



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

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

Stock Code 股份代號：1699



INTERIM REPORT

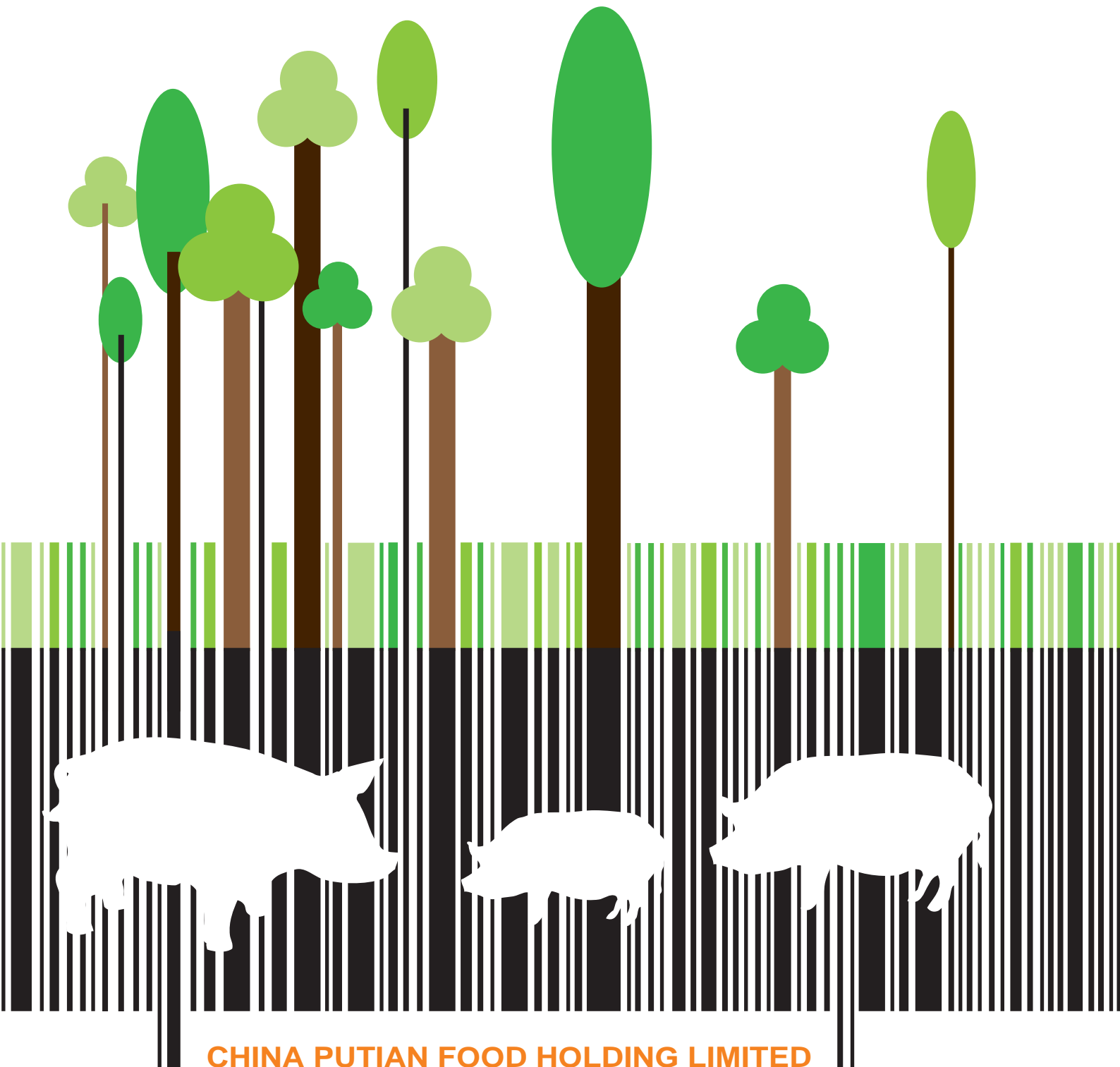
中期報告 2014

China Putian Food Holding Limited is a

**LEADING VERTICALLY
INTEGRATED** pork products supplier

中國普甜食品控股有限公司為

領先的垂直一體化 豬肉供應商



CHINA PUTIAN FOOD HOLDING LIMITED

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CORPORATE INFORMATION

Directors

Executive Directors

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

Independent Non-Executive Directors

Mr. Wu Shiming
Mr. Cai Zirong
Mr. Wang Aiguo

Audit Committee

Mr. Wu Shiming (*Committee Chairman*)
Mr. Cai Zirong
Mr. Wang Aiguo

Remuneration Committee

Mr. Cai Zirong (*Committee Chairman*)
Mr. Wu Shiming
Mr. Wang Aiguo

Nomination Committee

Mr. Wang Aiguo (*Committee Chairman*)
Mr. Wu Shiming
Mr. Cai Zirong

Company Secretary

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

Legal Advisor

Cheung Tong & Rosa Solicitors

Auditors

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Principal Bankers

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

Registered Office

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

Principal Place of Business in Hong Kong

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

Head Office and Principal Place of Business in the PRC

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Company Website

www.putian.com.hk

Stock Code

1699

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

China Putian Food Holding Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is one of the largest vertically integrated pork suppliers in Fujian Province in China and committed to producing pork products in the highest standards of safety and quality. Its operations cover the entire industry chain from hog farming, hog slaughtering, pork separating to sales and distribution of pork. The Group’s production facilities comprised a hog farm in compliance with national standards, five large-scale contract farms and one slaughterhouse with a maximum annual slaughtering capacity of 2 million hogs.

For the six months ended 30 June 2014 (the “Review Period”), the Group had an overall strong performance and recorded a marked improvement in results, with approximately RMB310,447,000 in revenue, representing an increase of approximately 8.5% as compared to the six months ended 30 June 2013, and approximately RMB46,071,000 in net profit, representing an increase of approximately 11.6% as compared to the six months ended 30 June 2013.

During the Review Period, the Company actively enhanced its production equipment in its headquarters in Putian, Fujian, steadily expanded its sales network, and entered into a number of strategic partnerships. Also, the Group issued HK\$200 million convertible bonds due 2017 to Vandi Investments Limited, a limited liability company incorporated in the British Virgin Islands indirectly and wholly owned by CCB International (Holdings) Limited, with an annual interest rate of 9.5% and the raised funds will be used for business development and daily operation.

