GRANDNESS

SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED
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Guangdong Province
The People's Republic of China

GRANDNESS

ANNUAL REPORT 2014

STEADY GROWTH

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CORPORATE PROFILE

Headquartered in Shenzhen the People's Republic of China ("PRC"), Sino Grandness Food Industry Group Limited 中华食品工业集团有限公司 ("Sino Grandness" or "the Company" and together with its subsidiaries, the "Group") is an integrated manufacturer and distributor of own-branded 鲜绿园® ("Garden Fresh") juices as well as canned fruits and vegetables. Since its establishment in 1997, the Group has rapidly grown to become one of the leading brands for loquat fruit juice in PRC as well as one of the top exporters of canned asparagus, long beans and mushrooms from PRC. The Group's products are distributed within PRC and globally across Europe, North America and Asia, in renowned supermarkets, discount stores and convenience stores including Lidl, Rewe, Carrefour, Walmart, Huepeden, 7-Eleven, Jusco and Metro.

With stringent quality control and procedures implemented in its manufacturing processes, Sino Grandness' canned products are compliant with international standards, including Hazard Analysis and Critical Control Point ("HACCP") food safety system, British Retail Consortium ("BRC"), International Food Standard ("IFS") and International Organization for Standardization ("ISO") certifications. As such, Sino Grandness is able to export its canned products to customers globally including the European Union, which has enforced import restrictions (commonly known as "Green Barriers") since 2000 on the grounds of environmental and food safety issues.

Sino Grandness' production plants in PRC are strategically located in four provinces, namely Shandong, Shanxi, Sichuan and Hubei – all of which are key agricultural belts. The production bases straddle different climatic regions so that production activities can be carried throughout the year. The Group's newest plant in Hubei Province has commenced mass production of juices in October 2014.

In 2010, the Group successfully launched its own-branded bottled juices Garden Fresh, comprising unique fruits such as loquat and hawthorn to target the huge domestic consumer base in China. In recognition of the Group's R&D and brand building efforts, Garden Fresh juices have been accorded the "Innovative, Outstanding and Nutritious Award" by the PRC Food Industry in 2010 as well as "Top 100 Brand in China" by the joint agency of Global times, Asia Brand Association and China Economic Herald in 2013.

In 2012, the Group successfully launched its own-branded 振鹏达® ("Grandness") canned fruits, comprising peaches, pears, mandarin oranges and mix fruits to target the huge domestic consumer base in PRC. In 2014, the Group further launched its new range of snack food products under its in-house brand 好田园®("Hao Tian Yuan").

COMPETITIVE STRENGTHS

Established track record and market

Well-established network of distributors and reputable retailers

Possess good technical knowledge

Consistently high quality products

Production plants are strategically located in various provinces in the PRC

Experienced and dedicated management team

OUR PRODUCTS

Beverage

Canned Fruits &
Snacks

Canned
Vegetables

REVENUE +25%

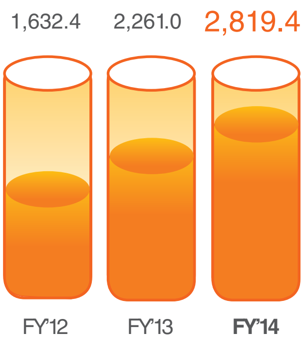
RMB **2.8 BILLION**

ON THE RISE

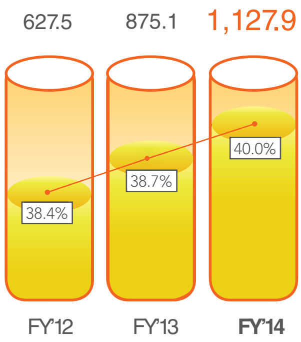
In FY2014, revenue of the Group's beverage segment recorded a 35.8% growth to RMB1.9 billion while domestic canned products segment revenue also surged 62.5% to RMB307.5 million as demand for the Group's own-branded products grew significantly due to increased production capacities, growing consumer acceptance and continued expansion of distribution network within the PRC market.

FINANCIAL HIGHLIGHTS

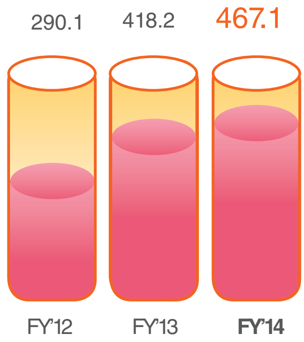
REVENUE
(RMB million)



GROSS PROFIT & PROFIT MARGIN
(RMB million)

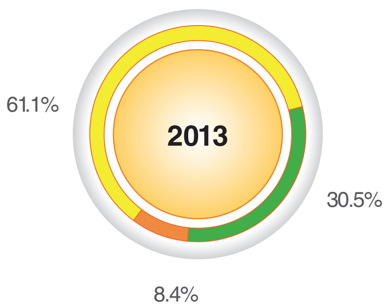


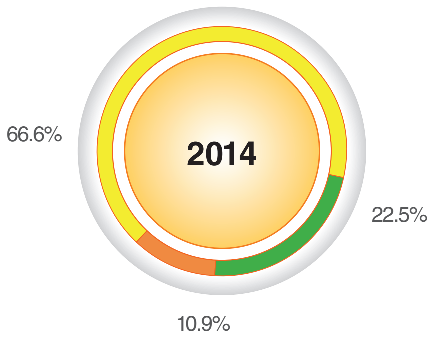
ADJUSTED EARNINGS*
(RMB million)



*ADJUSTED EARNINGS = Net profit attributable to shareholders + non-cash interest expenses of convertible bonds + changes in fair value of the option derivatives in relation to convertible bonds.

REVENUE BREAKDOWN BY SEGMENTS

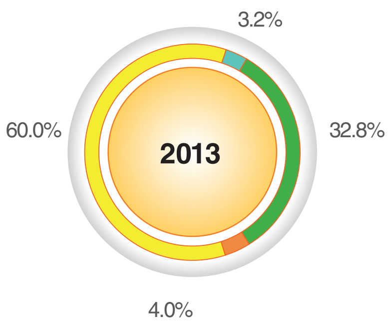


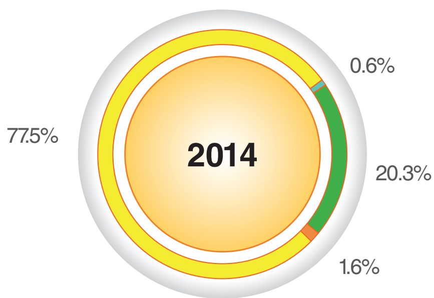


CHANGE
(%)
+25%

Canned Products - Overseas ■ Canned Products - Domestic ■ Beverages ■

REVENUE BREAKDOWN BY GEOGRAPHICAL LOCATIONS





1. Include sales to countries such as Germany, France, Spain, the Netherland, the Czech Republic and Russia
2. Relates mainly to sales to Mexico
3. Relates to sales to countries such as Singapore, Australia and Turkey

Europe[1] ■ North America[2] ■ China ■ Others[3] ■

HONORARY CHAIRMAN

“ LOOKING FOR LONG TERM GROWTH PROSPECTS OF FOOD AND BEVERAGE INDUSTRY IN THE PRC MARKET.”

Prayudh Mahagitsiri
Honorary Chairman

CHAIRMAN'S STATEMENT

"We successfully enhanced our manufacturing capacities and further strengthened our distribution networks, both within China and in Hong Kong."

DEAR SHAREHOLDERS,

On behalf of the Board of Directors, it is my pleasure to present Sino Grandness Food Industry Group Limited's annual report for the financial year ended 31 December 2014 ("FY2014").

Over FY2014, the Group was engaged on many fronts. We successfully enhanced our manufacturing capacities and further strengthened our distribution networks, both within PRC and in Hong Kong.

RECORD REVENUE AND EARNINGS

All in, the Group managed to generate revenue of RMB2.8 billion, an increase of 24.7% compared to RMB2.3 billion in the same period last year ("FY2013").Gross profit was RMB1.1 billion, an increase of 28.9% as compared to the preceding year. The record high revenue achieved in FY2014 reflected sustainable growth momentum of both our own-branded segments, namely beverage and domestic canned products.

However, higher distribution and selling expenses primarily due to higher advertising and promotional expenses pumped into promoting our beverage and canned products, as well as non-cash accounting charges in relation to convertible bonds resulted in decreased net profit. Specifically, net profit attributable to equity holder of the parent was down 13.3% to RMB249.5 million in FY2014. Excluding the impact of non-cash interest expenses of convertible bonds and changes in fair value of the option derivatives in relation to convertible bonds, net profit attributable to equity holders of the parent would have risen by 11.7% in FY2014 to RMB467.1 million compared with RMB418.2 million a year ago.

STRONG GROWTH MOMENTUM OF BEVERAGE SEGMENT

Chinese consumers, as a result of improved living standards, have shown increasing awareness of health and wellness. They have become more concerned about the quality and safety of food consumed. Both these trends of sustained growth in consumer spending and heightened awareness of health and wellness augur well for the fruit juice and canned fruit industry in PRC. This is reflected through the strong growth momentum of the beverage segment. Riding on this trend, we expect these businesses to continue spearheading growth for the Group given the robust uptake of these products.

VENTURING OVERSEAS

The Group is always seeking to extend our reach to more customers and strengthen our market presence. Aside from seeking growth in PRC, we are also looking to grow our overseas presence. On 16 October 2014, the Group announced that its own-branded Garden Fresh fruit juices had been distributed to ***wellcome*** stores, which is one of the largest supermarket chains in Hong Kong with more than 200 retail points through the engagement of a new distributor. The Group's new distributor in Hong Kong is working towards distributing Garden Fresh fruit juices into other reputable retail channels such as 7-Eleven convenience stores. We will continue to work with distributors which provide us with extensive overseas distribution networks. Through strong distribution networks, we can secure greater and faster access to new markets, thereby generating greater revenue growth for our shareholders. Apart from Hong Kong, the Group is exploring the feasibility of other overseas markets such as Southeast Asia.

LAYING A SOLID FOUNDATION FOR A NEW GROWTH PHASE

On 23 October 2014, the Group announced that the new juice production facilities in Hubei Province, PRC ("Hubei Plant") had secured all the relevant permits and approvals and that the Hubei Plant had officially commenced production in October 2014. The Hubei Plant is strategically located in central PRC and is expected to have a maximum production capacity of approximately 240,000 tonnes of juice per annum. We believe the inclusion of our Hubei Plant will better equip the Group to meet increasing demand in our beverage segment in the years ahead.

OUTLOOK

Moving forward, the Group will continue to adopt strategies to enhance its brand value and increase market share. With increased awareness about food safety and quality, and the appreciation of health and wellness among a growing number of consumers, we believe we are well-positioned for the future. Already, we witness the robust growth in demand for our canned products in PRC. As a mark of our production standards, they are compliant with a broad range of international food safety standards. We also see the mushrooming popularity of our fruit juice beverages.

