mr. Hu Chung Ming, aged 41, was appointed as an independent non-executive Director on 17 December 2010. Mr. Hu has been a certified practising accountant of the Australian Society of Certified Practising Accountants since 10 March 2000 and a fellow of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Hu worked in Ernst & Young Certified Public Accountants as an accountant from January 1997 to September 1999, and as a senior accountant from October 1999 to March 2000. Mr. Hu has been the chief financial officer of certain other companies, namely Lankom Electronics Limited from 2000 to 2003, China Flexible Packaging Holdings (中國軟包裝控股有限公司) Limited from 2003 to 2007, Yunnan Junfa Real Estate Company Limited (雲南俊發房地產有限責任公司) from 2007 to 2008 and Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (Stock Code: 1938) from 2009 to 2011 respectively. Mr. Hu is currently the chief financial officer and the company secretary of China Packaging Holdings Development Limited (Stock Code: 1439).

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

Mr. Chau On Ta Yuen, aged 66, was appointed as an independent non-executive Director on 17 December 2010. Mr. Chau is currently the chairman of China Ocean Shipbuilding Industry Group Limited (中海船舶重工集團有限公司) (Stock Code: 0651) where his directorship commenced in September 2007. Mr. Chau has also been an independent non-executive director of (i) Good Fellow Resources Limited (金威資源控股有限公司 (Stock Code: 0109) since July 2007 and (ii) Come Sure Group (Holdings) Limited (錦勝集團(控股)有限公司) (Stock Code: 0794) since February 2009, all of which are companies listed on the Main Board on the Stock Exchange. Mr. Chau currently holds directorship in many other companies. In respect of companies listed in Hong Kong, Mr. Chau was an executive director of Everbest Energy Holdings Limited (恒發世紀控股有限公司) (Stock Code: 0578, the name of that company was subsequently changed to Dynamic Energy Holdings Limited (合動能源控股有限公司) on 23 November 2007), a company listed on the Main Board of the Stock Exchange, from March 2000 to November 2006; an independent non-executive director of Everpride Biopharmaceutical Company Limited (中遠威生物製藥有限公司) (Stock Code: 8019, the name of that company was subsequently changed to Hao Wen Holdings Limited (皓文控股有限公司) in March 2010), a company listed on the Growth Enterprise Market of the Stock Exchange, from June 2003 to August 2009; and an independent non-executive director of Buildmore International Limited (建懋國際有限公司) (Stock Code: 0108) from December 2008 to September 2010.

Mr. Chau completed a course in Chinese literature at Xiamen University (廈門大學) in August 1968. Mr. Chau is currently a member of the 12th National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十二屆全國委員會) and a deputy officer of the Social and Legal Affairs Committee of the Chinese People's Political Consultative Conference (全國政協社會和法制委員會). He is also the vice chairman and chief secretary of the 9th board of directors of the Hong Kong Fujian Association (香港福建社團聯會董事會).

Mr. Wei Ji Min, aged 66, was appointed as an independent non-executive Director on 17 December 2010. Mr. Wei has over 32 years of experience in the agricultural and livestock industry. Mr. Wei was the deputy head of the Changting Animal Husbandry and Fishery Bureau (長汀縣畜牧水產局) from November 1982 to January 1983. He was appointed as the deputy county head of the Changting County People's Government (長汀縣人民政府) in April 1985. He was appointed as the deputy head of the Longyan District Animal Husbandry and Fishery Bureau (龍岩地區畜牧水務局) in September 1987. From June 1994 to July 1997 and from July 1997 to June 2007, he was the head of Longyan District Animal Husbandry and Fishery Bureau (龍岩地區畜牧水產局) and the Longyan City Animal Husbandry and Fishery Bureau (龍岩市畜牧水產局) respectively.

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

Senior Management

Mr. Zhang Xiangyang, aged 42, is the deputy general manager and executive director of Fujian Sumpo. Mr. Zhang is responsible for the Group's operation and business development. Mr. Zhang has over 14 years of managerial experiences. He joined the Group in November 2009. Prior to joining the Group, he was the deputy general manager of Xiamen Sumpo Electronic Technology Group Limited from 2008 to 2009. Before that, he held various positions in Xiamen Sumpo Group Limited. Mr. Zhang graduated from Wuhan University (武漢大學) with a bachelor's degree in electrical automation.

Mr. Chen Xi, aged 42, is assistant vice president of Fujian Sumpo Group and general manager of Xiamen Sumpo Trading, responsible for sale and business development of the Group. Mr. Chen joined the Group in December 2009. He has over 10 years of experience in operational management. Prior to joining the Group, Mr. Chen was the general manager of Xiamen Meiweijia Catering Management Company Limited(廈門美唯佳餐飲管理有限公司), he also hold several positions in Sumpo Group before. Mr. Chen graduated from Fuzhou University major in business management.

Mr. Lin Jianqun, aged 44, is the vice chief financial officer and the secretary of the board of directors of Fujian Sumpo. Mr. Lin graduated from Xiamen University with a bachelor degree in accountancy and is also a member of The Chinese Institute of Certified Public Accountants in the PRC. He has over 20 years of experience in finance and accounting. Mr. Lin joined the Group in 2005 and is responsible for all finance and accounting matters of the Group's Mainland China subsidiaries.

Company Secretary

Mr. Ng Kin Sun, aged 44, is the chief financial officer and company secretary of the Company. Mr. Ng is primarily responsible for the financial management of the Company. Mr. Ng has over 18 years experience in auditing and financial management gained from various international accounting firms and listed companies. Prior to joining the Group in March 2010, he was the financial controller of a company listed on the New York Stock Exchange. Mr. Ng graduated from University of Western Sydney – Nepean of Australia with a bachelor degree in commerce and The University of Manchester with a master of business administration. Mr. Ng is also a member of Hong Kong Institute of Certified Public Accountant and CPA Australia.

Report of the Directors

The directors of the Company ("Directors") are pleased to present this annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

Principal Activities

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

Results and Final Dividend

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 124.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013.

Summary of Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus and restated/reclassified as appropriate, is set out on pages 125 to 126 of this report.

Closure of Register of Members

The register of members will be closed from 4 June 2014 to 6 June 2014, both days inclusive, on which no transfer of Shares will be effected. In order to determine the eligibility to shareholders to obtain and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 3 June 2014.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 17 to the consolidated financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in Note 31 to the consolidated financial statements.

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

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

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

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

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

Pre-Emptive Rights

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

Reserves

As at 31 December 2013, the Company's reserves available for distribution to equity holders comprising share premium account less accumulated losses, amounted to approximately RMB76.3 million.

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 50 and note 32 to the consolidated financial statements respectively.

Major Customers and Suppliers

For the year ended 31 December 2013, sales to the Group's largest and five largest customers accounted for approximately 11.5% and approximately 23.6% of the Group's total sales respectively. For the year ended 31 December 2013, the largest and five largest suppliers of the Group accounted for approximately 6.3% and approximately 24.8% 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 2013.

Directors and Directors' Service Contracts

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

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

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

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

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the 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 33 to 35 of this report.

Directors' Service Contracts

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

The Company has formal letters of appointment for directors setting out the key terms and conditions of their appointment. Details of the terms of appointment of the current Independent non-executive directors are as follows: Mr. Hu Chung Ming, being independent non-executive directors, has entered into a letter of appointment with the Company on 23 May 2013 for a term commencing from 23 May 2013 to the conclusion of the 2016 annual general meeting of the Company. Each of Mr. Chau On Ta Yuen and Mr. Wei Ji Min, being independent non-executive director, has entered into a letter of appointment with the Company on 28 March 2012 for a term commencing from 28 March 2012 to the conclusion of the 2014 annual general meeting of the Company.

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

Directors' Interests in Contracts

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

Directors' Remuneration

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

Emolument Policy and Long-Term Incentive Plan

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

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

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

As at 31 December 2013, the interests and short positions of the Directors and chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in Shares and underlying Shares of the Company

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

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

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

As at 31 December 2013, the interests or short positions of the persons (other than the Directors or chief executives of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Long position in Shares and underlying Shares of the Company

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

Notes:

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

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

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

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

Sufficiency of Public Float

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

Continuing Connected Transactions

During the year, the Group entered into a number of continuing connected transactions with Fujian Ronghecheng Food Group Company Limited ("Fujian Ronghecheng") (being a non-wholly owned subsidiary of an associate of Mr. Lin). Details of the continuing connected transactions are as follows:

On 28 December 2012, the Group entered into two renewed supply agreements in respect of agricultural side products (collectively, the "Renewed Supply Agreements (Side Products)") with Fujian Ronghecheng, an associate of Mr. Lin, pursuant to which the Group agreed to supply to Fujian Ronghecheng:

(i) all chicken blood produced during the slaughtering process at a price of RMB0.001 per head of broiler slaughtered for the purpose of the production of blood powder, provided that the Group may make appropriate adjustment to the price with reference to the market price of blood powder; and

(ii) all chicken feathers produced during the slaughtering process at a price of RMB0.05 per head of broiler slaughtered for the purpose of the production of feather powder, provided that the Group may make appropriate adjustment to the price with reference to the market price of feather powder.