During the Review Period, apparent signs of recovery were seen in the global economy. In spite of a downward pressure due to weaker imports and exports and domestic demand, the Chinese economy still recorded a 7.4% real GDP growth in the first half of the year. The Group believes that the growth of national income will drive the demand for high-quality pork products. Therefore, the Group will be committed to developing retail pork business and high-end pork market to capture the growth opportunities in the People’s Republic of China (the “PRC”).



MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Financial Review

1. Revenue

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

	For the six months ended 30 June					
	2014		2013		2012	
	RMB'000 (Unaudited)	% of total revenue	RMB'000 (Unaudited)	% of total revenue	RMB'000 (Unaudited)	% of total revenue
Revenue						
Retail of pork	163,068	52.5%	151,759	53.0%	139,505	51.8%
Wholesale of pork	147,379	47.5%	134,433	47.0%	129,994	48.2%

The total unaudited revenue of the Group increased from approximately RMB286,192,000 for the six months ended 30 June 2013 to approximately RMB310,447,000 for the six months ended 30 June 2014, primarily due to a rise in sales volume of pork products. In the first half of the year, important strategic adjustments have been made by the Group, and with a significant improvement in the high-end pork market, both the businesses of pork retail and wholesale had increased, bringing an increase of approximately 8.5% in revenue as compared to the corresponding period of last year.



MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Revenue from Retail of Pork

The unaudited revenue from retail of pork of the Group increased from approximately RMB151,759,000 for the six months ended 30 June 2013 to approximately RMB163,068,000 for the six months ended 30 June 2014. The Group continued to expand its sales network and further enlarge its market share of pork retailing in Fujian Province. The number of the Group's retail network of sales outlets increased to 106 as of 30 June 2014 and the Group maintained close cooperation with the world's largest supermarket groups and domestic chain supermarkets with nationwide presence. Through internet advertising campaigns and customer recognition, Putian brand's products gradually gained awareness and recognition on the back of our reliable and savory market positioning, particularly from those who pursuit high living standards with consuming power. The management expects that the turnover from retail of pork will continue to increase leveraging on the distribution networks throughout the province.

Revenue from Wholesale of Pork

The unaudited revenue from wholesale of pork of the Group recorded an increase of approximately 9.6% from approximately RMB134,433,000 for the six months ended 30 June 2013 to approximately RMB147,379,000 for the six months ended 30 June 2014. During the Review Period, the Group successfully expanded beyond Fujian province and carried out the wholesale of pork across Hangzhou region.