Tapping on the potential growth opportunities for our domestic beverage and canned products segments, specifically for Garden Fresh juices, Grandness canned fruit and Hao Tian Yuan snack food, the Group will focus on promoting our brands to reach the masses far and wide, as well as expanding our distribution networks. We will also expand production capacity at strategic locations to cater to burgeoning demand. To strengthen our market presence and maintain our competitiveness, research and development efforts have been undertaken to widen our range of products to appeal to a broader group of consumers and to cater to different tastes.

In summary, Sino Grandness, with our global distribution network and products meeting international standards, will devote our efforts to become one of the leading integrated manufacturers and distributors of bottled juices as well as canned and snack products.

APPRECIATION

On behalf of the Board of Directors, I would like to thank all our directors, management and staff for the tremendous efforts they have made last year. You are our invaluable assets and the foundation of Sino Grandness' success. Sino Grandness' success cannot be achieved without your continuous dedication.

At this point, I would like to welcome on board Mr Prayudh Mahagitsiri as Honorary Chairman, effective from 30 December 2014. He is the founder and Chairman of PM Group Company Limited, one of the top privately held Thai conglomerates with diverse business interests from property development to consumer products. Popularly known as the "Coffee King of Thailand", he is commended for successfully introducing Nescafe instant coffee to Thais. We look forward to his contributions.

The Board would also like to welcome Mr Chalermchai Mahagitsiri as a Non-Executive Director effective from 13 February 2015. We welcome his experience as a senior corporate leader in Thai companies.

Lastly, I would like to express my heartfelt gratitude to all our shareholders, clients and business partners for their support. We will continue to work hard to achieve higher value for our shareholders and partners.

HUANG YUPENG
Chairman and CEO

主席献词

"我们成功提升了我们的製造实力，并进一步加强我们于中国境内及香港的分销网络。"

尊敬的各位股东，

本人谨代表董事局，欣然呈交中华食品工业集团有限公司截至2014年12月31日止财政年度（"2014年财政年度"）的年度报告。

在2014年财政年度，本集团从事各项不同业务。我们成功提升了我们的製造实力，并进一步加强我们于中国境内及香港的分销网络。

收入及盈利均创新高

整体而言，本集团全年取得了人民币28亿元的收入，较2013年财政年度的人民币23亿元上升24.7%，毛利为人民币11亿元，较前一年度上升28.9%。2014年财政年度的收入创新高，反映了我们的两个自有品牌（即饮料及地道罐头产品）均展现持续增长的动力。

然而，分销及销售费用的上升，主要是较高的广告及促销开支的投入，以期推销我们自由品牌的饮品及罐头水果产品，与此同时可转债券公允价值评估的非现金会计支出，导致净利润的减少。我们也藉此分享，虽然2014年财政年度的净利润下跌13.3%至人民币249.5百万元，但是如扣除可转债券公允价值评估的非现金会计开支后，2014年财政年度的净利润则上升11.7%至人民币467.1百万元，而2013年的净利润则为人民币418.2百万元。

饮料渠道的强大增长动力

由于生活水平提升，中国消费者更加注重健康及养生。他们对于食品的品质及安全倍感关注。这两项趋势对中国果汁及罐头水果行业市场前景有良好的预示作用。透过饮料市场的强大增长动力就能充分反映出这一点。随着这个趋势发展，相关产品大受欢迎，我们预测有关业务将持续为本集团带来突破性的增长。

涉足海外市场

本集团一向希望扩大我们的客户基础及提升我们的市场佔有率。除了寻求于于中国取得增长外，亦希望扩大我们的海外市场。2014年10月16日，本集团宣佈其自有品牌鲜绿园®果汁已分销至香港最大的超级市场连锁店之一的惠康超级市场，而透过与新经销商的合作，令我们增加了超过200个零售点。本集团于香港的新经销商现正努力将鲜绿园®果汁分销至其他着名的零售渠道，例如7-11便利店。我们将继续与多个经销商合作，为我们提供庞大的海外分销网络。透过强大的分销网络，我们能够以更有效及迅速的方式进入新市场，从而为我们的股东带来更高的收入增长。除了香港之外，本集团也正探讨在其他海外市场如东南亚等发展业务的可行性。

为全新增长阶段奠定稳固基础

2014年10月23日，本集团宣佈于中国湖北省的全新果汁生产设施（“湖北厂房”）已取得所有相关许可证及批文并正式投产。湖北厂房座落于华中地区的策略位置，并预期每年最高设计产能将达约240,000吨果汁。我们坚信随着湖北厂房的投产，本集团将具备更佳条件，足以应付我们饮料未来不断增长的需求。

前景

展望未来，本集团将继续採取多项策略以提升其品牌价值及扩大市场的佔有率。随着对食品安全及质量的关注日益增加，加上越来越多消费者更加注重健康及养生，我们相信我们已为日后做出充分的准备。目前为止，我们见证我们的罐头产品在中国的需求急速增长。作为我们的生产水平的标记，有关产品符合各个不同领域的国际食品安全标准。我们亦预期我们的果汁饮料的受欢迎程度将出现爆发式的增长。

凭藉我们的国内饮料及罐头产品市场的拓展，特别是鲜绿园®饮料、振鹏达®罐头水果及好田园®零食的潜在增长机遇，本集团将专注于推广我们的品牌至广大群众，以及扩大我们的分销网络。我们亦会于策略地点扩大产能，以应付不断上升的需求。为了扩大我们的市场佔有率及维持我们的竞争力，我们积极推行研发计划以扩大我们的产品系列，从而吸引更广泛类型的消费者及满足各种需求。

概括而言，凭藉我们的全球分销网络及符合国际标准的产品，中华食品将致力成为顶尖的果汁及罐头产品的综合製造商及分销商之一。

致谢

本人谨代表董事局感谢全体董事、管理层及员工于过去一年的尽心尽力。各位都是中华食品赖以成功的宝贵资产及发展基础。若非各位不断作出贡献，中华食品绝对难以实现今年的成就。

在此，本人欢迎Prayudh Mahagitsiri先生于2014年12月30日起加入团队并担任名誉主席。他是从事物业发展以至消费者产品等不同业务投资的泰国顶尖私人集团企业PM Group Company Limited的创办人兼主席。外号泰国咖啡大王的他，成功将雀巢即溶咖啡引入泰国。我们深信他的加入必定能为本集团作出贡献。

董事局亦谨此欢迎 Chalermchai Mahagitsiri 先生于2015年2月13日起加入董事局并担任非执行董事。作为泰国企业的资深企业领袖，他的经验将令我们获益良多。

最后，本人谨此对全体股东、客户及业务伙伴的支持致以真诚谢意。我们将继续竭诚尽力，为股东及伙伴创造更大价值。

黄育鹏
主席兼首席执行官

OUR FOOTPRINTS

The Group's sustained efforts in building brand value have yielded positive results as evidenced by the growing brand awareness and brand equity.

- AUSTRALIA
- CHINA
- FRANCE
- GERMANY
- TURKEY
- THE CZECH REPUBLIC
- MEXICO
- RUSSIA
- SINGAPORE
- SPAIN
- NETHERLANDS

OPERATIONS & FINANCIAL REVIEW

GROUP FINANCIAL HIGHLIGHTS FOR FY2014

Financial Highlights

RMB (million)	FY14	FY13	FY14 vs FY13
Revenue	2,819.4	2,261.0	+24.7%
Gross profit	1,127.9	875.1	+28.9%
Gross profit margin	40.0%	38.7%	+1.3%
Distribution & selling expenses	(379.8)	(218.2)	+74.1%
Administrative expenses	(96.0)	(94.8)	+1.3%
Financial cost*	(85.7)	(88.8)	-3.5%
Changes in fair value of the option derivatives in relation to convertible bonds	(155.8)	(43.6)	+257.3%
Net profit attributable to shareholders	249.5	287.7	-13.3%
Adjusted earnings**	467.1	418.2	+11.7%

*Non-cash interest expenses related to convertible bonds in FY14 amounted to RMB61.8m (FY13:RMB86.9m)

**Adjusted earnings = Net profit attributable to shareholders + non-cash interest expenses of convertible bonds + changes in fair value of the option derivatives in relation to convertible bonds

For the year under review, the Group's revenue increased by approximately RMB558.4 million or 24.7% from RMB2.3 billion in FY2013 to RMB2.8 billion in FY2014. This increase was attributable to the increase in domestic sales of beverages by RMB494.5 million and domestic sales of canned products by RMB118.3 million, partially offset by decreased sales of canned products overseas by RMB54.4 million. The expansion of our distribution network in PRC is the main reason for the increase in domestic sales of beverages and canned products over the year.

Largely in line with the increase in our sales, our gross profit increased by approximately RMB252.8 million or 28.9% from RMB875.1 million in FY2013 to RMB1.1 billion in FY2014. Our overall Gross Profit Margin (GPM) improved by 1.3 percentage points, from 38.7% in FY2013 to 40.0% in FY2014. The improvement of our overall GPM was a result of an increase in GPM of the beverage segment, partially offset by a decrease in GPM of canned products in both overseas and domestic markets. The improvements in GPM were largely attributable to lower cost of production arising partly from the commencement of the Hubei plant and the decrease in GPM was mainly due to higher cost of raw materials from FY2013 to FY2014.

The Group recorded a net profit of RMB249.5 million, down 13.3% from the same period last year ("FY2013") due mainly to a sharper rise in distribution and selling expenses as well as non-cash charges in relation to convertible bonds. Excluding the impact of non-cash interest expenses of convertible bonds and changes in fair value of the option derivatives in relation to convertible bonds, adjusted earnings would have risen by 11.7% in FY2014 to RMB467.1 million compared with RMB418.2 million a year ago.

The Group's financial position remained strong. Our cash and cash equivalents stood at RMB223.6 million as at 31 December 2014 as compared to RMB91.3 million previously. The increase was mainly attributable to issuance of new shares, positive cash flows generated from operating activities of RMB245.1 million before payment of income taxes of RMB184.9 million coupled with bank loans obtained during the period under review partially offset by acquisition of property, plant and equipment and bank loan repayments.

Based on the Group's full year financial results and weighted average number of ordinary shares, earnings per share for FY2014 was RMB42.5 cents, down from RMB50.0 cents in the previous year. Net asset value per ordinary share rose to RMB236.4 cents, from RMB200.3 cents in the preceding year.

SEGMENTAL RESULT AND PERFORMANCE REVENUE

Revenue analysis by segments:

Product Segment	12 Months (FY)		Change %
	Jan-Dec 2014 RMB '000	Jan-Dec 2013 RMB '000	
Canned Products			
-Overseas	635,164	689,533	(7.9)
-Domestic	307,547	189,208	62.5
Beverage	1,876,738	1,382,277	35.8
Total	**2,819,449**	**2,261,018**	24.7

The Group registered higher sales over the year, with a strong growth momentum in the domestic canned products segment and the beverage segment, both of which saw double-digit percentage increases on a year-on-year basis.