The selling prices of chicken blood and chicken feathers were determined based on market prices, which were not less favourable than those available from or offered by Independent Third Parties.

The Group shall have the absolute discretion to sell the chicken blood and chicken feathers to any other parties. The Group shall invoice Fujian Ronghecheng for the price of the chicken blood and chicken feathers sold within 10 days after the end of each month and Fujian Ronghecheng shall make the payment within 20 days after the end of each month.

To the best knowledge of the Directors, Fujian Ronghecheng will mix such chicken blood with pig blood to make blood powder and use chicken feathers to make feather powder.

The Renewed Supply Agreements (Side Products) shall be for a term of 3 years commencing from 1 January 2013 to 31 December 2015 (both days inclusive) and may be renewable upon expiry by way of agreement between the parties.

It was expected that the aggregate amount of purchase price payable by Fujian Ronghecheng per year will not exceed RMB1,500,000 for the year ended 31 December 2013 and RMB1,700,000 and RMB1,700,000 for the years ending 31 December 2014 and 2015 respectively.

For the year ended 31 December 2013, the aggregate amount of purchase price paid by Fujian Ronghecheng was approximately RMB1,482,000.

Annual Review of Continuing Connected Transactions

The independent non-executive Directors have reviewed the above continuing connected transactions for the year ended 31 December 2013 and have confirmed that these continuing connected transactions are:

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

2. entered into on normal commercial terms; and

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

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

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

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

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

Directors' Interests in a Competing Business

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

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2013.

Controlling Shareholders' Interests In Contracts

Save as disclosed in this annual report, the controlling shareholder and any of its subsidiaries had no contract of significance with the Company or any of its subsidiaries.

Corporate Governance Code and Corporate Governance Report

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 15 to 32 in this annual report.

Auditors

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

On behalf of the Board

Lin Qinglin
Chairman

Hong Kong, 28 March 2014

Independent Auditors' Report

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

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

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

We have audited the consolidated financial statements of Sumpo Food Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 124, which comprise the consolidated and the Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 2013 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029
Hong Kong, 28 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	**2013** **RMB'000**	2012 RMB'000
Revenue	6	**1,041,847**	787,481
Cost of sales		**(982,174)**	(717,948)
Gross profit		**59,673**	69,533
Other revenue and gain	7	**25,450**	15,594
Change in fair value less costs to sell of biological assets	22	**3,252**	(2,956)
Net gain on financial assets at fair value through profit or loss	10	**2,197**	2,204
Fair value of agricultural produce on initial recognition	21	**100,353**	69,827
Reversal of fair value of agricultural produce due to hatch and disposals	21	**(98,415)**	(68,403)
Selling and distribution expenses		**(19,911)**	(13,559)
Administrative expenses		**(38,418)**	(41,038)
Finance costs	8	**(10,963)**	(6,890)
Other operating expenses		**(34,036)**	(27,191)
Loss before taxation		**(10,818)**	(2,879)
Taxation	9	**(672)**	3,808
(Loss)/profit for the year	10	**(11,490)**	929
Other comprehensive income for the year, net of income tax:			
Other comprehensive income for the year, net of income tax		**–**	–
Total comprehensive (loss)/income for the year		**(11,490)**	929
(Loss)/profit for the year attributable to:			
Owners of the Company		**(12,762)**	80
Non-controlling interests		**1,272**	849
		(11,490)	929
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(12,762)**	80
Non-controlling interests		**1,272**	849
		(11,490)	929
(Loss)/earnings per share	15		
Basic and diluted (RMB cents per share)		**(0.77)**	0.00

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

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	17	**343,870**	328,858
Investment property	18	**959**	995
Biological assets	22	**14,056**	14,509
Prepaid lease payments	19	**50,616**	51,949
Prepayment for prepaid lease payments		**18,010**	–
Deferred tax assets	16	**4,286**	4,712
		431,797	401,023
Current assets			
Inventories	21	**105,689**	68,835
Biological assets	22	**3,154**	4,715
Trade receivables	23	**29,538**	24,279
Deposits paid, prepayments and other receivables	24	**45,949**	43,926
Prepaid lease payments	19	**1,298**	1,298
Financial assets at fair value through profit or loss	25	**32,469**	30,895
Pledged bank deposits	26	**–**	36,000
Cash and bank balances	26	**108,717**	131,137
		326,814	341,085
Current liabilities			
Trade payables	27	**34,113**	19,312
Accruals, deposits received and other payables	28	**52,269**	65,688
Bank borrowings	29	**187,000**	158,492
		273,382	243,492
Net current assets		**53,432**	97,593
Total assets less current liabilities		**485,229**	498,616

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Equity			
Share capital	31	**141,007**	141,007
Reserves	32	**312,102**	324,864
Equity attributable to owners of the Company		**453,109**	465,871
Non-controlling interests		**14,501**	13,229
Total equity		**467,610**	479,100
Non-current liability			
Deferred revenue	30	**17,619**	19,516
		17,619	19,516
Total equity and non-current liability		**485,229**	498,616

Approved by the Board of Directors on 28 March 2014 and signed on its behalf by:

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

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

Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	17	**490**	684
Investment in subsidiaries	20	**–**	–
		490	684
Current assets			
Deposits paid, prepayments and other receivables	24	**492**	508
Amount due from a subsidiary	20	**213,754**	220,781
Cash and bank balances	26	**3,582**	12,329
		217,828	233,618
Current liability			
Accruals, deposits received and other payables	28	**979**	959
		979	959
Net current assets		**216,849**	232,659
Total assets less current liabilities		**217,339**	233,343
Equity			
Share capital	31	**141,007**	141,007
Reserves	32	**76,332**	92,336
Total equity		**217,339**	233,343

Approved by the Board of Directors on 28 March 2014 and signed on its behalf by:

Lin Qinglin
Executive Director

Wu Shiming
Executive Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Equity attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000 note 32(a)	Statutory reserve RMB'000 note 32(b)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2012	141,007	113,622	17,423	5,205	39,306	38,193	124,587	479,343	16,340	495,683
Profit for the year	–	–	–	–	–	–	80	80	849	929
Total comprehensive income for the year	–	–	–	–	–	–	80	80	849	929
Dividend paid to owners of the Company (note 14(a))	–	–	–	–	–	–	(13,552)	(13,552)	–	(13,552)
Dividend paid to non-controlling interests (note 14(b))	–	–	–	–	–	–	–	–	(3,960)	(3,960)
Transfer to statutory reserve	–	–	–	–	2,037	–	(2,037)	–	–	–
As at 31 December 2012 and 1 January 2013	141,007	113,622	17,423	5,205	41,343	38,193	109,078	465,871	13,229	479,100
(Loss)/profit for the year	–	–	–	–	–	–	(12,762)	(12,762)	1,272	(11,490)
Total comprehensive (loss)/income for the year	–	–	–	–	–	–	(12,762)	(12,762)	1,272	(11,490)
Transfer to statutory reserve	–	–	–	–	3,283	–	(3,283)	–	–	–
As at 31 December 2013	**141,007**	**113,622**	**17,423**	**5,205**	**44,626**	**38,193**	**93,033**	**453,109**	**14,501**	**467,610**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
Operating activities		
Loss before taxation	**(10,818)**	(2,879)
Adjustments for:		
Interest income	**(158)**	(1,333)
Interest expenses	**10,963**	6,890
Loss on disposal of property, plant and equipment	**22**	1
Depreciation and amortisation	**26,017**	23,676
Impairment losses recognised on trade receivables	**–**	3
Impairment losses recognised on other receivables	**2,766**	343
Reversal of impairment recognised on trade receivables	**–**	(16)
Reversal of impairment recognised on other receivables	**(323)**	(116)
Fair values of agricultural produce on initial recognition	**(100,353)**	(69,827)
Reversal of fair values of agricultural produce due to hatch and disposals	**98,415**	68,403
Net gain on financial assets at fair value through profit or loss	**(2,197)**	(2,204)
Change in fair values less costs to sell of biological assets	**(3,252)**	2,956
Operating cash flows before movements in working capital	**21,082**	25,897
Decrease/(increase) in biological assets	**5,266**	(3,110)
Increase in trade receivables	**(5,259)**	(10,216)
Increase/(decrease) in deposits paid, prepayments and other receivables	**(22,851)**	47,672
Increase in inventories	**(34,916)**	(13,293)
Increase/(decrease) in trade payables	**14,801**	(1,432)
(Decrease)/increase in accruals, deposits received and other payables	**(13,419)**	35,638
Cash (used in)/generated from operations	**(35,296)**	81,156
Interest paid	**(10,963)**	(6,890)
Income tax paid	**130**	(623)
Net cash (used in)/generated from operating activities	**(46,129)**	73,643