2. Gross Profit and Gross Profit Margin

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

	For the six months ended 30 June					
	2014		2013		2012	
	Gross profit RMB'000 (Unaudited)	Gross profit margin (%)	Gross profit RMB'000 (Unaudited)	Gross profit margin (%)	Gross profit RMB'000 (Unaudited)	Gross profit margin (%)
Gross profit and gross profit margin						
Retail of pork	46,444	28.5%	42,918	28.3%	34,330	24.6%
Wholesale of pork	35,644	24.2%	30,140	22.4%	24,132	18.6%

The overall unaudited gross profit of the Group increased from approximately RMB73,058,000 for the six months ended 30 June 2013 to approximately RMB82,088,000 for the six months ended 30 June 2014. The overall gross profit margin of the Group increased from approximately 25.5% for the six months ended 30 June 2013 to approximately 26.4% for the six months ended 30 June 2014. Cost of sales during the period remained stable, whilst the gross profit of retail and wholesale of pork recorded growth, leading to an increase in total gross profit and gross profit margin.

Gross Profit and Gross Profit Margin for the Retail of Pork

The gross profit from retail of pork increased from approximately RMB42,918,000 for the six months ended 30 June 2013 to approximately RMB46,444,000 for the six months ended 30 June 2014. The gross profit margin for the retail of pork increased slightly from approximately 28.3% for the six months ended 30 June 2013 to approximately 28.5% for the six months ended 30 June 2014.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Gross Profit and Gross Profit Margin for the Wholesale of Pork

The gross profit from wholesale of pork increased from approximately RMB30,140,000 for the six months ended 30 June 2013 to approximately RMB35,644,000 for the six months ended 30 June 2014. The gross profit margin for the wholesale of pork increased from approximately 22.4% for the six months ended 30 June 2013 to approximately 24.2% for the six months ended 30 June 2014, primarily due to an increase in the wholesale price of pork as compared to the corresponding period of last year.

Prospects

According to market researches, nearly 700 million hogs were slaughtered in China every year, representing a market size of more than RMB1 trillion. However, China's pork industry is still in the preliminary stage of development as compared to the development in Europe and the United States. The industry in China is highly fragmented, with more than 70% of market hogs being raised by small farms and modern large-scale hog farms being rather few.

As a listed hog farming and pork sale company, the Group shoulders the dual responsibility of both bringing a greater return of investment to investors and promoting the development of China's swine industry and conservation of hog breeds. Looking forward, a main goal of the Company is to initiate special-breed hog farming to introduce black hog, a special local hog breed in Putian, to Beijing and then other economically advanced cities such as Shanghai and, by establishing local hog breed resource protection and utilization bases covering 36 rare and precious hog breeds nationwide, to secure advantages in both policy and industry. This strategy has a number of benefits. First, it will lay a foundation for the Group to secure breeding sources for stabilizing and refining the black hog breed. Secondly, it will help expand the Group's black hog project at a quicker pace and in a larger scale and provide more premium sows, thus ensuring the supply of sows needed by its special-breed hog farms. And thirdly, on the basis of its hog breed resources, the Group can create a resource platform and forum inviting industry experts and breeding talents, which will contribute to the survival and development of rare and precious hog breeds in China and the rapid development and growth of the Group.

In addition, the Group intends to establish black hog farming bases in Beijing, Tianjin and Hebei district in a bid to expand its business to affluent cities including Beijing. To ensure stable and adequate supply by the Group of high-end pork products to the customers and meet the rising demand in Beijing, the Group plans to establish distribution channels in Beijing areas such as setting up direct sales stores or specialty retail stores to sell high-end pork products.

By farming black hogs and selling high-quality and healthy black hog products, Putian will increase its brand awareness and value nationwide. The Group is now discussing with relevant government agencies and parties over the project. It is expected that the Group's supply of high-end black hogs will reach up to 380,000 by 2018. The Group will diversify its distribution channels by combining traditional channels and new channels such as high-end experience stores, e-commerce, group buying, retail in supermarkets, and direct sale to get the dual gains of brand development and profit growth.

Liquidity and Financial Resources

Financial Resources

The Group primarily finances the capital requirements for operations by internally generated cashflow and bank facilities. As at 30 June 2014, cash and bank balances amounted to approximately RMB166,126,000 (31 December 2013: approximately RMB7,246,000).

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Borrowings and Pledged Assets

As at 30 June 2014, the total amount of interest-bearing bank borrowings was approximately RMB140 million (31 December 2013: approximately RMB150 million), all of which was denominated in Renminbi and on a floating interest rate.

As at 30 June 2014, the bank borrowings of RMB140,000,000 was pledged by the Group's property, plant and equipment and two parcels of land with a total carrying value of approximately RMB138,802,000 (31 December 2013: approximately RMB142,552,000).

Gearing Ratio

As at 30 June 2014, the gearing ratio of the Group was 46.6% (31 December 2013: 31.1%). This was calculated by dividing interest bearing bank borrowings and convertible bonds with the total equity of the Group as at 30 June 2014.