In FY2014, revenue of beverage segment which comprised of Garden Fresh bottled juices grew 35.8% year-on-year, reaching a new high of RMB1.9 billion as compared to RMB1.4 billion in FY2013. Revenue of domestic canned products segment, which comprised of Grandness canned fruits, also surged 62.5% year-on-year to RMB307.5 million in FY2014 from RMB189.2 million in FY2013. Domestic demand for the Group's own-branded products grew significantly in FY2014, due to increase production capacities, growing consumer acceptance and continued expansion of distribution network within the PRC market. The strong growth of own-branded products also reflected the successful outcome of participation at the trade exhibition held in March 2014 in Chengdu, Sichuan Province, PRC as well as the trade exhibition held in October 2014 in Chongqing, PRC.

On the other hand, revenue of overseas canned products decreased 7.9% year-on-year to RMB635.2 million in FY2014, from RMB689.5 million in FY2013. As the Group distributes its overseas canned products such as asparagus, long beans and mushroom across major discount stores and supermarkets in various countries across Europe and Australia, the unfavourable performance of this product segment can be attributed to the sluggish economic conditions in these regions.

Gross profit for overseas canned food products dipped slightly by 8.6% from RMB212.3 million to RMB194.1 million in FY2014. Gross profit for domestic canned products and beverages recorded significant improvements. Gross profit for domestic canned products surged 53.7% from RMB83.3 million to RMB 128.0 million, while gross profit for the beverage segment increased 39.1% from RMB579.5 million to RMB 805.7 million.

GROSS PROFIT

Product Segment	Group Year ended 31 December 2014 RMB '000	Group Year ended 31 December 2013 RMB '000	Increase / (Decrease)
Canned Products			
-Overseas	194,125	212,294	(8.6)
-Domestic	128,009	83,312	53.7
Beverage	805,741	579,452	39.1
Total	**1,127,875**	**875,058**	28.9

TAPPING GROWTH OPPORTUNITIES

To capitalise on the potential growth opportunities ahead for Garden Fresh juices and Grandness canned fruits, the Group will continue to focus on four key areas to drive growth, namely:

1. Advertising and promotional activities to further increase awareness and brand value of our in-house brands, in particular Garden Fresh and Grandness;
2. Sales and marketing efforts to expand our distribution network for domestic and export markets;
3. Expansion of production capacity at strategic locations; and
4. Research and development efforts to expand its range of products in order to appeal to a broader group of consumers.

By leveraging on our sound strategies to expand our product range to diversify our earnings base, we are optimistic that this will open new opportunities for growth and enhance our standing in the market.

BOARD OF DIRECTORS


Huang Yupeng


Huang Yushan


Zeng Ming


Soh Beng Keng


Wong Chee Meng, Lawrence


Zhu Jun


Liu Ling


Chalermchai Mahagitsiri

HUANG YUPENG (黄育鹏)
Chairman and CEO

Mr Huang Yupeng (黄育鹏) is the Chairman, CEO and founder of our Group. He is responsible for overseeing the overall management and operations, formulating the business model and growth strategies. Huang Yupeng received his diploma in Foreign Economic Law from the Shenzhen Teaching Institute in 1988. Immediately prior to the establishment of Shenzhen Grandness, Huang Yupeng was with Shenzhen Foreign Trade and Economic Development Co., Ltd from 1987 to 1997, where he last held the position of Vice General Manager. In 2002, he was elected "Elite Entrepreneurs" and "Elite Manager" of Yongji City, Shanxi Province. In 2005, he was awarded "Honorary Citizen of Yongji City" by Yongji Municipal Government. From April 2004 to March 2008, Huang Yupeng was the People's Representative of Yongji City and a member of the Standing Committee of People's Congress in Yongji City. He is currently a member of the Qionglai Municipal Committee of the Chinese People's Political Consultative Conference. He is elected as Vice President of Shenzhen Municipal Association for Development and Promotion of Medium and Small Enterprises, Vice President of Shenzhen Municipal Information Association, Vice President of Shenzhen-Sichuan Trade and Economic Promotion Association, and Vice President of Qionglai Municipal Federation of Industry and Commerce. He is also a member of Shenzhen Municipal Federation of Entrepreneurs and a standing board member of Sichuan Provincial Association of Canned Industry.

HUANG YUSHAN (黄育珊)
Executive Director

Ms Huang Yushan (黄育珊) is our Executive Director and is responsible for all human resource and administrative matters of our Group. She began her career in 1989 with state-owned Shenzhen Yuehai Hotel Enterprise Co., Ltd where she remained till 2000 and last held the position of assistant to the finance manager. In 2000, she joined Airland Hotel in Dameisha, Shenzhen City as their finance manager and was responsible for the management of the finances of the hotel. In 2002, she joined Fuxing Logistics (Shenzhen) Co., Ltd as their finance manager and was responsible for the management of the company's finances. Huang Yushan joined our Group in 2005 and was the Chief Financial Officer and Vice-President (Human Resource and Administration) for Shenzhen Grandness. In February 2008, with the engagement of our current Chief Financial Officer, Goh Cze Khiang, she focused on the management of the human resource and administration of our Group. Huang Yushan graduated from Shenzhen Radio and TV University in 2003 after reading accountancy there. She is also qualified as an intermediate accountant by the Ministry of Finance (PRC).

ZENG MING (曾明)
Executive Director

Mr Zeng Ming (曾明) is our Executive Director and was appointed on 19 January 2012. Zeng Ming is currently the deputy director of technology of China National Research Institute of Food & Fermentation Industries and is responsible for project planning and technical developments. In 2001, he joined China National Research Institute of Food & Fermentation Industries as sales director and was responsible for sales and marketing. In addition, he was directly involved in front-line work of numerous technology and research and development projects. He obtained his master degree in fermentation engineering in 1996.

SOH BENG KENG (苏明庆)
Lead Independent Director

Mr Soh Beng Keng (苏明庆) is our Lead Independent Director and was appointed on 11 November 2009. He is also the independent director of several other listed companies currently. Mr Soh has more than 30 years of experience in the field of auditing, accounting and financial management. In 1996, Mr Soh became the director of finance of Heeton Management Pte Ltd and subsequently upon listing, he became the executive director of Heeton Holdings Limited. In 2005, he joined Kim Heng Marine & Oilfield Pte Ltd, a Singapore company involved in marine and oil related industries, and served as their financial controller. In 2006, he joined Miclyn Offshore Pte Ltd, a Singapore company involved in the business of owning and chartering of ships, and served as their financial controller. From 2007 to 2009, he was the Chief Financial Officer of China Fashion Holdings Limited, a public listed company in Singapore. Mr Soh is a full member of the Singapore Institute of Directors and a fellow member of the Institute of Singapore Chartered Accountants. He obtained his Bachelor of Commerce (Accountancy) from the Nanyang University in 1979.

WONG CHEE MENG, LAWRENCE (黄志明)

Independent Director

Mr Wong Chee Meng, Lawrence is our Independent Director and was appointed to our Board on 24 April 2013. Lawrence Wong is the Managing Director of Equity Law LLC and also heads its Corporate and Securities practice. He is an experienced and established corporate practitioner and was previously a partner of reputable law firms and co-headed the Corporate and Securities Practice of his previous firm.

Lawrence's areas of practice include corporate and securities laws, capital markets, mergers and acquisitions, corporate restructuring, joint ventures, corporate and commercial contracts, regulatory compliance and corporate governance advisory and corporate secretarial work. He has led numerous initial public offerings, reverse take-overs, secondary fund raising and cross-border merger and acquisitions exercises.

Lawrence graduated from the National University of Singapore in 1991 with an honours degree in law on a scholarship from the Public Service Commission of Singapore, and has accumulated an extensive working experience in both the public and the private sectors of the legal profession.

He is an advocate and solicitor in Singapore and a solicitor in Hong Kong SAR. Lawrence currently sits on the board of directors of several public listed companies.

He was recognised as a 'Leading Lawyer' in the 2011, 2013 and 2014 editions of IFLR 1000, recommended in the 2013 and 2014 editions of The Legal 500 Asia Pacific for Corporate and M&A and recognised as the 'Leading Advisor of the Year' by Acquisition International at its 2013 M&A Awards.

ZHU JUN (朱俊)

Executive Director

Mr Zhu Jun (朱俊) is our Executive Director and was appointed on 19 January 2012. He is responsible for the corporate investment of our Group. He graduated from Huanghe Science & Technology University of Henan Province in 1993. In 2000, he joined China Green Foodstuff (Shares) Group Co., Ltd as general manager of investment department and was responsible for investment planning and production of the Group. He was subsequently promoted to chief production officer of the Group in 2006. He joined our Group as general manager of investment department in 2009 and was responsible for investment planning of our Group.

LIU LING (刘凌)

Independent Director

Madam Liu Ling (刘凌) is our Independent Director and was appointed on 18 March 2013. Madam Liu is currently the deputy director of food engineering research & development as well as director of hi-tech food engineering of China National Research Institute of Food & Fermentation Industries. Madam Liu is responsible for development of technology and product for numerous national projects. Madam Liu has more than 30 years of experience in the field of food and biological engineering. From 1982 to 2000, Madam Liu was professor in food and biological engineering of Zhengzhou University of Light Industry. In 2000, Madam Liu joined China National Research Institute of Food & Fermentation Industries. Madam Liu obtained her doctoral degrees of Agriculture from University of Tokyo Japan in 1999.

CHALERMCHAI MAHAGITSIRI

Non-Executive Director

Mr. Chalermchai Mahagitsiri is our Non-Executive Director and was appointed on 13 February 2015. He was appointed as director of Thoresen Thai Agencies Public Company Limited in January 2012, where he is currently President and Chief Executive Officer. He currently serves as Chief Executive Officer of PM Group Co., Ltd. which is a holding company of Mr. Prayudh Mahagitsiri family, Chief Executive Officer and Executive Vice Chairman of Mermaid Maritime Plc., and Vice Chairman of Unique Mining Services Plc. He also serves as Director of Quality Coffee Products Co., Ltd. which is partnering with Nestle SA Switzerland to produce Nescafe. He also serves as Vice Chairman of Posco-Thainox Public Co., Ltd. and Thai Film Industries Plc., and Managing Director of Lakewood Country Club Co., Ltd. Mr. Chalermchai Mahagitsiri holds a M.Sc. in Finance from Boston University and a B.Sc. in Finance from Suffolk University, both in USA. Mr. Chalermchai Mahagitsiri completed the Director Accreditation Program (DAP 30/2004) in 2004, the Directors Certification Program (DCP 53/2005) in 2005 by the Thai Institute of Directors Association, and the Capital Market Academy Leadership Program (Class 17) in 2013 by the Capital Market Academy.