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
Investing activities		
Interest received	**158**	388
Proceeds from disposal of property, plant and equipment	**239**	91
Purchase of property, plant and equipment	**(39,921)**	(124,764)
Net proceeds from trading of financial assets at fair value through profit or loss	**–**	(28,599)
Proceeds from issue of ordinary shares	**–**	1,000
Decrease/(increase) in pledged bank deposits	**36,622**	(23,220)
Decrease in deferred revenue	**(1,897)**	(1,753)
Net cash used in investing activities	**(4,799)**	(176,857)
Financing activities		
Proceeds from bank borrowings	**(11,492)**	181,492
Repayments of bank borrowings	**40,000**	(73,630)
Dividend paid to non-controlling shareholders	**–**	(3,960)
Dividend paid to owners of the Company	**–**	(13,552)
Net cash generated from financing activities	**28,508**	90,350
Net decrease in cash and cash equivalents	**(22,420)**	(12,864)
Cash and cash equivalents at beginning of the year	**131,137**	144,001
Effect of foreign exchange rate changes, net	**–**	–
Cash and cash equivalents at end of the year	**108,717**	131,137

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

1. GENERAL INFORMATION

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

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

The principal activity of the Company is investment holdings. The activities of its principal subsidiaries are set out in Note 20 to the consolidated financial statements.

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

In the current year, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial period beginning 1 January 2013. A summary of the new HKFRSs are set out as below:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosure-Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 & HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except for the amendments to HKAS 1, the application of the above new and revised HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The nature of the impending changes in accounting policy on adoption of the amendments to HKAS 1 is described below.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. The amendments 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 have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) Int-12 Consolidation — Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

HKFRS 12 Disclosure of Interests in Other Entities

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply 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 for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

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

HKFRS 13 Fair Value Measurement (Continued)

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see notes 22 and 35 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[1]
HKFRS 14	Regulatory Deferral Accounts[5]
HKAS 19 (as revised in 2011)	Defined Benefits Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets[1]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

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

HKFRS 9 – Financial Instruments

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

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 changes 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 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 the adoption of HKFRS 9 will have no material impact on the Group's financial performance and positions.

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.

Amendments to HKAS 36 – Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets

The amendments to HKAS 36 are to remove certain unintended disclosure requirements which may be introduced by the consequential amendments to HKAS 36 when HKFRS 13 was issued. Furthermore, these amendments require the disclosure of additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendments to HKAS 36 are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. However, an entity may not apply those amendments in periods (including comparative periods) in which it does not also apply HKFRS 13.

The directors anticipate that the application of these amendments to HKAS 36 will have no material impact on the Group's financial performance and positions.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The investment entities amendments apply to a particular class of business that qualify as investment entities. The term 'investment entity' refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Under HKFRS 10, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.

The directors anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) will have no material impact on the Group's financial performance and positions.

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

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

Similar relief will be included in HKFRS 9.

The amendments will be effective for annual periods beginning on or after 1 January 2014 and applied retrospectively. Earlier application is permitted.

The directors anticipate that the application of these amendments to HKAS 39 will have no material impact on the Group's financial performance and positions.

HK (IFRIC) – Int 21 Levies

HK (IFRIC)-Int 21 is an interpretation of HKAS 37 and addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognise a liability to pay a levy. It clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. HK(IFRIC)-Int 21 is effective for annual periods beginning on or after 1 January 2014 with earlier application permitted.

The directors anticipate that the adoption of HK (IFRIC)-Int 21 will have no material impact on the Group's financial performance and positions.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. 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 and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

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 transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group 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 another measurement basis required by another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered 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 being made 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 (see above), or 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 as of that date.

Business consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business consolidation (Continued)

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted 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 venture.

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 profit or loss and other comprehensive income as follows:

(a) Sales of goods

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

(b) Rental income

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

(c) Interest income

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

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Company's or the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

Leasing

The Group as 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 consolidated financial statements are presented in Renminbi ("RMB") which is the Group's presentation currency. This is also the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the reporting period in which they arise, except for:

- Exchange difference on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposal of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in entity under the heading of exchange reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

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

Government grants

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

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

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

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

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other 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 Company'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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

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

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

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

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

Investment property

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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

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

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

Biological assets and agricultural produce

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

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

Prepaid lease payments

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

Provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

The Group's financial assets are classified into two of the four categories, including financial assets at fair value through profit or loss (FVTPL) and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other operating expenses' line item.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

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

(b) default or delinquency in interest or principal payments; or

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity Instruments

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

Other financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

Related parties transactions

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

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

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

- (i) has control or join control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

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

- (i) The entity and the Group are members of the same group (which means that each partent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties transactions (Continued)

(c) (Continued)

(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 (b).

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

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

Impairment of non-financial assets (other than goodwill)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingent liabilities and contingent assets

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

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

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

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

Segment reporting

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

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

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

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

(b) Net realisable value of inventories

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

(c) Impairment of trade and other receivables

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

(d) Depreciation

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

(e) Income taxes

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

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

(f) Fair values of biological assets and agricultural produce

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

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

The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets and agricultural produce. Details of the assumptions used are disclosed in note 22.

5. SEGMENT INFORMATION

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

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

Chicken meat:	The chicken meat segment carries on the business of slaughtering, production and sales of chicken meat.
Chicken breeds:	The chicken breeds segment carries on the business of hatching of broiler eggs and breeding of Parent Stock Day-Old Chicks.
Animal feeds:	The animal feeds segment carries on the business of feeds production.

5. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

For the year ended 31 December 2013

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment results					
External segment revenue	646,824	71,059	323,964	–	1,041,847
Inter-segment revenue	616,538	68,551	122,080	(807,169)	–
Segment revenue	1,263,362	139,610	446,044	(807,169)	1,041,847
Segment results	10,239	39,963	14,661	–	64,863
Unallocated revenue and gain					27,647
Unallocated selling and distribution expenses					(19,911)
Unallocated administrative expenses					(38,418)
Unallocated other operating expenses					(34,036)
Profit from operations					145
Finance costs					(10,963)
Loss before taxation					(10,818)
Other segment items included in the consolidated statement of profit or loss and other comprehensive income					
Interest income					
– allocated	43	13	101	–	157
– unallocated					1
					158
Interest expenses					
– allocated	5,063	2,077	3,461	–	10,601
– unallocated					362
					10,963
Depreciation of property, plant and equipment					
– allocated	14,020	6,628	3,797	–	24,445
– unallocated					203
					24,648
Amortisation of prepaid lease payments					
– allocated	1,007	25	301	–	1,333
Impairment loss recognised on other receivables					
– allocated	134	–	2,632	–	2,766

5. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2012

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

5. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

As at 31 December 2013

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment assets and liabilities					
Segment assets	**411,681**	**160,122**	**180,805**	**–**	**752,608**
Unallocated assets					**6,003**
Total assets					**758,611**
Segment liabilities	**113,994**	**35,169**	**110,750**	**–**	**259,913**
Unallocated liabilities					**31,088**
Total liabilities					**291,001**
Capital expenditures*					
– allocated	**17,427**	**17,467**	**5,022**	**–**	**39,916**
– unallocated					**5**
					39,921

As at 31 December 2012

	Chicken meat RMB'000	Chicken breeds RMB'000	Animal feeds RMB'000	Elimination RMB'000	Total RMB'000
Segment assets and liabilities					
Segment assets	537,686	98,851	40,923	–	677,460
Unallocated assets					64,648
Total assets					742,108
Segment liabilities	170,125	53,272	2,667	–	226,064
Unallocated liabilities					36,944
Total liabilities					263,008
Capital expenditures*					
– allocated	109,245	14,571	931	–	124,747
– unallocated					17
					124,764

* Capital expenditures consists of additions to property, plant and equipment.

5. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

	As at 31 December 2013 RMB'000	2012 RMB'000
Segment assets for reportable segment	**752,610**	677,460
Unallocated:		
Property, plant and equipment	**496**	5,685
Investment property	**959**	995
Deferred tax assets	**–**	4,712
Cash and bank balances	**3,703**	12,786
Pledged bank deposits	**–**	36,000
Other receivables and deposits	**843**	4,470
Total assets	**758,611**	742,108

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

	As at 31 December 2013 RMB'000	2012 RMB'000
Segment liabilities for reportable segment	**259,913**	226,064
Unallocated:		
Bank borrowings	**30,000**	31,492
Deferred revenue	**–**	3,097
Other payables	**1,088**	2,355
Total liabilities	**291,001**	263,008

Geographical information

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

5. SEGMENT INFORMATION (Continued)

Other information

Revenue from major products

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

	Group For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Chicken meat products	**646,824**	509,371
Animal feeds	**323,964**	225,101
Chicken breeds	**71,059**	53,009
	1,041,847	787,481

Information about major customers

For the year ended 31 December 2013, revenue generated from one customer (2012: one customer) of the Group amounting to RMB120,056,000 (2012: RMB96,068,000) has individually accounted for over 10% of the Group's total revenue. No other single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2012 and 2013.

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

	Group For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Customer A	**120,056**	96,068

6. REVENUE

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

	Group For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Chicken meat products	**646,824**	509,371
Animal feeds	**323,964**	225,101
Chicken breeds	**71,059**	53,009
	1,041,847	787,481

7. OTHER REVENUE AND GAINS

	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
Interest income on:		
Bank deposits	**158**	1,333
Total interest income	**158**	1,333
Sales of side products and related products, net	**12,396**	6,958
Gain on disposal of property, plant and equipment	**43**	9
Government grants (Note)	**11,056**	5,686
Reversal of impairment loss recognised on trade receivables	**–**	16
Reversal of impairment loss recognised on other receivables	**323**	116
Rental income	**423**	316
Exchange gain	**599**	–
Sundry income	**452**	1,160
	25,450	15,594

Note:

Government grants include subsidies income received by a subsidiary of the Group which operates in the PRC in accordance with the subsidy policies of local government authorities and in relation to the construction of qualifying assets. Subsidies income received by a subsidiary of the Group is recognised in the consolidated statements of profit or loss and other comprehensive income when received and no specific conditions have been required to fulfill. Those government grants in relation to the construction of qualifying assets are recognised as deferred revenue (Note 30). The government grants recognised at the year ended 31 December 2013 are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

8. FINANCE COSTS

	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
Interest on:		
Bank borrowings		
– wholly repayable within five years	**10,963**	5,664
– wholly repayable over five years	**–**	1,226
	10,963	6,890

9. TAXATION

	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
PRC enterprise income tax		
– current year	**246**	65
Deferred tax (Note 16)		
– current year	**426**	(3,873)
Income tax expense/(credit)	**672**	(3,808)

	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
Loss before taxation	**(10,818)**	(2,879)
Tax at the PRC Enterprise Income Tax rate of 25% (2012: 25%)	**4,902**	12,071
Tax exemption for subsidiaries operating in the PRC	**(1,483)**	(3,335)
Tax effect of the expense not deductible for tax purpose	**2,401**	2,811
Tax effect of income not taxable for tax purpose	**(7,510)**	(14,214)
Under provision for previous years	**(246)**	11
Tax effect of unrecognised temporary difference	**(426)**	(3,873)
Tax effect of tax loss not recognised	**3,034**	2,721
	672	(3,808)

Notes:

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

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

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC Enterprise Income Tax ("EIT") at a tax rate of 25% for the years ended 31 December 2013 and 2012, except for the following:

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

Fujian Baojishun Food Development Limited ("Fujian Baojishun") is also entitled to EIT exemption with respect to the income derived from the processing of frozen chicken meat products during the period between 1 February 2013 to 31 December 2013.

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

Fujian Hetai Poultry Company Limited ("Fujian Hetai") is also entitled to EIT exemption with respect to the income derived from broilers breeding during the period between 15 November 2013 to 31 December 2013.

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

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

9. TAXATION (Continued)

Notes: (Continued)

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

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2013 would not be distributed in the foreseeable future.

10. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging/(crediting):

	Group	
	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Staff costs including directors' remuneration (Note 11)	**16,819**	12,975
Retirement schemes benefits	**2,252**	1,903
Total staff costs	**19,071**	14,878
Depreciation of property, plant and equipment (Note 17)	**24,648**	22,342
Amortisation of investment property (Note 18)	**36**	36
Amortisation of prepaid lease payments (Note 19)	**1,333**	1,298
Total depreciation and amortisation	**26,017**	23,676
Auditors' remuneration	**1,000**	750
Impairment loss recognised on trade receivables	**–**	3
Impairment loss recognised on other receivables	**2,766**	343
Research and development costs	**6,768**	2,401
Operating lease rental expenses	**697**	1,281
Loss on disposal of property, plant and equipment	**65**	10

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

	Group	
	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Proceeds on sales	**(36,623)**	(121,278)
Less: Cost of sales	**36,000**	123,181
Net realised (gain)/loss on financial assets at fair value through profit or loss	**(623)**	1,903
Unrealised gain on financial assets at fair value through profit or loss	**(1,574)**	(4,107)
Net gain on financial assets at fair value through profit and loss	**(2,197)**	(2,204)

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
Directors' fees	**144**	165
Salaries, allowances and benefits in kind	**2,280**	1,947
Discretionary bonus	**–**	–
Retirement schemes contributions	**38**	64
	2,462	2,176

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

The Group

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2013					
Chief executive:					
Mr. Lin Qinglin	**–**	**961**	**–**	**12**	**973**
Executive director:					
Mr. Wu Shiming	**–**	**769**	**–**	**12**	**781**
Mr. Yin Shouhong	**–**	**550**	**–**	**14**	**564**
Independent non-executive director:					
Mr. Chau On Ta Yuen	**48**	**–**	**–**	**–**	**48**
Mr. Hu Chung Ming	**48**	**–**	**–**	**–**	**48**
Mr. Wei Ji Min	**48**	**–**	**–**	**–**	**48**
	144	**2,280**	**–**	**38**	**2,462**
For the year ended 31 December 2012					
Chief executive:					
Mr. Lin Qinglin	–	815	–	10	825
Executive director:					
Mr. Wu Shiming	–	782	–	12	794
Mr. Yin Shouhong	–	350	–	42	392
Independent non-executive director:					
Mr. Chau On Ta Yuen	49	–	–	–	49
Mr. Hu Chung Ming	49	–	–	–	49
Mr. Liao Yuan (resigned on 15 May 2012)	18	–	–	–	18
Mr. Wei Ji Min	49	–	–	–	49
	165	1,947	–	64	2,176

12. EMPLOYEES EMOLUMENTS

The five individuals whose emoluments were the highest in the group for the year include three (2012: three) directors whose emoluments are reflected in the analysis below:

	Group For the year ended 31 December 2013 RMB'000	 2012 RMB'000
Salaries, allowances and benefits in kind	**1,698**	736
Retirement schemes contributions	**23**	24
	1,721	760

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

	Group For the year ended 31 December 2013	 2012
Nil to RMB880,000 (equivalents to HK$1,000,000)	**2**	2

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 (2012: Nil).

During the years ended 31 December 2013 and 2012, emoluments paid by the Group to any of the senior management all are within the band: Nil – RMB880,000 (equivalents to HK$1,000,000).

13. (LOSS)/PROFIT OF THE COMPANY

The net loss for the year dealt with in the financial statements of the Company amounted to RMB16,004,000 (2012: net profit of approximately RMB22,515,000).

14. DIVIDENDS

Dividends recognised as distributions during the year:

	Group For the year ended 31 December 2013 RMB'000	 2012 RMB'000
Final dividend of HK$1.0 cent per share, paid (note (a))	**–**	13,552
Dividend paid to non-controlling shareholders (note (b))	**–**	3,960

Notes:

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

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

The Company does not recommend the payment of final dividend for the year ended 31 December 2013 (2012: Nil).

15. (LOSS)/EARNINGS PER SHARE

	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
(Loss)/profit		
(Loss)/profit attributable to owners of the Company for the purpose of basic (loss)/earnings per share	**(12,762)**	80

	2013 '000	2012 '000
Number of shares		
Weighted average number of shares for the purpose of basic (loss)/earnings per share	**1,660,000**	1,660,000

Diluted (loss)/earnings per share were same as the basic (loss)/earnings per share as there were no potential dilutive ordinary shares in existence for both of the reporting periods.