Foreign Exchange Risk

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

Material Acquisitions and Disposal of Subsidiaries

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

Operating Lease Commitments

As at 30 June 2014, the Group had operating lease commitments of approximately RMB1,850,000 (31 December 2013: approximately RMB2,438,000).

Contingent Liabilities

As at 30 June 2014, the Group had no material contingent liabilities (30 June 2013: Nil).

Human Resources

As at 30 June 2014, the Group had 660 employees. Staff costs, including directors' emoluments, totalled approximately RMB12,856,000 (30 June 2013: RMB10,092,000) during the Review Period. All of the Group's companies are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

INTERIM FINANCIAL REPORT

The board of directors (the "Board") of the Company is pleased to present the unaudited condensed interim financial statement of the Group for the six months ended 30 June 2014 together with the comparative figures for the corresponding period in 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	310,447	286,192
Cost of sales		(228,359)	(213,134)
Gross profit		82,088	73,058
Other revenue and gains	5	779	2,887
Losses arising from change in fair value less cost to sell of biological assets	11	(1,777)	(3,982)
Selling and distribution expenses		(12,960)	(10,341)
Administrative expenses		(16,878)	(15,987)
Finance costs		(5,009)	(3,605)
Other operating expenses		(172)	(731)
Profit before taxation		46,071	41,299
Taxation	6	—	—
Profit for the period	7	46,071	41,299
Other comprehensive income/(loss) for the period, net of income tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		3,581	(373)
Other comprehensive income/(loss) for the period, net of income tax		3,581	(373)
Total comprehensive income		49,652	40,926
Profit for the period attributable to owners of the Company		46,071	41,299
Total comprehensive income for the period attributable to the owners of the Company		49,652	40,926
Earnings per share	9		
— Basic (RMB cents per share)		5.76	5.16
— Diluted (RMB cents per share)		4.86	5.16

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Notes</i>	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	335,189	324,273
Prepaid lease payments		85,043	86,838
Biological assets	11	1,700	4,562
Deposits paid for property, plant and equipment		73,248	67,693
Deposits paid for prepaid lease payments		15,067	15,067
		510,247	498,433
Current assets			
Inventories		4,518	7,273
Biological assets	11	72,108	47,170
Trade receivables	12	87,623	77,263
Deposits paid, prepayments and other receivables	13	15,342	14,552
Prepaid lease payments		3,588	3,588
Pledged bank deposits		6,585	2,293
Cash and bank balances		166,126	7,246
		355,890	159,385
Current liabilities			
Trade and bills payables	14	25,759	14,333
Accruals, deposits received and other payables	15	8,789	6,849
Bank borrowings	17	140,000	150,000
Deferred revenue		253	253
		174,801	171,435
Net current assets/(liabilities)		181,089	(12,050)
Total assets less current liabilities		691,336	486,383

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2014

	<i>Notes</i>	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Equity			
Share capital	16	65,178	65,178
Reserves		499,375	417,511
Total equity		564,553	482,689
Non-current liabilities			
Convertible bonds	18	123,216	—
Deferred revenue		3,567	3,694
		126,783	3,694
Total equity and non-current liabilities		691,336	486,383

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital	Share premium	Exchange reserve	Statutory reserve	Convertible note reserve	Other reserve	Retained earnings	Proposed final dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2013 (Audited)	65,178	18,509	1,543	31,931	—	53,015	206,285	6,519	382,980
Profit for the period	—	—	—	—	—	—	41,299	—	41,299
Other comprehensive loss for the period	—	—	(296)	—	—	—	—	(77)	(373)
Total comprehensive (loss)/income for the period	—	—	(296)	—	—	—	41,299	(77)	40,926
Transfer to statutory reserve	—	—	—	5,444	—	—	(5,444)	—	—
Dividend paid	—	—	—	—	—	—	—	(6,442)	(6,442)
As at 30 June 2013 (Unaudited)	65,178	18,509	1,247	37,375	—	53,015	242,140	—	417,464
As at 1 January 2014 (Audited)	65,178	18,586	1,271	43,970	—	53,015	300,669	—	482,689
Profit for the period	—	—	—	—	—	—	46,071	—	46,071
Other comprehensive income for the period	—	—	3,581	—	—	—	—	—	3,581
Total comprehensive income for the period	—	—	3,581	—	—	—	46,071	—	49,652
Transfer to statutory reserve	—	—	—	5,192	—	—	(5,192)	—	—
Recognition of the equity component of convertible bonds	—	—	—	—	32,212	—	—	—	32,212
As at 30 June 2014 (Unaudited)	65,178	18,586	4,852	49,162	32,212	53,015	341,548	—	564,553

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June

	2014	2013
	RMB'000	RMB'000
For the six months ended 30 June 2014/2013	(Unaudited)	(Unaudited)
Net cash generated from operating activities	41,041	24,612
Net cash used in investing activities	(21,869)	(114,149)
Net cash generated from/(used in) financing activities	136,127	(124)
Net increase/(decrease) in cash and cash equivalents	155,299	(89,661)
Cash and cash equivalents at the beginning of the period	7,246	110,851
Effect of foreign exchange rate changes	3,581	(289)
Cash and cash equivalents at the end of the period	166,126	20,901

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair value. The condensed consolidated interim financial information are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial information are unaudited but have been reviewed by the audit committee of the Company.