SENIOR MANAGEMENT

GOH CZE KHIANG (吴芝强)
Chief Financial Officer

Mr Goh Cze Khiang (吴芝强) was appointed as our Financial Controller in February 2008 and promoted as Chief Financial Officer on 13 May 2013 and is overall responsible for the financial matters of our Group including overseeing our Group's financial reporting, compliance with post-listing obligation, and company secretarial matters. He has been a Certified Chartered Accountant (FCCA) and a Chartered Accountant (CA) since 1998 and 1999, respectively. He has also been a Certified Financial Planner (CFP) since 2001. In 2012, he admitted as member of Institute of Singapore Chartered Accountants (CA of Singapore). Prior to joining, He was the financial controller of China Bearing (Singapore) Ltd, a company listed on the SGX-ST since May 2006. He has more than 25 years of experience in accounting, financial management, consulting and taxation.

LI TUANBO (李团博)
Chief Techinical Officer

Mr Li Tuanbo (李团博) is currently the Chief Technical Officer and is in charge of the production technology and quality control of our Group. He had more than 9 years of experience in production and quality control of food and beverage products. He obtained his degree of Science and Engineering of Food from Xinjiang University of Agriculture in 2005. During 2005 to 2012, Mr Li gained his experience in production, quality control and research and development from various food and beverage companies.

ZHANG GUOMING (张国民)
Deputy Chief Production Officer

Mr Zhang Guoming (张国民) is currently the Deputy Chief Production Officer and is in charge of the production for our Group. He had more than 20 years of experience in production of canned products. In 1998, he joined Shanxi Yongji Huaxin Food Co., Ltd., one of our subsidiaries as warehouse and logistic manager. Between 2003 and 2009, he was the production manager and promoted as deputy general manager in 2010. In 2012, he was appointed as general manager and responsible for the entire operation of Shanxi Yongji Huaxin Food Co., Ltd.

CORPORATE INFORMATION

HONORARY CHAIRMAN

Prayudh Mahagitsiri

BOARD OF DIRECTORS

Huang Yupeng (Chairman and CEO)
Huang Yushan (Executive Director)
Zeng Ming (Executive Director)
Zhu Jun (Executive Director)
Chalermchai Mahagitsiri (Non-Executive Director)
– Appointed on 13 February 2015
Soh Beng Keng (Lead Independent Director)
Liu Ling (Independent Director)
Wong Chee Meng, Lawrence (Independent Director)

AUDIT COMMITTEE

Soh Beng Keng (Chairman)
Liu Ling
Wong Chee Meng, Lawrence

NOMINATING COMMITTEE

Wong Chee Meng, Lawrence (Chairman)
Soh Beng Keng
Liu Ling

REMUNERATION COMMITTEE

Soh Beng Keng (Chairman)
Wong Chee Meng, Lawrence
Liu Ling

JOINT COMPANY SECRETARIES

Chew Kok Liang (LLB) (Hons)
Wong Chuen Shya (Huang Chunxia) (ACIS)

REGISTERED OFFICE

Six Battery Road
#10-01
Singapore 049909

COMPANY REGISTRATION NUMBER

200706801H

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte. Ltd.)
80 Robinson Road
#02-00
Singapore 068898

AUDITORS AND REPORTING AUDITORS

Foo Kon Tan LLP
(formerly known as Foo Kon Tan Grant Thornton LLP)
47 Hill Street, #05-01
Singapore Chinese Chamber of Commerce
& Industry Building
Singapore 179365
Partner-in-charge: Chang Fook Kay (appointed since financial year ended 2012)
a member of the Institute of Singapore Chartered Accountants

PRINCIPAL BANKERS

Bank of China Co., Ltd.
Shenzhen Central District Branch
Xinghe International Garden
North-east Wing Qunlou
Third Fuhua Road
Shenzhen City
The People's Republic of China

DBS Bank (China) Limited
18/F Resource Building
5001 Shennan Dong Road
Shenzhen City 518001
The People's Republic of China

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The Board of Directors of Sino Grandness Food Industry Group Limited (the "Company") and together with its subsidiaries, (the "Group") is committed to setting in place corporate governance practices which are in line with the recommendations of the Code of Corporate Governance 2012 (the "Code") to provide a structure through which protection of the interest of its shareholders, enhancement of shareholders' value and corporate transparency are met.

This report sets out the Group's main corporate governance practices which were in place for the financial year ended 31 December 2014 ("FY2014") or which will be implemented and where appropriate, explanations are provided for deviation from the Code.

BOARD MATTERS

Principle 1: Board's Conduct of its Affairs

The Board's primary role is to protect and enhance long-term shareholders' value and returns. The Board meets quarterly and as warranted by particular circumstances, as deemed appropriate by the members of the Board.

The principal functions of the Board include the following: -

- provides entrepreneurial leadership, sets strategic objectives, and ensures proper conduct of the Company's business;
- provides the overall strategy of the Group;
- establishes a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders' interests and the Company's assets;
- reviews management performance;
- identifies the key stakeholder groups and recognises that their perceptions affect the Company's reputation;
- sets the Company's values and standards (including ethical standards), and ensures that obligations to shareholders and other stakeholders are understood and met; and
- considers sustainability issues as part of its strategic formulation.

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company.

To assist the Board in the execution of its responsibilities, the Board is supported by three Board Committees, namely the Nominating Committee, the Remuneration Committee and the Audit Committee, which would make recommendations to the Board. These Board Committees have their own defined terms of references and operating procedures, and play an important role in ensuring good corporate governance in the Company and within the Group.

The Company has taken steps to ensure participation of all Directors when selecting Directors to the three Board Committees so as to maximize their effectiveness. All Board Committees are headed by Independent Directors.

The Board meets on a regular basis as and when necessary, to address any specific significant matters that may arise. As at the date of this report, the number of Board and Board Committees meetings held and attended by each Board member for FY2014 is set out as follows:

Types of Meetings / Names of Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Huang Yupeng	5	5	5*	5*	1*	1*	1*	1*
Huang Yushan	5	4	5*	5*	1*	1*	1*	1*
Soh Beng Keng	5	5	5	5	1	1	1	1
Zhu Jun	5	5	5*	5*	1*	1*	1*	1*
Zeng Ming	5	4	5*	5*	1*	1*	1*	1*
Liu Ling	5	5	5	5	1	1	1	1
Wong Chee Meng, Lawrence	5	5	5	5	1	1	1	1
Chalermchai Mahagitsiri [(1)]	1	1	1*	1*	1*	0*	1*	0*

(1) Mr Chalermchai Mahagitsiri was appointed as Non-Executive Director of the Company with effect from 13 February 2015

* By invitation

The Company's Articles of Association provide for the Directors to participate in Board and Board Committees meetings by means of telephonic conference or in such manner as the Board may determine to facilitate Board participation.

For incoming Directors who are first-time directors, the Company would arrange to provide training especially on the duties as a director, areas such as accounting and legal as well as the law and regulations in Singapore such as Companies Act, corporate governance practices, regulations and guidelines from SGX-ST.

The Directors are encouraged to attend seminars at Company's expense which are aimed at providing them with the latest updates in the relevant regulations, accounting standards and corporate governance practices and guidelines from SGX-ST that affect the Company and/or the Directors so as to enable them to better discharge their duties and responsibilities.

The Board has received relevant training to familiarise themselves with the roles and responsibilities of a director of a public listed company in Singapore. Management would conduct briefings and orientation programmes to familiarise newly appointed Directors with the various businesses and operations of the Group, corporate governance practices, regulations and guidelines from SGX-ST.

Matters Requiring Board Approval

As an added control mechanism, the Company has identified the following areas for which the Board's approval must be sought:-

- Approval of quarterly and full year result announcements for release to the Singapore Exchange Securities Trading Limited (the "SGX-ST");
- Approval of the annual reports and audited financial statements;
- Convening of shareholders' meetings;
- Approval of corporate strategies;
- Approval of material acquisitions and disposal of assets; and
- Approval of major investment and funding decisions.

Principle 2: Board Composition and Balance

The current Board of Directors consists of eight members, four of whom are Executive Directors, one of whom is Non-Executive Director and three of whom are Independent Directors. The Directors of the Company are:-

Executive Directors

Huang Yupeng (Chairman and Chief Executive Officer)
Huang Yushan
Zhu Jun
Zeng Ming

Non-Executive Director

Chalermchai Mahagitsiri (appointed with effect from 13 February 2015)

Independent Directors

Soh Beng Keng (Lead Independent Director)
Liu Ling
Wong Chee Meng, Lawrence

The Board considers an "Independent Director" as one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company.

The independence of each Director is reviewed annually by the Nominating Committee in accordance with the Code's definition of independence. Each Director is required to complete a 'Confirmation of Independence' form to confirm his independence. The said form, which was drawn up based on the definitions and guidelines set forth in Guideline 2.3 in the Code and the Guidebook for Audit Committees in Singapore issued by Audit Committee Guidance Committee ("Guidebook") in October 2008, requires each Director to assess whether he considers himself independent despite not having any of the relationships identified in the Code. The Nominating Committee has reviewed the forms completed by each Director and confirmed that at least one-third of the Board comprises Independent Directors.

In view that the Chairman is not an Independent Director, the Board noted that the Company is required to comply with the requirement for Independent Directors to make up at least half of the Board, and is in the midst of making arrangements to change the board composition at the annual general meeting ("AGM") following the end of financial year commencing on or after 1 May 2016.

The Non-Executive Directors including the Independent Directors participate actively during Board meetings and would constructively challenge and help develop proposals on strategy and will review performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

The Nominating Committee is of the view that the Board comprises Directors who have the appropriate mix of expertise and experience, and collectively possess the necessary core competencies to function effectively and make informed decisions overseeing the Company's business.

Throughout the years, the Non-Executive Directors including the Independent Directors constructively challenge and assist to develop both the Group's short-term and long-term business strategies and the implementation by the Management was monitored closely. The Independent Directors also review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

The Non-Executive Directors including the Independent Directors are encouraged to meet without the presence of the Management so as to facilitate a more effective check on Management.

None of the Independent Directors has served on Board beyond nine years from the date of his/her appointment.

Principle 3: Role of Chairman and Chief Executive Officer ("CEO")

The Chairman and CEO is Huang Yupeng. As the CEO, he is responsible for the effective management and supervision of daily business operations of the Group. He plays an instrumental role in charting the direction and strategic development of the Group and formulates business strategies, merger and acquisition initiatives and promoting high standards of corporate governance.