16. DEFERRED TAX ASSETS

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

	Group Deferred revenue RMB'000
At 1 January 2012	839
Credit to profit or loss (Note 9)	3,873
At 31 December 2012 and 1 January 2013	4,712
Charge to profit or loss (Note 9)	(426)
At 31 December 2013	**4,286**

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Tools RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
As at 1 January 2012	119,190	71,385	8,650	5,264	110,247	314,736
Additions	652	11,554	6,145	193	106,220	124,764
Disposals	(649)	(163)	(505)	(11)	–	(1,328)
Transfer	106,870	85,708	–	750	(193,328)	–
As at 31 December 2012 and 1 January 2013	226,063	168,484	14,290	6,196	23,139	438,172
Additions	15,599	6,140	207	596	17,379	39,921
Disposals	–	(561)	(2,076)	–	–	(2,637)
Transfer	26,044	2,808	–	–	(28,852)	–
As at 31 December 2013	267,706	176,871	12,421	6,792	11,666	475,456
Accumulated depreciation						
As at 1 January 2012	35,689	44,469	3,888	4,162	–	88,208
Provided for the year	7,681	12,603	1,735	323	–	22,342
Disposals	(649)	(148)	(429)	(10)	–	(1,236)
As at 31 December 2012 and 1 January 2013	42,721	56,924	5,194	4,475	–	109,314
Provided for the year	8,204	14,411	1,685	348	–	24,648
Disposals	–	(516)	(1,860)	–	–	(2,376)
As at 31 December 2013	**50,925**	**70,819**	**5,019**	**4,823**	**–**	**131,586**
Net book values						
As at 31 December 2013	**216,781**	**106,052**	**7,402**	**1,969**	**11,666**	**343,870**
As at 31 December 2012	183,342	111,560	9,096	1,721	23,139	328,858

Note:

The property, plant and equipment with net book amount of approximately RMB58,243,000 at the end of the reporting period (2012: approximately RMB 122,648,000), are pledged as collaterals for the Group's bank borrowings. Please refer to note 29 for details.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost			
As at 1 January 2012	434	537	971
Additions	17	–	17
As at 31 December 2012 and 1 January 2013	451	537	988
Additions	5	–	5
As at 31 December 2013	**456**	**537**	**993**
Accumulated depreciation			
As at 1 January 2012	1	107	108
Provided for the year	88	108	196
As at 31 December 2012 and 1 January 2013	89	215	304
Provided for the year	91	108	199
As at 31 December 2013	**180**	**323**	**503**
Net book values			
As at 31 December 2013	**276**	**214**	**490**
As at 31 December 2012	362	322	684

18. INVESTMENT PROPERTY

	Group As at 31 December	
	2013 RMB'000	2012 RMB'000
Cost		
As at 1 January 2012, 31 December 2012 and 31 December 2013	**1,187**	1,187
Accumulated depreciation		
At the beginning of the year	**192**	156
Charge for the year	**36**	36
At the end of the year	**228**	192
Net book values	**959**	995

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

18. INVESTMENT PROPERTY (Continued)

The fair values of the investment property was approximately RMB3,500,000 at the end of the reporting period (2012: RMB3,260,000). The fair values of the investment property of the Group at the end of the reporting periods has been arrived at on the basis of a valuation carried out at that date by Asset Appraisal Limited (the "Valuer") and have appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

19. PREPAID LEASE PAYMENTS

	Group	
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cost		
At the beginning of the year	**57,943**	57,943
At the end of the year	**57,943**	57,943
Accumulated depreciation		
At the beginning of the year	**4,696**	3,398
Charge for the year	**1,333**	1,298
At the end of the year	**6,029**	4,696
Net book values	**51,914**	53,247
Analysed for reporting purposes as:		
Current assets	**1,298**	1,298
Non-current assets	**50,616**	51,949
	51,914	53,247

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 RMB43,215,000 at the end of the reporting period (2012: RMB20,489,000), are pledged as collaterals for the Group's bank borrowings. Please refer to note 29 for details.

20. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY

	Group	
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**–**	–
Amount due from a subsidiary	**213,754**	220,781
	213,754	220,781

20. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY (Continued)

Details of the Company's subsidiaries at 31 December 2013 are as follows:

Name of subsidiary	Place of incorporation	Paid up capital RMB'000	Percentage of equity Interest and voting power attributable to the company Direct %	Indirect %	Principal activities
Sumpo International Holdings Limited	BVI	34	100	–	Investment holding
Fujian Sumpo	PRC	218,000		94.84	Manufacturing and trading of animal feeds, trading of poultry, processing and trading of meat and meat product
Longyan Baotai	PRC	60,000	–	94.84	Breeding and sales of poultry commodity broilers, chicken breeds, aquatic products and provision of breeding techniques consultancy services
Xiamen Sumpo Food	PRC	30,000	–	94.84	Sales of packaged food products
Fujian Hetai	PRC	20,000	–	94.84	Breeding and sales of poultry commodity broilers, chicken breeds, aquatic products and provision of breeding techniques consultancy services
Fujian Baojiashun	PRC	180,000	–	94.84	Processing and trading of meat and meat product
Fujian Longzeji Feed Company Limited ("Fujian Longzeji")	PRC	30,000	–	94.84	Manufacturing and trading of animal feeds

In addition, the directors of the Company made an assessment as at the date of initial application of HKFRS 12 and at the end of the reporting period. In the opinion of the directors, there is no subsidiary that have non-controlling interest individually that are material to the Group and therefore no information is disclosed for these non-wholly owned subsidiaries.

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

21. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	Group As at 31 December 2013 RMB'000	2012 RMB'000
Frozen meats	**64,455**	38,164
Animal feeds	**2,952**	1,345
Processed foods	**3,063**	1,214
Agricultural produce	**11,245**	9,307
Raw materials (Note)	**20,599**	17,482
Wine	**2,477**	–
Consumables	**92**	489
Packaging	**806**	834
	105,689	68,835

Note:

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

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

	Group As at 31 December 2013 RMB'000	2012 RMB'000
Carrying amount of inventories sold	**869,901**	664,246
Fair value of agricultural produce on initial recognition	**(100,353)**	(69,827)
Reversal of fair value of agricultural produce due to hatch and disposals	**98,415**	68,403
	867,963	662,822

The Group is exposed to a number of risks related to biological assets and agricultural produce. In addition to the financial risk disclosed in note 35, the Group is exposed to the following operation risks:

(a) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

21. INVENTORIES (Continued)

(b) Climate, disease and other natural risks

The Group's biological assets and agricultural produce are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including but not limited to regular inspections, disease controls, surveys and insurance.

Principal assumptions for valuation of agricultural produce

The following principal assumptions have been adopted by the Valuer:

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

(b) save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;

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

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

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

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

(g) the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

(h) the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

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

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

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

21. INVENTORIES (Continued)

The qualification of the Valuer

The Group's agricultural produce were independently valued by the Valuer. The Valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. The professional valuers of the Valuer participated in this valuation include professional member of the Royal Institution of Chartered Surveyors (the "MRICS"), professional member of the Hong Kong Institute of Surveyors (the "MHKIS"), professional member of the China Institute of Real Estate Appraisal (the "CIREA"), charterholder of the Chartered Financial Analyst Institute (the "CFA") and member of the Global Association of Risk Professional (the "FRM") and have appraisal experiences in different kinds of assets such as property assets, industrial assets, biological assets, mining rights and assets, technological assets and financial assets in the PRC, Hong Kong, Singapore and Thailand. They have previously participated in the valuation of biological assets and agricultural produce such as hogs, chickens, sophora alopecuroides crops, sunflower seeds and tapioca chips.

Among the professional institutions mentioned above, the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors are member organisations of the International Valuation Standards Council (the "IVSC") which encourages their respective members to adopt and use the International Valuation Standards (including relevant standards on Biological Asset Valuation) laid down by the IVSC.

Based on the above qualification and various experiences of the Valuer and/or its members in providing biological asset valuation services to various companies listed on the Stock Exchange and other stock exchanges in the United States, which engage in the business of husbandry and agriculture industry, the directors are of the view that the Valuer is competent to determine the fair value of the Group's biological assets.

Physical count of agricultural produce

The Group currently has two hatching facilities. After the mature breeders grown from parent stock day-old chicks lay the broiler eggs, the Group collect and deliver the same to the hatching facilities. The Group select those broiler eggs that can satisfy the quality requirements. Broiler eggs are incubated in machines and the Group carefully monitor and maintain the optimum temperature and humidity throughout the entire hatching process. It generally takes approximately 21 days for broiler eggs to be hatched. Hatched chicken breeds are inspected, selected, vaccinated and then delivered to either the Group's broiler breeding farms or the contract farmers.