2. Significant Accounting Policies

The accounting policies adopted in preparing the condensed consolidated interim financial information are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2013 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA as discussed below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2014.

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

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int21	Levies

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

2. Significant Accounting Policies (Continued)

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

HKFRS 9	Financial Instruments ²
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure ²
HKAS 19 (Amendments)	Defined Benefits Plans: Employee Contributions ¹
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation ³
HKFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations ³
HKFRS 14	Regulatory Deferral Accounts ³
HKFRS 15	Revenue from Contracts with Customers ⁵
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle ⁴
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle ¹

¹ effective for annual periods beginning on or after 1 July 2014, with earlier application permitted

² no mandatory effective date yet determined but is available for adoption

³ effective for annual periods beginning on or after 1 January 2016

⁴ effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁵ effective for annual periods beginning on or after 1 January 2017

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

3. Segment Information

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

4. Revenue

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from		
— Retail of pork	163,068	151,759
— Wholesale of pork	147,379	134,433
	310,447	286,192

5. Other Revenue and Gains

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on:		
Bank deposits	60	306
Amortisation of deferred revenue	127	127
Gain on disposal of hog droppings	18	101
Gain on disposal of biological assets	554	832
Government grants	—	1,265
Net foreign exchange gain	—	176
Sundry income	20	80
	779	2,887

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

6. Taxation

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Profit before taxation	46,071	41,299
Tax at the applicable income tax rate	10,547	10,646
Tax exemption for subsidiary operating in the PRC	(11,183)	(11,269)
Tax effect of tax loss not recognised	636	623
Income tax expenses	—	—

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI during the reporting period.
- (b) No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax during the reporting period.
- (c) Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) ("EIT Law"), the statutory income tax rate for both domestic enterprises and foreign investment enterprises is 25%. However, a major subsidiary of the Group, Fujian Tianyi, is entitled to the following preferential tax treatments:

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

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

- (d) Under the EIT Law, Fujian Tianyi is required to pay withholding tax of 5% on the dividend payable to the foreign shareholders and PRC income tax on gain on transfer of shares.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

7. Profit for the Period

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs		
including directors' remuneration	12,200	9,429
Retirement scheme contributions	656	663
Total staff costs	12,856	10,092
Depreciation of property, plant and equipment	5,458	8,512
Amortisation of prepaid lease payments	1,794	2,032
Total depreciation and amortisation	7,252	10,544

8. Dividends

The Board does not recommend the payment of any interim dividend for the period (Six months ended 30 June 2013: nil).

9. Earnings Per Share Attributable to Owners of the Company

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings attributable to owners of the Company for the purpose of basic earnings per share	46,071	41,299

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

9. Earnings Per Share Attributable to Owners of the Company (Continued)

	Six months ended 30 June	
	2014 '000 (Unaudited)	2013 '000 (Unaudited)
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	800,000	800,000
Effect of dilutive potential ordinary shares: Convertible bonds	153,846	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	953,846	800,000

The calculation of basic earnings per share for the period is based on the profit attributable to the owners of the Company for the reporting period of approximately RMB46,071,000 (profit attributable to the owners of the Company for six months ended 30 June 2013: RMB41,299,000) and the weighted average of 800,000,000 (six months ended 30 June 2013: 800,000,000) ordinary shares in issue during the period.

The calculation of the diluted earnings per share attributable to owners of the Company is based on the followings data:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Earnings for the purpose of basic earnings per share	46,071	41,299
Effective of dilutive potential ordinary shares: Interest on convertible bonds (net of tax)	282	—
	46,353	41,299

10. Movement in Property, Plant and Equipment

During the period, the Group incurred the costs of plant and machinery, office equipment, motor vehicles and construction in progress of approximately RMB1,787,000 (2013: RMB2,777,000), RMB424,000 (2013: RMB578,000), RMB749,000 (2013: RMB49,000) and RMB13,437,000 (2013: RMB164,435,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

11. Biological Assets

Movements of biological assets are summarised as follows:

	Breeder hogs	Commodity hogs	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2013 (Audited)	3,545	45,536	49,081
Increase due to purchases	734	338,110	338,844
Increase due to raising (Feeding cost and others)	4,889	121,955	126,844
Transfer	(4,773)	4,773	—
Decrease due to retirement and deaths	—	(2,147)	(2,147)
Decrease due to sales	(967)	(456,626)	(457,593)
Change in fair value less costs to sell	1,134	(4,431)	(3,297)
As at 31 December 2013 and 1 January 2014 (Audited)	4,562	47,170	51,732
Increase due to purchases	291	190,565	190,856
Increase due to raising (Feeding cost and others)	1,988	75,833	77,821
Transfer	(1,866)	1,866	—
Decrease due to retirement and deaths	—	(2,053)	(2,053)
Decrease due to sales	(563)	(242,208)	(242,771)
Change in fair value less costs to sell	(2,712)	935	(1,777)
As at 30 June 2014 (Unaudited)	1,700	72,108	73,808

Note:

The Group's biological assets as at 30 June 2014 and 31 December 2013 have been arrived at on the basis of a valuation carried out by independent qualified professional valuer. Given the nature of the biological assets where market determined prices are available, the fair values less costs to sell have been determined by the market approach based on the market-determined prices as at 30 June 2014 and 31 December 2013 adjusted with such attributes as pig breed and stage of growth in the lifecycle. The resulting loss arising from changes in fair value less costs to sell of biological assets of RMB1,777,000 (loss recognised for the six months ended 30 June 2013: RMB3,982,000) has been recognised directly in profit or loss for the six months ended 30 June 2014.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

12. Trade Receivables

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Trade receivables	87,623	77,263

The fair values of trade receivables approximate their carrying amounts.

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

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Within 30 days	41,307	55,552
31 days to 90 days	43,611	21,521
91 days to 180 days	2,705	190
Total	87,623	77,263

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

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

13. Deposits Paid, Prepayments and Other Receivables

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Advances to staff	221	237
Other deposits paid and prepayments	15,121	14,315
	15,342	14,552

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

14. Trade and Bills Payables

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Trade payables	3,809	9,044
Bills payables	21,950	5,289
	25,759	14,333

The aging analysis of trade payables is as follows:

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Within 30 days	2,716	8,327
31 days to 90 days	580	608
91 days to 180 days	513	109
Total	3,809	9,044

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

The Group normally obtains credit terms within 30 days from its suppliers. The bills payables are matured within six months from the end of the reporting period.

15. Accruals, Deposits Received and Other Payables

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Deposits received	825	578
Other payables for property, plant and equipment	408	777
Accruals and other payables	7,556	5,494
	8,789	6,849

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

16. Share Capital

	Number of Shares	Nominal value of ordinary shares RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Authorised:			
At 1 January and 30 June 2014 ordinary shares of HK\$0.1 each	40,000,000,000	4,000,000	3,240,009
Issued and fully paid:			
At 1 January 2013 and 30 June 2014 ordinary shares of HK\$0.1 each	800,000,000	80,000	65,178

There was no movement in the issued share capital of the Company during the period.

17. Bank Borrowings

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Bank borrowings — secured	140,000	150,000
Carrying amount repayable: On demand or within one year	140,000	150,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

17. Bank Borrowings (Continued)

Bank borrowings at:

	As at 30 June 2013 RMB'000 (Unaudited)	As at 31 December 2012 RMB'000 (Audited)
— floating interest rate	20,000	20,000
— fixed interest rate	120,000	130,000
	140,000	150,000

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

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

	2014 % (Unaudited)	2013 % (Audited)
Floating rate	6.600–7.260	6.600–7.260
Floating rate	6.300	6.300

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

	As at 30 June 2013 RMB'000 (Unaudited)	As at 31 December 2012 RMB'000 (Audited)
Property, plant and equipment	118,755	122,267
Prepaid lease payments	20,047	20,285
	138,802	142,552

As at 30 June 2014 and 31 December 2013, the Group's bank borrowings of RMB20,000,000 was guaranteed by the Company's director, Mr. Cai Chenyang.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

18. Convertible Bonds

On 18 June 2014, the Company and Vandi Investments Limited (“the investor”), a limited liability company incorporated in the British Virgin Islands indirectly and wholly-owned by CCB International (Holdings) Limited, entered into the subscription agreement in respect of the issue of the convertible bonds in the principal amount of HK\$ 200,000,000 equivalent to RMB146,860,000 due 2017 with an annual interest rate of 9.5% payable semi-annually and bear an administrative fee of 1.0% per annum payable semi-annually in arrears. The net proceeds from the convertible bonds, after deducting expenses, are expected to be approximately HK\$198,834,000 equivalent to RMB146,004,000. Such net proceeds are primarily used for business development of the Group as well as general working capital.