As the Chairman, he exercises control over the quality, quantity and timeliness of information flow between Management and the Board. He promotes a culture of openness and debate at the Board and ensures that the Board receives accurate, timely and clear information; Board meetings are held as and when necessary; and sets the Board's meetings' agendas. He ensures that effective communication is maintained with the shareholders. The Chairman also encourages constructive relations within the Board and between the Board and Management; facilitates the effective contribution of Non-Executive Directors in particular; encourages constructive relations between Executive Directors and Non-Executive Directors; and promote high standards of corporate governance

Although the roles and responsibilities of the Chairman and CEO are vested in Huang Yupeng, major decisions are made in consultation with the Board, where one-third of which comprises Independent Directors. The Board is of the opinion that the process of decision making by the Board has been independent and has been based on collective decisions without any individual or small group of individuals dominating the Board's decision making.

In line with Guideline 3.3 of the Code, the Company appointed Soh Beng Keng as the Lead Independent Director of the Company with effect from 11 November 2009. The Lead Independent Director will lead and coordinate the activities of the Independent Directors and serve as a principal liaison on Board issues between the Independent Directors and the Chairman of the Board. The Lead Independent Director is available to Shareholders who have concerns and for which contact through the normal channels of the Chairman, CEO, Executive Directors or Chief Financial Officer ("CFO") has failed to resolve or for which such contact is inappropriate.

Led by the Lead Independent Director, the Independent Directors are encouraged to meet periodically without the presence of the other Directors. The Lead Independent Director should provide feedback to the Chairman after such meetings.

Principle 4: Board Membership

The Nominating Committee ("NC") comprises three members, all of whom are Independent Directors. The members of the NC are:

Wong Chee Meng, Lawrence (Chairman)
Soh Beng Keng
Liu Ling

The NC is governed by its written terms of reference. The NC makes recommendation to the Board on all nominations for appointment and re-appointment of Directors to the Board, and the Board Committees, and on relevant matters relating to the review of board succession plans for directors, in particular, the Chairman and for the CEO; the development of a process for evaluation of the performance of the Board, its Board Committees and Directors; and the review of training and professional development programs for the Board. It ascertains the independence of Directors and evaluates the Board's performance. The NC assesses the independence of Directors, based on the guidelines set out in the Code, the Guidebook and any other salient factors.

Following its annual review, the NC has affirmed the independence of Soh Beng Keng, Wong Chee Meng, Lawrence and Liu Ling. The NC, in recommending the nomination of any Director for a re-election, considers the contribution of the Director, which includes his attendance record, overall participation, expertise, strategic vision, business judgment and sense of accountability.

The NC ensures that the Board and its Board Committees members are best suited for their respective appointments and able to discharge their responsibilities as such members of the Board and/or Board Committees. In addition, the selection of Directors requires careful assessment to ensure there is an equitable distribution of responsibilities among the Directors.

In the nomination and selection process, the NC reviews the composition of the Board by taking into consideration the mix of expertise, skills and attributes of existing Board members, to identify desirable competencies for a particular appointment. In so doing, it strives to source for candidates who possess the skills and experience that will further strengthen the Board, and are able to contribute to the Company in relevant strategic business areas, in line with the growth and development of the Group. There is no alternate Director on the Board.

The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, notwithstanding that some of the Directors have multiple listed company board representations, and there is presently no need to implement internal guidelines to address the competing time commitments.

Pursuant to the Company's Articles of Association, every Director must retire from office at least once every three years by rotation. Directors who retire are eligible to offer themselves for re-election. The CEO, as a Director, is subject to the same retirement by rotation provisions as the other Directors and such provisions will not be subject to any contractual terms that he may have entered into with the Company. Each member of the NC shall abstain from voting on any resolutions in respect to his re-nomination as a Director.

The NC has reviewed and recommended the re-election of Zeng Ming, Zhu Jun, Soh Beng Keng and Chalermchai Mahagitsiri who are retiring at the forthcoming Annual General Meeting to be held on 22 April 2015 (the "forthcoming AGM"). Soh Beng Keng will, upon re-election as a Director, remain as the Chairman of Audit and Remuneration Committees and member of Nominating Committee. The Board has accepted the recommendations and the retiring Directors who will be offering themselves for re-election.

Where a vacancy arises, the NC will consider each candidate for directorship based on the selection criteria determined after consultation with the Board and after taking into consideration the qualification and experience of such candidate, his ability to increase the effectiveness of the Board and to add value to the Group's business in line with its strategic objectives. Thereafter, the NC will recommend the candidate to the Board for approval. Under the Articles of Association of the Company, a newly-appointed Director shall retire at the AGM following his appointment and he shall be eligible for re-election.

Key information regarding the Directors are set out below:

Name of Director	Date of First Appointment	Date of Last Re-election	Relationships with directors, the Company or shareholders who holds 10% and above	Present Directorships and Chairmanships in Other Listed Companies and Major Appointments	Past 3 Years Directorships and Chairmanships in Other Listed Companies and Major Appointments
Huang Yupeng	20 April 2007	28 April 2014	Is a substantial shareholder and brother of Huang Yushan, the Executive Director of the Company	Nil	Nil
Huang Yushan	29 August 2008	28 April 2014	Is a sister of Huang Yupeng, who is the Chairman and CEO and substantial shareholder of the Company	Nil	Nil
Soh Beng Keng	11 November 2009	23 April 2013 (to be re-elected at the forthcoming AGM)	–	Listed Companies 1. China Haida Ltd. 2. ISDN Holdings Limited 3. Ziwo Holdings Ltd.	Listed Companies 1. Yamada Green Resources Limited

Name of Director	Date of First Appointment	Date of Last Re-election	Relationships with directors, the Company or shareholders who holds 10% and above	Present Directorships and Chairmanships in Other Listed Companies and Major Appointments	Past 3 Years Directorships and Chairmanships in Other Listed Companies and Major Appointments
Zhu Jun	19 January 2012	25 April 2012 (to be re-elected at the forthcoming AGM)	–	Nil	Nil
Zeng Ming	19 January 2012	25 April 2012 (to be re-elected at the forthcoming AGM)	–	Nil	Nil
Liu Ling	18 March 2013	28 April 2014	–	Nil	Nil
Wong Chee Meng, Lawrence	23 April 2013	28 April 2014	–	Listed Companies 1. Artivision Technologies Ltd. 2. China Bearing (Singapore) Ltd.	Listed Companies 1. Juken Technology Limited 2 WE Holdings Limited 3. Harry's Holdings Ltd 4. Ziwo Holdings Ltd.
Chalermchai Mahagitsiri_(1)	13 February 2015	(to be re-elected at the forthcoming AGM)	Is a substantial shareholder of the Company and is the son of the Honorary Chairman, Prayudh Mahagitsiri	Listed Group 1. Thoresen Thai Agencies Public Company Limited (a company listed in Thailand) 2. Mermaid Maritime Public Co Ltd 3. Unique Mining Services Public Company Limited (a company listed in Thailand) 4. Posco-Thainox Public Company Limited (a company listed in Thailand) 5. Thai Film Industries Public Company (a company listed in Thailand)	Nil

(1) Chalermchai Mahagitsiri was appointed on 13 February 2015.

Note:

The profile and relevant information of the members of the Board are set on pages 16 to 17 of the Annual Report. The Directors' interests in shares are as disclosed in page 38 of the Report of the Directors.

Principle 5: Board Performance

In line with the principles of good corporate governance, the NC had implemented and continued with an annual performance evaluation process to assess the effectiveness of the Board as a whole. Each Director completes an evaluation form to assess the overall effectiveness of the Board as a whole. The appraisal process focused on the evaluation of factors such as the size and composition of the Board, the Board's access to information, Board processes and accountability, communication with Senior Management and Directors' standards of conduct. The purpose of the evaluation process is to increase the overall effectiveness of the Board. The NC has decided unanimously, that the Directors will not be evaluated individually but factors taken into consideration for their re-nomination are the extent of their attendance, participation and contribution in the proceedings of the meetings. The results of the evaluation are used constructively by the NC to identify areas of improvements and recommend to the Board the appropriate action.

The NC, in considering the re-appointment of any Director, had considered but not limited to the attendance record at meetings of the Board and Board Committees, the intensity of participation in the proceedings at meetings and quality of contribution made.

Principle 6: Access to Information

To allow Directors sufficient time to prepare for the meetings, all Board and Board Committees papers are distributed in advance to the Board and Board Committees prior to its meetings. The Management's proposals to the Board for decisions provide background and explanatory information relating to matters to be brought before the Board, and copies of disclosure documents, budgets, forecasts and other relevant documents. This facilitates meaningful, deliberated discussions to focus on questions that the Directors may have. The Directors are given separate and independent access to the Group's senior Management and the Company Secretaries to address any enquiries at all times or requests for additional information, if necessary, in a timely manner.

Draft agendas for Board and Board Committees meetings are circulated in advance to the respective Chairman, in order for them to suggest items for the agenda and/or review the usefulness of the items in the proposed agenda.

The Company Secretaries and/or their representatives attend Board and Board Committees meetings and assist the Chairman in ensuring that proper Board procedures at such meetings are followed so that the Board and Board Committees function effectively. Together with the Management, they assist the Chairman in ensuring that the Company complies with the requirements of the Singapore Companies Act, the Listing Manual of the SGX-ST and other relevant rules and regulations that are applicable to the Company. The appointment and removal of the Company Secretaries will be subject to the approval of the Board.

The Directors may seek independent professional advice in the furtherance of their duties and the costs will be borne by the Company.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") comprises three members, all of whom are Independent Directors. The members of the RC are:

Soh Beng Keng (Chairman)
Wong Chee Meng, Lawrence
Liu Ling

The RC is governed by its written terms of reference. The RC has reviewed the general framework of remuneration for the Directors and key management personnel, and determines specific remuneration packages for the CEO, each Executive Director and CFO. The recommendations of the RC is made in consultation with the CEO and submitted for endorsement by the entire Board.

All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, and benefits-in-kind shall be covered by the RC. Each member of the RC shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the RC in respect of his remuneration package.

In structuring and reviewing the remuneration packages, the RC seeks to align interests of Directors with those of shareholders and link rewards to corporate and individual performance as well as roles and responsibilities of each Director. The Directors' fee to be paid to Directors are subject to shareholders' approval at the forthcoming AGM on 22 April 2015.

The RC has full authority to engage any external independent professional at the Company's expense to advise on matters relating to remuneration as and when the need arises. The objective is to ensure competitive compensation is in place to build and retain capable and committed Management.

The RC will review the Company's obligations of the service agreements of the Executive Directors and key management personnel that would arise in the event of termination of these service agreements. This is to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

Principle 8: Level and Mix of Remuneration

In setting remuneration packages, the Company will take into account the competiveness of the remuneration packages as compared to the market norms, the Group's performance and risk policies of the Company as well as the contribution and performance of each Director which will be aligned with the interests of shareholders and promote the long-term success of the Company.