The following steps have been taken for undertaking the physical counting by the Valuer:

- to obtain the housekeeper records in relation to the number of broiler eggs in the hatching facilities as at the relevant reporting date and the counting date;
- to obtain the housekeeper records in relation to the daily movement on the number of broiler eggs in the hatching facilities between the relevant reporting date and the counting date;
- to count the number of broiler eggs in the hatching facilities; and
- to work out the number of broiler eggs as at the relevant reporting date by rolling back the counted number from the counting date to the relevant reporting date using the warehouse records as mentioned above.

21. INVENTORIES (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of agricultural produce:

- 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).

As at 31 December 2013

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Agricultural produce				
Broiler eggs	**–**	**11,245**	**–**	**11,245**

As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Agricultural produce				
Broiler eggs	–	9,307	–	9,307

Type	**Fair value hierarchy**	**Valuation technique and key input**	**Significant unobservable inputs**
Broiler eggs	Level 2	The fair value of broiler eggs is determined by using the market approach with reference to market-determined prices.	• Average market prices of broiler eggs: RMB2.50 per egg (2012: RMB2.25 per egg)

Selling price of broiler eggs sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in selling price of broiler eggs, with all other variables held constant, of the Group's profit before taxation (through the impact on changes in selling price of broiler eggs).

21. INVENTORIES (Continued)

	Increase/(decrease) in profit before taxation For the year ended 31 December 2013 RMB'000	2012 RMB'000
Increase of selling price of 5%	**562**	465
Decrease of selling price of 5%	**(562)**	(465)

22. BIOLOGICAL ASSETS

Movements of the biological assets are summarised as follows:

Group

	Parent Stock Day-Old Chicks and immature breeders RMB'000	Mature breeders RMB'000	Chicken breeds RMB'000	Total RMB'000
As at 1 January 2012	7,494	4,925	6,651	19,070
Increase due to purchases	4,661	–	–	4,661
Increase due to raising (Feeding cost and others)	9,572	–	104,506	114,078
Transfer	(18,575)	18,575	–	–
Decrease due to retirement and deaths	–	(9,586)	–	(9,586)
Decrease due to sales	–	–	(106,043)	(106,043)
Change in fair value less costs to sell	(1,050)	(1,507)	(399)	(2,956)
As at 31 December 2012 and 1 January 2013	2,102	12,407	4,715	19,224
Increase due to purchases	6,011	–	–	6,011
Increase due to raising (Feeding cost and others)	3,493	–	122,961	126,454
Transfer	(5,973)	5,973	–	–
Decrease due to retirement and deaths	–	(13,286)	–	(13,286)
Decrease due to sales	–	–	(124,445)	(124,445)
Change in fair value less costs to sell	4,145	(816)	(77)	3,252
As at 31 December 2013	**9,778**	**4,278**	**3,154**	**17,210**

22. BIOLOGICAL ASSETS (Continued)

The numbers of biological assets are summarised as follows:

	Group As at 31 December	
	2013	2012
	'000	'000
Parent Stock Day-Old Chicks and immature breeders	**161**	41
Mature breeders	**106**	156
Chicken breeds	**521**	495
At the end of the year	**788**	692

Analysed for reporting purposes as:

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
Non-current assets	**14,056**	14,509
Current assets	**3,154**	4,715
At the end of the year	**17,210**	19,224

The Group is exposed to a number of risks related to biological assets. In addition to the financial risk disclosed in note 35, the Group is exposed to the certain operation risks which are similar to agricultural produce. Please refer to note 21 for details.

22. BIOLOGICAL ASSETS (Continued)

Principal assumptions for valuation of biological assets

The following principal assumptions have been adopted by the Valuer:

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

(b) save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;

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

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

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

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

(g) the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

(h) the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

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

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

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

22. BIOLOGICAL ASSETS (Continued)

The qualification of the Valuer

The Group's biological assets were independently valued by the Valuer. The Valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. Please refer to note 21 for details.

Physical count of biological assets

The Group currently has three breeder farms and five broiler breeding farms on which various sheds are erected. Parent Stock Day-Old Chicks and chicken breeds are moved into a shed at the same time such that all chickens within a shed would be in the same stage of life cycle. For administration purposes, the housekeeper of the shed would keep proper records on the number of chickens moved into the shed and also the number of chicken remaining alive inside the shed every day throughout the breeding period. After the breeding period, the shed would be vacated by moving out all the chickens for sale or for slaughtering. Cages of prescribed dimensions that can contain a certain number of mature breeders or broilers are used for carrying the chickens from the sheds to the prescribed destinations.

The following steps have been taken for undertaking the physical counting by the Valuer:

- to confirm with the Company the time when the chickens are mature enough for moving out from the sheds for sale or for slaughtering;
- to obtain the housekeeper records in relation to the number of chickens in the sheds by the time when they are moved out from the sheds;
- to obtain the housekeeper records in relation to the daily reduction on the number of chickens within the sheds between the relevant reporting date and the date when they are moved out;
- to count the number of cages containing the chickens at the entrance of the sheds when they are moved out from the sheds; and
- to work out the number of chicken breeds/broilers or breeders as at the relevant reporting date by rolling back the counted number from the counting date to the relevant reporting date using the warehouse records as mentioned above.

22. BIOLOGICAL ASSETS (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

- 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).

As at 31 December 2013

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Biological assets				
Parent Stock Day-Old Chicks and immature breeders	–	–	9,778	9,778
Mature breeders	–	–	4,278	4,278
Chicken breeds	–	3,154	–	3,154
Total biological assets	–	3,154	14,056	17,210

As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Biological assets				
Parent Stock Day-Old Chicks and immature breeders	–	–	2,102	2,102
Mature breeders	–	–	12,407	12,407
Chicken breeds	–	4,715	–	4,715
Total biological assets	–	4,715	14,509	19,224

22. BIOLOGICAL ASSETS (Continued)

Fair value hierarchy (Continued)

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Biological assets			
Parent stock day-old chicks and immature breeders and mature breeders	Level 3	The fair value less costs to sell of parent stock day-old chicks and immature breeders and mature breeders are determined by using the income approach based on present value of expected net profit discounted at a market determined discount rate.	• The discount rate adopted in the discounted cash flow model is 24.27% (2012: 15.35%), which has been developed by the capital asset pricing model. The selling price of broiler eggs adopted in the discounted cash flow is RMB2.50 per egg (2012: RMB2.25 per egg). The production costs adopted in the discounted cash flow is RMB309 per head (2012: RMB300 per head).
Chicken breeds	Level 2	The fair value of chicken breeds is determined by using the market approach with reference to market-determined prices.	• Average market prices of chicken breeds: RMB6.06 per chicken (2012: RMB9.53 per chicken)

Sensitivity analysis

Discount rate sensitivity analysis for parent stock day-old chicks and immature breeders and mature breeders

The following table demonstrates the sensitivity to a reasonably possible change in discount rate, with all other variables held constant, of the Group's profit before taxation (through the impact on changes in discount rate).

	Increase/(decrease) in profit before taxation **For the year ended 31 December**	
	2013 **RMB'000**	2012 RMB'000
Increase of discount rate of 5%	**(440)**	(57)
Decrease of discount rate of 5%	**440**	57

22. BIOLOGICAL ASSETS (Continued)

Sensitivity analysis (Continued)

Selling price of broiler eggs sensitivity analysis for parent stock day-old chicks and immature breeders and mature breeders

The following table demonstrates the sensitivity to a reasonably possible change in selling price of broiler eggs, with all other variables held constant, of the Group's profit before taxation (through the impact on changes in selling price of broiler eggs).

	Increase/(decrease) in profit before taxation	
	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Increase of selling price of 5%	**2,110**	1,902
Decrease of selling price of 5%	**(2,110)**	(1,902)

Production costs sensitivity analysis for parent stock day-old chicks and immature breeders and mature breeders

The following table demonstrates the sensitivity to a reasonably possible change in production costs, with all other variables held constant, of the Group's profit before taxation (through the impact on changes in production costs).

	Increase/(decrease) in profit before taxation	
	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Increase of production costs of 5%	**(1,510)**	(1,315)
Decrease of production costs of 5%	**1,510**	1,315

Selling price sensitivity analysis for chicken breeds

The following table demonstrates the sensitivity to a reasonably possible change in selling price, with all other variables held constant, of the Group's profit before taxation (through the impact on changes in selling price).