Upon full conversion of the convertible bonds at the initial conversion price of HK\$1.30 per share, a total of 153,846,153 conversion shares will be issued.

The Company will redeem all the outstanding bonds held by a bondholder on the third anniversary of the issue date of such outstanding bonds (the “Maturity Date”), at an amount equal to the aggregate of:

- (i) the aggregate principal amount of such outstanding bonds held by such bondholder;
- (ii) an amount which would give such bondholder an internal rate of return of 15% in respect of the aggregate principal amount of such outstanding bonds calculated from the issue date of such outstanding bonds up to and including the Maturity Date; and
- (iii) any accrued but unpaid interest and administrative fee on such outstanding bonds.

The net proceeds received from the issue of the convertible bonds have been split between a liability component and an equity component in its initial recognition as follows:

- (i) liability component is initially measured at fair value amounted to approximately HK\$155,857,000 equivalent to RMB114,459,000, and it is subsequently measured at amortised cost by applying an effective interest rate of 25.12% per annum after considering the effect of the transaction costs;
- (ii) equity component, which is equal to the difference between the net proceeds received and the fair value of the liability component, amounted to approximately RMB32,212,000 which is presented in equity as convertible bonds reserve.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

18. Convertible Bonds (Continued)

The movements of the liability component and equity component of the convertible bonds for the period are set out below:

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
As at 1 January 2014	—	—	—
Convertible bonds issued on 26 June 2014	114,459	32,401	146,860
Transaction costs incurred	(667)	(189)	(856)
Imputed interest charge	339	—	339
Coupon interest paid	(166)	—	(166)
Administrative fee payable	(17)	—	(17)
Exchange alignment	9,268	—	9,268
As at 30 June 2014 (Unaudited)	123,216	32,212	155,428

19. Fair Value Measurement of Financial Instrument

Fair values of liabilities that are not measured at fair value

The carrying amounts of the group's financial instrument carried at cost or amortised cost is approximately to their fair values as at 30 June 2014 except for the following financial instrument, for which their carrying amounts and fair value are disclosed below:

	As at 30 June 2014		As at 31 December 2013	
	Carrying amount RMB'000 (Unaudited)	Fair value RMB'000 (Unaudited)	Carrying amount RMB'000 (Audited)	Fair Value RMB'000 (Audited)
Convertible bonds	123,126	123,987	—	—

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

20. Capital Commitments

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	27,887	34,987

21. Operating Lease Commitments

The Group as lessee:

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

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Within one year	1,165	1,166
In the second to fifth years, inclusive	685	1,272
	1,850	2,438

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2014

22. Events After the End of the Reporting Period

On 13 August 2014, the Company's subsidiary called Putian (Beijing) Food Limited (the "Purchaser"), a company incorporated in the People's Republic of China with limited liability, entered into a sale and purchase agreement on live pigs with Putian Xianglixiang Black Pig Development Co., Ltd (the "Putian Black Pig Development"). Pursuant the purchase agreement, the Purchaser will purchase from the Putian Black Pig Development a total of approximately 3,000 Putian black pigs reared by the Putian Black Pig Development and counted by the Purchaser at a purchase amount of not more than RMB10,000,000. Details please refer to the announcement of the Company dated 13 August 2014.

On 18 August 2014, the Company entered into an investment agreement with the People's Government of Xuanhua, Hebei Province, People's Republic of China (the "Xuanhua Government") in relation to investment (the "Project") in Xuanhua County. Pursuant to the investment agreement, the Xuanhua Government will provide at least 2,000 mu breeding land for the Company through leases and transfers, and guarantee that the transfer and leasing of 1,500 mu breeding land in Shenjing for the Company will be completed during this year. Moreover, the Xuanhua Government will formulate incentive policies and provide relevant assistance to the Group regarding the Project in respect of site selection, electricity and water supply project initiation and environmental assessment.

In order to carry out the Project, the Group will establish Putian (Hebei) Modern Framing Development Corporation, which will be incorporated in Xuanhua County, to serve as the sole operating headquarter of the Company in Hebei Province. Details please refer to the announcement of the Company dated 19 August 2014.

23. Approval of the Interim Financial Statements

The condensed consolidated interim financial information were approved and authorised for issue by the Board of Directors of the Company on 28 August 2014.

OTHER INFORMATION

Disclosure of Interests

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

As at 30 June 2014, the interests and short positions of the directors and chief executive in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") as recorded in the register of interest required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 to the Listing Rules ("Model Code") were as follows:

Long position in the shares and underlying shares of the Company

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

Note:

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

Short position in the shares and underlying shares of the Company

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

Note:

- (1) Mr. Cai Chenyang, through Zhan Rui, a corporation controlled by him, is deemed to have a short position of 408,000,000 shares of the Company.