On 23 September 2013, the shareholders of the Company approved the adoption of an employee share option scheme known as Sino Grandness Employee Share Option Scheme ("ESOS"). The grants of options are vested over a period of time through a prescribed vesting schedule. The RC is also responsible for administering the ESOS with the objective of rewarding and retaining qualified and experienced personnel and attracting Non-Executive Directors with strong capabilities and high performance standards to work towards growth and long-term success of the Company and better alignment of their interests with the interests of shareholders. The details of the grant of options are disclosed in Directors' Report on pages 39 to 40.

Executive Directors do not receive directors' fees. The remuneration for the Executive Directors comprises a basic salary component and a variable component, namely the annual bonus. The latter is based on the performance of the Group as a whole and their individual contribution and performance.

The Company has renewed the Service Agreement with the Chairman and CEO, Huang Yupeng. The Service Agreement is renewable automatically for a further period of 3 years unless terminated by either party by not less than six months' notice in writing. There is no change in the terms of the Service Agreement.

The Non-Executive and Independent Directors receive directors' fees in accordance with their contributions, taking into account factors such as effort and time spent in fulfilment of their duties, responsibilities and the need to pay competitive fees to attract, retain and motivate the Directors. Independent Directors should not be over-compensated to the extent that their independence may be compromised.

The RC may recommend the Company to consider the use of contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results or misconduct resulting in financial loss to the Company.

Principle 9: Disclosure of Remuneration

Company's Directors and key management personnel receiving remuneration from the Group for FY2014 are as follows:

Remuneration Band	Number of Directors 2014	2013
Executive Directors		
S$1,500,000 and above	1	1
S$250,000 to below S$1,500,000	–	–
Below S$250,000	3	3
Total	4	4
Key Management Personnel		
Below S$250,000	5	5
Total	5	5

A breakdown of each individual Director's and key management personnel's remuneration, in percentage terms showing the level and mix for FY2014, is as follows:

	Fees S$'000	Salary S$'000	Bonus S$'000	Share Options S$'000	Others S$'000	Total S$'000
Directors						
S$1,500,000 and above						
Huang Yupeng	–	276	1,817	0	–	2,093
Below S$250,000						
Huang Yushan	–	20	–	0	–	20
Zhu Jun	–	52	–	0	–	52
Soh Beng Keng	55	–	–	0	–	55
Zeng Ming	–	32	–	0	–	32
Liu Ling	20	–	–	0	–	20
Wong Chee Meng, Lawrence	50	–	–	0	–	50

	Fees %	Salary %	Bonus %	Share Options %	Others %	Total %
Key Management Personnel						
Below S$250,000						
Goh Cze Khiang	–	93	7	0	–	100
Li Tuanbo	–	100	–	0	–	100
Han Biao	–	100	–	0	–	100
Qiang Xinlu	–	100	–	0	–	100
Zhang Guoming	–	100	–	0	–	100

The aggregate total remuneration paid to the top five key management personnel (who are not Directors or the CEO) for FY2014 is approximately S$219,000.

None of the Directors (including the CEO) and the top five key management personnel (who are not Directors or the CEO) of the Company has received any termination, retirement, post-employment benefits for FY2014.

Other than the Chairman and CEO, Huang Yupeng, who is the brother of Huang Yushan, an Executive Director, there is no employee of the Group who is an immediate family member of a Director or substantial shareholder whose remuneration exceeds S$50,000 for FY2014.

The RC has reviewed and approved the remuneration packages of the Executive Directors and key management personnel, having regard to their contributions as well as the financial performance and commercial needs of the Group and has ensured that the Executive Directors and key management personnel are adequately but not excessively remunerated.

Principle 10: Accountability

The Board understands its accountability to the shareholders on the Group's position and performance. In this respect, in the discharge of its duties to the shareholders, the Board, when presenting annual audited financial statements and quarterly results announcements, seeks to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects.

For interim financial statements, the Board provides a negative assurance confirmation to shareholders, in line with Rule 705(5) of the Listing Manual of SGX-ST. Management currently provides the Board with relevant information on the Group's performance, financial position and prospects on a regular basis.

The Management understands its role to provide all members of the Board with management accounts and such explanation and information in a balanced and informed assessment of the Company's performance, position and prospects.

Principle 11: Internal Controls

The Board acknowledges that it is responsible for the overall internal control framework and fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets as well as manage risks. The Board also recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The external and internal auditors conducted annual review of the effectiveness of the Group's key internal controls, including financial, operational, compliance and information technology controls and risk management. Any material non-compliance in internal controls coupled with recommendation for further improvement are reported to the AC. The AC will also follow-up on the actions taken by the Management on the recommendations from the internal and external auditors. In addition, a copy of the report is also issued to the relevant department for its follow-up action. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored.

For FY2014, the Board has received assurance from the Chief Executive Officer and Chief Financial Officer that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and the Group's risk management and internal control systems are sufficiently effective.

Based on the reports submitted by the external and internal auditors, including the reviews by the Management and the various management controls put in place, and letter of assurance from the Chief Executive Officer, Chief Financial Officer and the key Executive Officers, the Board with the concurrence of the AC is of the opinion that Group's internal controls are addressing the financial, operational, compliance and information technology risks, and risk management systems are adequate and effective for the type and volume of business that the Group currently operates.

The Board notes that the system of internal controls established provides reasonable assurance, but not absolute, against unforeseeable and foreseeable risks to the Company, as all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human error losses, fraud or other irregularities.

Principle 12: Audit Committee

The Audit Committee ("AC") comprises three members, all of whom are Independent Directors. The members of the AC are:

Soh Beng Keng (Chairman)
Liu Ling
Wong Chee Meng, Lawrence

The members of the AC are appropriately qualified, having the necessary experience in business management, finance or legal services. The Board is of the view that the AC has sufficient financial management expertise and experience to discharge the AC's functions.

The AC is governed by its terms of reference, which was reviewed and amended, where appropriate, to adopt relevant best practices set out in the Guidebook, and used as a reference to assist the AC in discharging its responsibilities and duties.

The AC will focus principally on assisting the Board in fulfilling its duties by providing an independent and objective review of the financial process, internal controls and the audit function. The AC will meet at least four times a year to perform, inter alia, the following functions:

(a) Financial Reporting

The AC reviews the quarterly, half-yearly and annual results announcements with Management and external auditors before submission to the Board for approval, focusing in particular on significant financial reporting issues and judgments; changes in accounting policies and practices, major risk areas; significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual of the SGX-ST and any other relevant statutory or regulatory requirements.

(b) External Audit

The AC reviews, with the external auditors, the audit plans, the audit report and Management's response and actions to correct any noted deficiencies; to discuss problems and concerns, if any, arising from the review and audits. The AC reviews the independence and qualification of the external auditors annually and recommends to the Board the appointment, re-appointment or removal of the external auditors.

(c) Internal Audit

The AC reviews, with the internal auditors, the internal audit plan, the scope and results of the internal audit including the effectiveness of the internal audit functions and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and ensure annually the adequacy of the internal audit function and monitor Management's response to their findings to ensure that appropriate follow-up measures are taken.

(d) Internal Controls

The AC reviews and evaluates with internal and external auditors on the adequacy and effectiveness of the Company's system of internal controls, including financial, operational, compliance and information technology controls. The AC may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the system of internal control.

(e) Interested Person Transactions

The AC regularly reviews if the Group will be entering into any interested person transactions ("IPTs") and if it does, to ensure that the Group complies with the requisite rules under Chapter 9 of the Listing Manual of the SGX-ST.

(f) Whistle-blowing

The AC reviews arrangements by which staff of the Company and of the Group may in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

The AC will undertake a review of the scope of services provided by the external auditors, the independence and the objectivity of the external auditors on an annual basis. Foo Kon Tan LLP, the external auditors of the Company has confirmed that they are Public Accounting Firms registered with Accounting & Corporate Regulatory Authority and provided a confirmation of their independence to the AC.

In July 2010, the Singapore Exchange Limited and Accounting and Corporate Regulatory Authority launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors. Accordingly, the AC had evaluated the performance of the external auditors based on the key indicators of audit quality set out in the Guidance such as performance, adequacy of resources and experience of their audit engagement partner and auditing team assigned to the Group's audit, the size and complexity of the Group.

Accordingly, the AC is satisfied that Rule 712 of the Listing Manual of the SGX-ST is complied with and has recommended to the Board, the nomination of the external auditors for re-appointment at the forthcoming AGM.

The Company has paid the following aggregate amount of fees to Foo Kon Tan LLP, the external auditors, for services rendered for FY2014:-

Services	**Amount (S$)**
Audit service	298,750
Other audit or review fees:	
- Proposed listing of subsidiary	142,000
- Proposed multicurrency medium term note facility	30,000
- Proposed sub-group's non-statutory financial statements	35,000
	207,000
Non-audit services	
- Tax fees	2,800
Total	508,550

The Company has paid for a total amount of S$207,000 for professional fees relating to the other audit or review fees and S$2,800 for non-audit fee to the external auditors during FY2014 of which would not affect their independence.

The AC has direct access to the internal and external auditors and has met with them without the presence of Management for FY2014.

The AC has full access and cooperation of the Management and also full discretion to invite any Director or key management personnel to attend its meetings, and has been given reasonable resources to enable it to discharge its functions.

The Group has implemented a whistle blowing policy whereby accessible channels are provided for employees to raise concerns about possible improprieties in matters of financial reporting or other matters which they become aware and to ensure that:

(i) independent investigations are carried out in an appropriate and timely manner;

(ii) appropriate action is taken to correct the weakness in internal controls and policies which allowed the perpetration of fraud and/or misconduct and to prevent a recurrence; and

(iii) administrative, disciplinary, civil and/or criminal actions that are initiated following the completion of investigations are appropriate, balance and fair, while providing reassurance that employees will be protected from reprisals or victimisation for whistle-blowing in good faith and without malice.

To-date, no reports have been received from any staff through the whistle-blowing mechanism to indicate possible improprieties in matters of financial reporting, financial control, or any other matters. However, the AC noted that there were anonymous reports dated 4 September 2014 and 22 October 2014 which were circulated on the internet that contained negative allegations about the Company. After making all reasonable enquiries, that to the best knowledge and belief, the AC, with the concurrence of the Board, concluded that the allegations made in the said reports were false, misleading and unsubstantiated given that the Group's financial statements had been audited by the external auditors of the Company and internal controls audit were conducted by the internal auditors annually. Further, due diligence exercises had been carried out by the professionals engaged by the holders of the 2011 and 2012 convertible bonds, and most recently by the professionals engaged by the subscribers to the placement which was completed in December 2014. To the best of the Company's knowledge and belief, no material adverse report on the Group was given by these professionals.

The AC has reviewed and noted that there were no interested person transactions entered into by the Group for FY2014.

In the event that a member of our AC is interested in any matter being considered by our AC, he will abstain from participating in the proceedings in relation to that particular transaction and voting on that particular resolution.

To keep abreast of the changes in accounting standards and issues which have a direct impact on the Group's financial statements, in addition to attendances of public seminars on accounting standards, the AC is updated by the external auditors on the relevant changes in accounting standards and issues when they attend the AC meetings quarterly.