	Increase/(decrease) in profit before taxation	
	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Increase of selling price of 5%	**158**	236
Decrease of selling price of 5%	**(158)**	(236)

23. TRADE RECEIVABLES

	Group As at 31 December 2013 RMB'000	2012 RMB'000
Trade receivables	**29,946**	24,687
Less: Impairment loss recognised	**(408)**	(408)
	29,538	24,279

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

	Group As at 31 December 2013 RMB'000	2012 RMB'000
Within 30 days	**27,447**	23,053
31 days to 70 days	**2,022**	1,226
71 days to 180 days	**69**	–
	29,538	24,279

23. TRADE RECEIVABLES (Continued)

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

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
Overdue by:		
1 day to 110 days	**69**	–

At the end of the reporting period, trade receivables of approximately RMB408,000 (2012: RMB408,000) was impaired and had been fully provided for. These receivables mainly relate to wholesales in unexpected difficult economic situations. The ageing of these receivables are as follows:

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
Over 180 days	**408**	408

Movements of impairment loss recognised on trade receivables:

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
At the beginning of the year	**408**	421
Reversal of impairment loss recognised	**–**	(16)
Impairment loss recognised	**–**	3
At the end of the year	**408**	408

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

The trade receivables are denominated in RMB.

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

24. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits paid, prepayments and other receivables	**49,210**	44,744	**492**	508
Less: Impairment loss recognised	**(3,261)**	(818)	**–**	–
	45,949	43,926	**492**	508

Deposits paid, prepayments and other receivables

	Group As at 31 December		Company As at 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances to staff	**628**	552	**–**	–
Amounts due from related parties (Note 36(e))	**521**	1,635	**–**	–
Current tax assets	**–**	279	**–**	–
Deposits paid and prepayments (Note (a))	**5,922**	12,984	**492**	508
Deposits paid for purchase of property, plant and equipment (Note (b))	**2,897**	3,433	**–**	–
Deposits paid and prepayments to suppliers	**7,665**	5,154	**–**	–
Interest receivables	**–**	945	**–**	–
Other receivables	**5,977**	2,095	**–**	–
VAT recoverable (Note (c))	**25,600**	17,667	**–**	–
	49,210	44,744	**492**	508
Less: Impairment loss recognised	**(3,261)**	(818)	**–**	–
	45,949	43,926	**492**	508

Notes:

(a) As at 31 December 2013, an amount of approximately RMB2,118,000 was prepayment for repair and maintenance of breeding facilities. As at 31 December 2012, an amount of approximately RMB7,594,000 was the deposits paid and prepayments to independent third parties and a related company of the Group in relation to the acquisition of prepaid lease payment.

(b) The deposit paid for purchase of property, plant and equipment as at 31 December 2013 and 2012 was mainly for the construction of slaughtering and processing plant, breeder farms, hatching facility and broiler breeding farms.

(c) As at 31 December 2013 and 2012, the VAT recoverable was mainly for the machinery and equipment purchased during the year.

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

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
At the beginning of the year	**818**	591
Reversal of impairment loss recognised	**(323)**	(116)
Impairment loss recognised	**2,766**	343
At the end of the year	**3,261**	818

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
Held for trading:		
– Listed equity securities in the PRC (note (a))	**121**	103
– Unlisted equity securities in the PRC (note (b))	**32,348**	30,792
	32,469	30,895

Notes:

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

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

The unlisted equity securities are measured at fair value and are classified as Level 3 fair value measurement (see note 35(b)). The fair value of the unlisted equity securities are estimated by International Valuation Limited. The valuation was arrived at by reference to market comparables which are the closest proxies to Xiamen Bank with similar industry focus, risk and nature.

26. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	Group As at 31 December		Company As at 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**108,717**	131,137	**3,582**	12,329
Pledged bank deposits (Note 39)	**–**	36,000	**–**	–
	108,717	167,137	**3,582**	12,329

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at the prevailing market rates which at 0.35% per annum during the reporting period (2012: 0.35%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of approximately RMB105,015,000 (2012: RMB154,128,000) which are not freely convertible into other currencies.

27. TRADE PAYABLES

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade payables	**34,113**	19,312

The ageing analysis of trade payables is as follows:

	Group As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 30 days	**32,923**	18,887
31 to 90 days	**1,146**	391
91 to 180 days	**44**	27
Over 180 days	**–**	7
	34,113	19,312

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

28. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received	**1,529**	1,819	**–**	–
Other payables for property, plant and equipment (Note)	**–**	17,592	**–**	–
Accruals and other payables	**50,740**	46,277	**979**	959
	52,269	65,688	**979**	959

Note:

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

29. BANK BORROWINGS

	Group As at 31 December 2013 RMB'000	2012 RMB'000
Bank borrowings – secured	**177,000**	158,492
Loan from other bank facilities	**10,000**	–
Total bank borrowings	**187,000**	158,492

Carrying amount repayable:

	Group As at 31 December 2013 RMB'000	2012 RMB'000
On demand or within one year	**187,000**	158,492
Over five years	**–**	–
Total bank borrowings	**187,000**	158,492
Less: Amounts due within one year shown under current liabilities	**(187,000)**	(158,492)
	–	–

Bank borrowings at:

	Group As at 31 December 2013 RMB'000	2012 RMB'000
– floating interest rate	**65,000**	81,492
– fixed interest rate	**122,000**	77,000
	187,000	158,492

As at 31 December 2013, the carrying amount of the Group's bank borrowings are all originally denominated in RMB, which is the functional currency of the Group.

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

29 BANK BORROWINGS (Continued)

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

	Group As at 31 December 2013	2012
Bank borrowings	**5.0%-6.0%**	2.9%-6.6%

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

(a) the Group's property, plant and equipment with a carrying amount of approximately RMB58,243,000 (2012: RMB122,648,000).

(b) the Group's prepaid lease payments with a carrying amount of approximately RMB43,215,000 (2012: RMB20,489,000).

(c) no bank deposits was pledged to secure bank borrowings of the Group as at 31 December 2013 (2012: RMB36,000,000).

30. DEFERRED REVENUE

At the end of the reporting period, the Group has unused government grants in relation to the construction of qualifying assets of approximately RMB17,619,000 (2012: approximately RMB19,516,000). The deferred revenue will be recognized upon construction of qualifying assets. The government grants are not repayable.

31. SHARE CAPITAL

The Group and the Company

	Number of shares	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:			
At 1 January, 31 December 2012 and 2013 ordinary shares of HK$0.1 each	4,000,000,000	400,000	320,000
Issued and fully paid:			
At 1 January, 31 December 2012 and 2013 ordinary shares of HK$0.1 each	**1,660,000,000**	**165,999**	**141,007**

32. RESERVES

The Group

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

(a) Exchange reserve

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

(b) Statutory reserve

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

32. RESERVES (Continued)

The Company

	Share premium RMB'000	Accumulated loss RMB'000	Total RMB'000
As at 1 January 2012	113,622	(30,249)	83,373
Profit for the year	–	22,515	22,515
Total comprehensive income for the year	–	22,515	22,515
Dividend paid to owners of the Company	–	(13,552)	(13,552)
As at 31 December 2012	113,622	(21,286)	92,336
Loss for the year	–	(16,004)	(16,004)
Total comprehensive loss for the year	–	(16,004)	(16,004)
As at 31 December 2013	**113,622**	**(37,290)**	**76,332**

33. RETIREMENT BENEFIT PLANS

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

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

34. CAPITAL RISK MANAGEMENT

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

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

34 CAPITAL RISK MANAGEMENT (Continued)

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

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

	Group	
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Total borrowings	**187,000**	158,492
Total assets	**758,611**	742,108
Gearing ratio (%)	**25%**	21%

35. FINANCIAL INSTRUMENTS AND FAIR VALUES

(a) Categories of financial instruments

	Group	
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Financial assets		
Financial assets at fair value through profit of loss		
– Held for trading	**32,469**	30,895
Loans and receivables (including cash and bank balances)		
– Trade receivables	**29,538**	24,279
– Deposits received, prepayments and other receivables	**7,485**	1,829
– Pledged bank deposits	**–**	36,000
– Cash and bank balances	**108,717**	131,137
Financial liabilities		
Amortised cost		
– Trade payables	**34,113**	19,312
–Accruals, deposits received and other payables	**50,740**	63,869
– Bank borrowings	**187,000**	158,492

35. FINANCIAL INSTRUMENTS AND FAIR VALUES (Continued)

(a) Categories of financial instruments (Continued)

	Company As at 31 December	
	2013	2012
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and bank balances)		
– Amount due from a subsidiary	**213,754**	220,781
– Cash and bank balances	**3,582**	12,329
Financial liabilities		
Amortised cost		
– Accruals, deposits paid and other payables	**979**	959

(b) Financial risk management objectives and policies

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

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

Credit risk

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

35. FINANCIAL INSTRUMENTS AND FAIR VALUES (Continued)

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

Interest rate risk

(i) Exposure to interest rate risk

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

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

(ii) Sensitive analysis

At 31 December 2013, if interest rates at the date had been 100 basis points higher/lower with all other variables held constant, the Group's loss for the year would increase/decrease by RMB100,000 (2012: RMB89,000). This is mainly attributable to the Group's exposure as result of increase/decrease interest expense on short term bank loans net off with interest income from bank deposits.