Save as disclosed above, as at 30 June 2014, none of the directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be recorded in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO or which would otherwise be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION (Continued)

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

As at 30 June 2014, the interest or short position of the persons (other than the directors or chief executive of the Company) in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interests	Number of ordinary shares/underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Zhan Rui (Note 1)	Beneficial owner	408,000,000	51%
Ms Tsui Chun Mei (Note 2)	Beneficial owner/ interest of spouse	111,928,000	13.99%
Mr Sze Ching Lau (Note 3)	Beneficial owner/ interest of spouse	111,928,000	13.99%
China Construction Bank Corporation (Note 4)	Interest of controlled corporation/ security interest in shares	561,846,153	70.23%
Central Huijin Investment Ltd. (Note 5)	Interest of controlled corporation/ security interest in shares	561,846,153	70.23%

Notes:

- (1) Mr. Cai Chenyang is deemed to be interested in 408,000,000 shares of the Company, which are held by Zhan Rui, a corporation controlled by Mr. Cai Chenyang.
- (2) Ms. Tsui Chun Mei is the spouse of Mr. Sze Ching Lau. Ms. Tsui Chun Mei is deemed to be interested in the 64,852,000 shares held by Mr. Sze Ching Lau representing 8.1% of the entire issued and paid-up share capital of the Company.
- (3) Mr. Sze Ching Lau is the spouse of Ms. Tsui Chun Mei. Mr. Sze Ching Lau is deemed to be interested in the 47,076,000 shares held by Ms. Tsui Chun Mei representing 5.89% of the entire issued and paid-up share capital of the Company.
- (4) Such long position includes (a) security interests in 408,000,000 shares of the Company and (b) derivative interests in 153,846,153 underlying shares of the Company held by Vandi Investments Limited, a corporation 100% indirectly controlled by China Construction Bank Corporation.
- (5) Such long position includes (a) security interests in 408,000,000 shares of the Company and (b) derivative interests in 153,846,153 underlying shares of the Company held by Vandi Investments Limited, a corporation 100% indirectly controlled by China Construction Bank Corporation, of which Central Huijin Investment Ltd. has 57.26% control.

OTHER INFORMATION (Continued)

Short position in the shares and underlying shares of the Company

Name	Nature of interests	Number of ordinary shares/underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Zhan Rui (Note 1)	Beneficial owner	408,000,000	51%

Note:

(1) Mr. Cai Chenyang, through Zhan Rui, a corporation controlled by him, is deemed to have a short position of 408,000,000 shares of the Company.

Save as disclosed above, as at 30 June 2014, no person (other than the directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company which would be required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Review Period.

Corporate Governance Practices

The Company has adopted the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Save as disclosed below, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, during the six months ended 30 June 2014, complied with all applicable code provisions of the Code.

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

OTHER INFORMATION (Continued)

Compliance with the Model Code

The Company has adopted the code provisions of the Model Code as its code of conduct regarding directors' securities transactions. Having made specific enquiry with all the directors of the Company, all directors of the Company confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions for the six months ended 30 June 2014.

Audit Committee

The audit committee of the Board (the "Audit Committee") comprises three independent non-executive directors, namely Mr. Wu Shiming, Mr. Cai Zirong and Mr. Wang Aiguo. The Audit Committee is chaired by Mr. Wu Shiming.

The Audit Committee had reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014, including the accounting principles adopted by the Group, and took the view that the Company was in full compliance with all applicable accounting standards and regulations and adequate disclosures had been made.

Share Option Scheme

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

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

Purpose of the Share Option Scheme

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

Participants of the Share Option Scheme

The participants of the Share Option Scheme (the "Participant") to whom options may be granted by the Board shall include any full time or part time employee (including any executive and non-executive director or proposed executive and non-executive director), advisor, consultant, agent, contractor, client and supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group.

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

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

OTHER INFORMATION (Continued)

Maximum entitlement of each Participant

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant to each Participant under the Share Option Scheme shall not exceed 1% of the Shares for the time being in issue. Any further grant of options in excess of this limit is subject to shareholders' approval in a general meeting with the grantee and his associates abstaining from voting. Options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

Payment on acceptance of option offer

An offer for grant of options must be accepted within 20 business days from the offer date. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK\$1.00.

Basis of determining the subscription price

The subscription price for the share under the Share Option Scheme will be a price determined by the Board at its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the five trading days immediately preceding the date of the grant; or (iii) the nominal value of a share.