The AC has explicit authority to investigate any matters within its terms of reference. The AC has, within its terms of reference, the authority to obtain independent professional advice at the Company's expense as and when the need arises.

Principle 13: Internal Audit

The AC has outsourced the performance of the internal audit functions of the Group to Baker Tilly Consultancy (Singapore) Pte. Ltd. The internal auditors will report directly to the AC and administratively to the Chairman and CEO of the Company. To ensure the adequacy of the internal audit function, the AC had reviewed and approved the internal audit plan before the internal audit commenced. The AC will assess and ensure that the internal auditors meet or exceed the standards set by recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The internal auditors provide adequate staffing with relevant experience to conduct the internal audits.

The AC, on an annual basis, will assess the adequacy and effectiveness of the Internal Audit by examining the scope of the Internal Audit work and its independence, the qualification and experiences of internal audit team assigned and the internal auditor's reports and its relationship with the external auditors.

Principle 14: Shareholder Rights
Principle 15: Communication with Shareholders
Principle 16: Conduct of Shareholder Meetings

In line with the continuous disclosure obligations of the Group, the Company is committed to engage in regular and effective communication with shareholders. It is the Board's policy that shareholders are informed of all major developments that may have an impact on the Group. Information is communicated to shareholders on a timely basis and is made through:

(i) annual reports that are prepared and issued to all shareholders;

(ii) quarterly results announcements;

(iii) media meetings and analyst briefings;

(iv) press releases; and

(v) disclosures to the SGX-ST via SGXNET.

The Company does not practice selective disclosure as all material and price-sensitive information is released through SGXNET.

Shareholders are given the opportunity to participate effectively in and vote during the general meetings as well as to express their views and direct questions to the Directors and the Management. Chairmen of the AC, NC, RC and the Board, or members of the respective Board Committees standing-in for them are available to address questions from shareholders.

The Company prepares minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management. These minutes are available to shareholders upon their request.

If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance. Proxies need not be a shareholder of the Company. The Company's Memorandum and Articles of Association currently do not allow a member to appoint more than two proxies to attend and vote at the same general meeting. However, shareholders who hold shares through nominees such as custodian banks are allowed to attend general meetings as observers.

Each item of special business included in the notice of the general meetings will be accompanied by full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at general meetings.

To better understand the views of shareholders and investors, the Company holds analyst briefings for the Shareholders and investors in conjunction with the release of the Group's quarterly and full year results to discuss the Group's performance and developments, establish and maintain regular dialogue sessions with shareholders, to gather views or inputs, and address shareholders' concerns.

To enhance and encourage communication with Shareholders and investors, the Company provides the contact information of its Vice President, Investor Relations ("VPIR") in its annual reports and press releases. Shareholders and investors can send their enquiries to the Company's VPIR who can be reached by email or telephone.

The Board will put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages.

No dividend will be distributed to the Shareholders for the financial year ended 31 December 2014. However, as set out in the Company's circular dated 12 December 2014, pursuant to the subscription agreement, for as long as the subscribers hold at least 10% of prevailing total issued shares in the capital of the Company from time to time, the Company shall have a dividend policy that, whenever feasible, the Company will declare and pay dividends to the Shareholders in an amount of at least 10% of the net profits of the Company as reflected in the audited accounts of the Company.

DEALING IN SECURITIES

The Company has complied with Rule 1207(19) of the Listing Manual of the SGX-ST in relation to the best practices on dealings in the securities:-

(a) The Company had devised and adopted its own internal compliance code to provide guidance to its officers with regards to dealings by the Company and its officers in its securities;

(b) Officers of the Company did not deal in the Company's securities on short-term considerations; and

(c) The Company and its officers did not deal in the Company's shares (i) during the periods commencing two weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year and one month before the announcement of the Company's full year financial statements, ending on the date of the announcement of the relevant results, and (ii) if they are in possession of unpublished price-sensitive information of the Group.

In addition, the Directors and Management are expected to observe the insider trading laws at all times even when dealing in securities within permitted trading period.

MATERIAL CONTRACTS

Other than that disclosed in the financial statements, the Company or any of its subsidiaries did not enter into any material contracts involving the interest of the CEO, any Director or the controlling shareholder subsisting at the end of the financial year ended 31 December 2014.

RISK MANAGEMENT

Management reviews on an on-going basis, the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks within the Group's policies and strategy. The Group has also considered the various financial risks, details of which are disclosed in the notes to the accompanying audited financial statements on pages 108 to 115.

INTERESTED PERSON TRANSACTIONS

To ensure compliance with the relevant rules under Chapter 9 of the Listing Manual, the Board and AC regularly reviews if the Company will be entering into any IPT and if it does, to ensure that the Company complies with the requisite rules under Chapter 9 in that all the IPTs are conducted at arm's length and on commercial terms and ensuring that it will not be prejudicial to the interest of the company and its minority shareholders.

Save for disclosed under Interested Persons Transactions in the Company's prospectus dated 13 November 2009, there were no IPTs entered between the Company or its subsidiaries and any of its interested persons subsisting at the end of the financial year ended 31 December 2014.

USE OF NET PROCEEDS

The Board refers to the issuance of 28,500,000 shares by the Company in March 2013. As at 17 February 2015, the Group had fully utilized approximately the net proceeds of approximately RMB114.6 million. The amount was utilized in accordance to its intended usage to finance the Group's domestic canned products business activities, including working capital, capital expenditure and sales and marketing expenses.

In addition, the Board refers to the issuance of 86,000,000 shares by the Company in December 2014. As at 17 February 2015, the Group had utilized approximately RMB40.5 million out of the net proceeds of approximately RMB173.5 million. The amount was utilized in accordance to its intended usage to finance the Group's domestic canned products business activities, including working capital, capital expenditure and distribution network expansion. The Company will make further announcements on the use of net proceeds from the placement as and when the funds are materially disbursed.

CORPORATE
SOCIAL RESPONSIBILITY

Corporate Social Responsibility (the "CSR") plays an essential role in the long-term success of our business. It is important that we align our interests with that of the communities in which we operate in order to have the support of the local communities and government agencies. We believe that our initiatives and emphasis on returning to the community and looking after the welfare of our staff have translated into goodwill for our Group, contributing to high employee retention rate and staff morale.

ENVIRONMENTAL POLICY

We share our customers' commitment to the environment and we believe in the importance of caring for our planet working with and encouraging others to do the same. As a company that relies on agricultural products, it makes good business sense and as people living in the world, it is simply the right thing to do.

COMMITMENT TO SUSTAINABLE DEVELOPMENT

Our Directors recognized the importance of being a responsible steward of the land we manage. With this in mind, the Company has established a CSR policy which included the review of the following areas of the Group's activities:

(a) to review and recommend the Group's policy with regards to CSR issues;

(b) to review the Group's environmental policies and standards;

(c) to review the social impact of the Group's business practices in the communities that it operates in;

(d) to review and recommend policies and practices with regard to key stakeholders (suppliers, customers and employees); and

(e) to review and recommend policies and practices with regard to regulators.

CORE VALUES OF THE CSR FRAMEWORK

The Company aims to be recognized as an organization that is transparent and ethical in all its dealings as well as making positive contribution to the community in which it operates. It is committed to being a deeply responsible company in the communities with the following core values in all aspects of it work, including the fulfillment of its social responsibility, toward achieving sustainable development:

- Clear direction, strong leadership and open communication;
- Customer focus;
- Equality, fairness and transparency;
- Development of positive working relationships with others; and
- Respect for people

TOWARD SUSTAINABILITY STRATEGIES

The Company will seek ot achieve corporate and social objectives by focusing on four strategic areas:

Good Relations – adopting an employee relations strategy to enhance management and employee interactions and to promote work-life balance and health among employees.

Community impact – encouraging staff to be involved in projects in support of the wider community.

Fair Trade – providing famers decent working conditions and fair terms of trade for farmers so as to maintain local sustainability.

Environment – developing environmental management practices that minimize adverse impact on the environment.

The CSR and commitments are integral to the Company's overall business strategy. As a result, the Company believes it delivers benefits to the Company and its stakeholders, including employees, business partners, customers, suppliers, shareholders, community members and others.

The Company will, as and when necessary, provide updates on the status of its implementation of its CSR policy in the annual report of the Company.

DIRECTORS' REPORT

For the Financial year ended 31 December 2014

The directors submit this annual report to the members together with the audited consolidated financial statements of the Group and statement of financial position of the Company for the financial year ended 31 December 2014.

Names of directors

The directors of the Company in office at the date of this report are:

Huang Yupeng (Chairman and Chief Executive Officer)
Huang Yushan
Zhu Jun
Zeng Ming
Soh Beng Keng (Lead independent director)
Wong Chee Meng, Lawrence (Independent director)
Liu Ling (Independent director)
Chalermchai Mahagitsiri (Non-executive director, appointed on 13 February 2015)

Arrangements to enable directors to acquire shares or debentures

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement the object of which was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the Company or of any other corporate body other than as disclosed in this report.

Directors' interest in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Cap. 50, none of the directors who held office at the end of the financial year had any interest in the shares or debentures of the Company and its related corporations, except as follows:

	Number of ordinary shares			
	Holdings registered in the name of director		Holdings in which director is deemed to have an interest	
	As at 1.1.2014	As at 31.12.2014 and 21.1.2015#	As at 1.1.2014	As at 31.12.2014 and 21.1.2015#
The Company -				
Sino Grandness Food Industry Group Limited				
Huang Yupeng	235,696,560	237,416,560	–	–

\# There are no changes to the above shareholdings as at 21 January 2015.

Directors' benefits

Since the end of the previous financial year, no director has received or has become entitled to receive a benefit under a contract which is required to be disclosed under Section 201(8) of the Singapore Companies Act, Cap. 50, except for salaries, bonuses and fees and other benefits that are disclosed in Notes 20(e) and 24 to the financial statements.

Share option scheme

At an Extraordinary General Meeting of the Company held on 23 September 2013, shareholders approved the Sino Grandness Employee Share Option Scheme (the "ESOS Scheme"). Under the Scheme, the directors and employees of the Group are eligible to participate in the Scheme. Controlling shareholders or their associates are also eligible to participate in the ESOS Scheme, provided that they meet the criteria set out below:-

(a) written justification has been provided to shareholders for their participation at the introduction of the ESOS Scheme or prior to the first grant of options to them and each such participation has been specifically approved by independent shareholders in separate resolutions in a general meeting for such controlling shareholders or their associate;

(b) the actual number and terms of any options to be granted to them have been specifically approved by independent shareholders in a general meeting in separate resolutions for each such controlling shareholders in a general meeting in separate resolutions for each such controlling shareholder or their associates;

(c) all conditions for their participation in the Scheme as may be required by the regulation of the SGX-ST from time to time are satisfied;

(d) the aggregate of number of shares comprised in options granted to the controlling shareholders and their associates shall not exceed 25% of the total number of shares which may be granted under the ESOS Scheme; and

(e) the aggregate of number of shares comprised in options granted to the controlling shareholders or their associates shall not exceed 10% of the total number of shares which may be granted under the ESOS Scheme.