Business risk

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

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

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

35. FINANCIAL INSTRUMENTS AND FAIR VALUES (Continued)

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

Liquidity risk

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

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

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

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 2013						
Non-derivative financial liabilities						
Trade payables	–	34,113	–	–	34,113	34,113
Accruals, deposits paid and other payables	–	50,740	–	–	50,740	50,740
Bank borrowings	5.3%	187,000	–	–	187,000	187,000
		271,853	–	–	271,853	271,853

35. FINANCIAL INSTRUMENTS AND FAIR VALUES (Continued)

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

Group (Continued)

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2012						
Non-derivative financial liabilities						
Trade payables	–	19,312	–	–	19,312	19,312
Accruals, deposits paid and other payables	–	63,869	–	–	63,869	63,869
Bank borrowings	5.6%	164,670	–	–	164,670	158,492
		247,851	–	–	247,851	241,673

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 2013						
Non-derivative financial liabilities						
Accruals, deposits paid and other payables	–	**979**	–	–	**979**	**979**

35. FINANCIAL INSTRUMENTS AND FAIR VALUES (Continued)

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

Company (Continued)

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2012						
Non-derivative financial liabilities						
Accruals, deposits paid and other payables	–	959	–	–	959	959

(c) Fair value

Fair value hierarchy

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair measurements are observable and the significance of the inputs to the fair value measurements in its entirety.

The table below analyses the fair value of the Group's assets that are measured at fair value on a recurring basis. The different levels are defined as follows:

- 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).

35. FINANCIAL INSTRUMENTS AND FAIR VALUES (Continued)

(c) Fair value (Continued)

Fair value hierarchy (Continued)

As at 31 December 2013

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**121**	**–**	**32,348**	**32,469**

As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	103	–	30,792	30,895

Reconciliation of Level 3 fair value measurements of financial assets

	2013 RMB'000	2012 RMB'000
As at 1 January 2012 and 1 January 2013	**30,792**	–
Purchases	**–**	26,696
Fair value gain in profit or loss	**1,556**	4,096
As at 31 December 2013	**32,348**	30,792

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

35. FINANCIAL INSTRUMENTS AND FAIR VALUES (Continued)

(c) Fair value (Continued)

Fair value hierarchy (Continued)

Reconciliation of Level 3 fair value measurements of financial assets (Continued)

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Financial assets			
Financial assets at fair value through profit or loss	Level 1 and 3	The fair value of financial assets at fair value through profit or loss is determined by using the market approach.	• For the year ended 31 December 2013, the fair value is based on the net book value as at 31 December 2012 reported by Xiamen Bank, which stands at approximately RMB4,382.63 million, then adjusted for net earnings of approximately RMB412.73 million estimated on the basis of historical performance. For the year ended 31 December 2012, the fair value is based on the net book value as at 31 December 2011 reported by Xiamen Bank, which stands at RMB3,044.41 million, and adjusted for the additional capital of RMB1,051.05 million raised in June 2012 and net earnings of approximately RMB327.22 million estimated on the basis of historical performance.

36. 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:

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions

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

Name of company	Nature of transaction	Relationship	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
Fujian Ronghecheng Food Corporation ("Ronghecheng Food Corporation"), formerly known as Fujian Sumhua Enterprise Limited	Rental income	Common director in a related company	**423**	316
Ronghecheng Food Corporation	Sales of chicken meat	Common director in a related company	–	287
Ronghecheng Food Corporation	Sales of side products	Common director in a related company	**1,482**	965
Xiamen Oporto Catering Management Company Limited	Sales of chicken meat	Common director in a related company (Note (i))	–	171
Xiamen Sumpo	Rental paid	Common director in a related company (Note (ii))	–	58
Xiamen Ronghecheng Food Company Limited	Sales of motor vehicle	Common director in a related company (Note (iii))	–	–

Notes:

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

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

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

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel remuneration

	Group For the year ended 31 December 2013 RMB'000	2012 RMB'000
Short term employee benefits	**1,698**	1,788
Retirement schemes contributions	**23**	73
	1,721	1,861

(c) Mr. Yin Shouhong, a director of the Company, and his wife have entered into a personal guarantee agreement on 21 November 2013 with Agricultural Development Bank of China amounting to approximately RMB27,000,000 (2012: RMB27,000,000) to secure a bank borrowing of the Group from 29 November 2013 to 28 November 2014 (2012: 30 November 2012 to 29 November 2013).

(d) Mr. Lin Qinglin, a director of the Company, and his wife have entered into a personal guarantee agreement on 21 November 2013 with Agricultural Development Bank of China amounting to approximately RMB27,000,000 to secure a bank borrowing of the Group from 29 November 2013 to 28 November 2014 (2012: 30 November 2012 to 29 November 2013).

(e) Amounts due from related parties

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

	Group As at 31 December 2013 RMB'000	2012 RMB'000
Included in other receivables (Note 24):		
– Ronghecheng Food Corporation	**512**	516
– Fujian Sumhui Agriculture Development Limited	**9**	1,119
	521	1,635

Other receivables from related parties are unsecured, interest frees and are expected to be recovered within one year. There was no impairment loss made against these amounts as at 31 December 2013 (2012: Nil).

37. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

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

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Within one year	**836**	897
In the second to fifth years, inclusive	**3,250**	3,447
After the fifth years	**1,772**	1,983
	5,858	6,327

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

38. COMMITMENTS FOR EXPENDITURE

	Group	
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Commitments for acquisition of property, plant and equipment	**–**	10,937

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):

	Group As at 31 December 2013 RMB'000	2012 RMB'000
Bank deposits	**–**	36,000
Property, plant and equipment	**58,243**	122,648
Prepaid lease payments	**43,215**	20,489
	101,458	179,137

40. 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.

41. COMPARATIVES

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2014.

Five Year Financial Summary

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

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations					
Revenue	**1,041,847**	787,481	663,041	633,255	569,242
Cost of sales	**(982,174)**	(717,948)	(541,343)	(507,280)	(472,545)
Gross profit	**59,673**	69,533	121,698	125,975	96,697
Other revenue and gain	**25,450**	15,594	16,607	23,095	13,651
Change in fair value less costs to sell of biological assets	**3,252**	(2,956)	(3,025)	2,429	3,388
Net gain/(loss) on financial assets at fair value through profit or loss	**2,197**	2,204	(1,296)	7	49
Fair value of agricultural produce on initial recognition	**100,353**	69,827	64,920	58,340	57,952
Reversal of fair value of agricultural produce due to hatch and disposals	**(98,415)**	(68,403)	(62,260)	(55,983)	(60,083)
Selling and distribution expenses	**(19,911)**	(13,559)	(13,409)	(10,674)	(9,295)
Administrative expenses	**(38,418)**	(41,038)	(47,061)	(41,786)	(22,406)
Finance costs	**(10,963)**	(6,890)	(5,198)	(10,045)	(8,906)
Other operating expenses	**(34,036)**	(27,191)	(22,713)	(19,315)	(15,470)
(Loss)/profit before taxation	**(10,818)**	(2,879)	48,263	72,043	55,577
Taxation	**672**	3,808	(1,159)	(2,103)	(5,553)
Profit for the year from continuing operations	**(11,490)**	929	47,104	69,940	50,024
Discontinued operation					
Profit/(loss) for the year from discontinued operation	**–**	–	–	–	9,371
Profit for the year	**(11,490)**	929	47,104	69,940	59,395
Profit attributable to:					
For continuing and discontinued operations					
Profit attributable to:					
Owners of the Company	**(12,762)**	80	42,840	61,919	56,985
Non-controlling interests	**1,272**	849	4,264	8,021	2,410
	(11,490)	929	47,104	69,940	59,395

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**758,611**	742,108	618,655	419,757	558,730
Total liabilities	**(291,001)**	(263,008)	(122,972)	(225,817)	(349,859)
Non-controlling interests	**(14,501)**	(13,229)	(16,340)	(12,076)	(13,843)
	453,109	465,871	479,343	181,864	195,028