The total number of shares over which options may be granted shall not exceed 15% of the issued share capital (excluding Treasury Shares) of the Company on the date immediately preceding the Date of Grant.

The Scheme is administered by a Remuneration Committee comprising Soh Beng Keng (Chairman), Wong Chee Meng, Lawrence and Liu Ling, and duly authorised and appointed by the Board of Directors of the Company.

Share options granted

On 14 November 2013, the Company granted options to subscribe 16,710,000 ordinary shares of the Company at exercise price of S$0.60 per share ("2013 Options"). The options are exercisable any time after the second anniversary of the date of grant over 10 years except as disclosed in this report. The total fair value of the 2013 Options granted was estimated to be S$6,952,937 (approximately RMB 32.3 million) using the Binomial Option Pricing Model.

Share options granted (cont'd)

Details of the options to subscribe for ordinary shares of the Company pursuant to ESOS Scheme as at 31 December 2014 are as follows:

Name of directors	Options granted during the financial year ended 31.12.2014	Aggregate options granted since commencement of ESOS Scheme to 31.12.2014	Aggregate options forfeited since commencement of ESOS Scheme to 31.12.2014	Aggregate options exercised since commencement of ESOS Scheme to 31.12.2014	Aggregate options outstanding as at 31.12.2014
Zhu Jun	–	800,000	–	–	800,000
Zeng Ming	–	550,000	–	–	550,000
Soh Beng Keng	–	200,000	–	–	200,000
Wong Chee Meng, Lawrence	–	100,000	–	–	100,000
Liu Ling	–	100,000	–	–	100,000
Other employees (Other than directors)	–	6,150,000	(550,000)	–	5,600,000
Sub-total	**–**	**7,900,000**	**(550,000)**	**–**	**7,350,000**
Name of directors and associate of a controlling shareholder of the Company					
Huang Yushan [1]	–	8,810,000	–	–	8,810,000
Grand total	**–**	**16,710,000**	**(550,000)**	**–**	**16,160,000**

1 The options are excersisable after the second anniversary of the date of grant over ten years period and subject to compliance with the terms and conditions of the option grant. The options should be excercised in respect of 1,101,250 shares equally.

Except for options granted to Huang Yushan, the options are exercisable any time after the second anniversary of the date of grant over a ten year period.

The persons to whom the options have been issued have no right to participate by virtue of the options in any share issue of any other Company.

No options to take up unissued shares of the subsidiaries have been granted during the financial year.

No shares were issued during the financial year to which this report relates by virtue of the exercise of the options to take up unissued shares of the Company.

Audit committee

The Audit Committee at the end of the financial year comprises the following members:

Soh Beng Keng (Chairman)
Wong Chee Meng, Lawrence
Liu Ling

All members of the Audit Committee are non-executive directors.

Audit committee (cont'd)

The Audit Committee performs the functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50, the SGX Listing Manual and the Code of Corporate Governance. In performing those functions, the Committee reviewed the following:

(i) overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;

(ii) the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;

(iii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2014 as well as the independent auditor's report thereon;

(iv) effectiveness of the Company's material internal controls, including financial, operational, information technology and compliance controls and risk management via reviews carried out by the internal auditors;

(v) met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the Audit Committee;

(vi) reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;

(vii) reviewed the cost effectiveness and the independence and objectivity of the external auditor;

(viii) reviewed the nature and extent of non-audit services provided by the external auditor;

(ix) recommended to the Board of Directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit;

(x) reported actions and minutes of the Audit Committee to the Board of Directors with such recommendations as the Audit Committee considered appropriate; and

(xi) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditor and has recommended to The Board of Directors that the auditor, Foo Kon Tan LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

Full details regarding the Audit Committee are provided in the Report on Corporate Governance.

Independent auditor

The independent auditor, Foo Kon Tan LLP, Chartered Accountants, has expressed its willingness to accept re-appointment.

Other information required by the SGX-ST

Material information

Apart from the Service Agreements between the executive director, Huang Yupeng and the Company, there are no material contract to which the Company or its subsidiaries, is a party which involve directors' interests subsisted or have been entered into during the financial year.

Interested person transactions

There were no interested person transactions as defined in Chapter 9 of SGX-ST Manual conducted during the financial year except as disclosed under "Interested Person Transactions" on "Corporate Governance".

On behalf of the Directors

HUANG YUPENG

ZENG MING

31 March 2015

STATEMENT BY **DIRECTORS**

For the Financial year ended 31 December 2014

In the opinion of the directors, the accompanying statements of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows of the Group, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the results of the business, changes in equity and cash flows of the Group for the financial year ended on that date and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

HUANG YUPENG

ZENG MING

31 March 2015

INDEPENDENT AUDITOR'S
REPORT

To the Members of Sino Grandness Food Industry Group Limited

Report on the financial statements

We have audited the accompanying financial statements of Sino Grandness Food Industry Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 45 to 120, which comprise the statements of financial position of the Group and the Company as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheets and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 management, as well as evaluating the overall presentation of the 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 of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 31 March 2015

STATEMENTS OF
FINANCIAL POSITION

As at 31 December 2014

	Note	The Company 31 December 2014 RMB'000	The Company 31 December 2013 RMB'000	The Group 31 December 2014 RMB'000	The Group 31 December 2013 RMB'000 (Restated)	The Group 1 January 2013 RMB'000 (Restated)
ASSETS						
Non-Current Assets						
Land use rights	5	**–**	–	**113,862**	55,057	59,522
Property, plant and equipment	6	**17**	13	**828,492**	738,065	529,302
Subsidy	7	**–**	–	**–**	134	268
Subsidiaries	8	**50,935**	1,848	**–**	–	–
Amount owing by subsidiaries	9	**174,673**	230,893	**–**	–	–
Deferred tax assets	10(a)	**–**	–	**1,678**	1,678	1,943
		225,625	232,754	**944,032**	794,934	591,035
Current Assets						
Inventories	11	**–**	–	**50,743**	45,957	52,442
Trade and other receivables	12	**55**	54	**1,427,346**	921,484	556,166
Cash and bank balances	13	**161,543**	4,179	**223,572**	91,329	138,342
		161,598	4,233	**1,701,661**	1,058,770	746,950
Total assets		**387,223**	236,987	**2,645,693**	1,853,704	1,337,985
EQUITY AND LIABILITIES						
Capital and Reserves						
Share capital	14	**440,948**	282,578	**440,948**	282,578	167,897
Retained profits/(Accumulated losses)		**(100,859)**	(77,726)	**1,035,167**	816,090	559,381
Other reserves	15	**10,531**	2,220	**112,280**	73,549	40,295
		350,620	207,072	**1,588,395**	1,172,217	767,573
Non-controlling interests		**–**	–	**3,248**	4,069	4,924
Total Equity		**350,620**	207,072	**1,591,643**	1,176,286	772,497
Liabilities						
Non-Current Liabilities						
Convertible bonds including derivatives	17	**–**	–	**–**	–	393,429
Deferred tax liabilities	10(b)	**20,241**	20,241	**20,241**	20,241	20,241
		20,241	20,241	**20,241**	20,241	413,670
Current Liabilities						
Trade and other payables	18	**16,362**	9,674	**168,749**	85,977	82,393
Notes payable	19	**–**	–	**62,250**	1,550	8,700
Current tax payable		**–**	–	**21,534**	32,730	16,651
Bank borrowings	16	**–**	–	**59,200**	13,000	44,000
Convertible bonds including derivatives	17	**–**	–	**722,076**	523,920	–
Amount owing to related parties		**–**	–	**–**	–	74
		16,362	9,674	**1,033,809**	657,177	151,818
Total equity and liabilities		**387,223**	236,987	**2,645,693**	1,853,704	1,337,985

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME

For the Financial year ended 31 December 2014

The Group	Note	**Year ended 31 December 2014 RMB'000**	Year ended 31 December 2013 RMB'000 (Restated)
Revenue	4	**2,819,449**	2,261,018
Cost of sales		**(1,691,574)**	(1,385,960)
Gross profit		**1,127,875**	875,058
Other operating income	20(a)	**11,958**	12,860
Distribution costs	20(b)	**(379,828)**	(218,244)
Administrative expenses	20(c)	**(96,049)**	(94,787)
Other operating expenses		**(39)**	(238)
Finance costs	20(d)	**(85,680)**	(88,818)
Profit before income tax and changes in fair value of the option derivatives in relation to convertible bonds	20(f)	**578,237**	485,831
Changes in fair value of option derivatives in relation to convertible bonds	17	**(155,805)**	(43,638)
Profit before taxation		**422,432**	442,193
Taxation	21	**(173,756)**	(155,238)
Profit for the year and representing total comprehensive income		**248,676**	286,955

* There are no other comprehensive income and expense items for both financial years.

Profit and total comprehensive income attributable to:			
Equity holders of the parent		**249,497**	287,743
Non-controlling interests		**(821)**	(788)
		248,676	286,955
		Cents RMB	Cents RMB (Restated)
Earnings per share:	22		
- Basic		**42.5**	50.0
- Diluted		**42.4**	49.8

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

For the Financial year ended 31 December 2014

The Group	Note	Share capital RMB'000	Retained profits RMB'000	Share option reserve RMB'000	Merger reserve RMB'000	Statutory common reserve RMB'000	Total attributable to equity holders of the parent RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2013 as previously stated		167,897	620,492	–	(31,413)	71,708	828,684	4,924	833,608
Prior year adjustment	31(a)	–	(61,111)	–	–	–	(61,111)	–	(61,111)
Restated balance as at 1 January 2013		167,897	559,381	–	(31,413)	71,708	767,573	4,924	772,497
Issue of shares	14	117,750	–	–	–	–	117,750	–	117,750
Share issuance expenses	14	(3,069)	–	–	–	–	(3,069)	–	(3,069)
Share-based payment expense under ESOS Scheme		–	–	2,220	–	–	2,220	–	2,220
Profit for the year, representing total comprehensive income for the year		–	287,743	–	–	–	287,743	(788)	286,955
Transfer to statutory reserve		–	(31,034)	–	–	31,034	–	–	–
Disposal of a subsidiary	25	–	–	–	–	–	–	(67)	(67)
Restated balance as at 31 December 2013		282,578	816,090	2,220	(31,413)	102,742	1,172,217	4,069	1,176,286
Issue of shares	14	163,642	–	–	–	–	163,642	–	163,642
Share issuance expenses	14	(5,272)	–	–	–	–	(5,272)	–	(5,272)
Share-based payment expense under ESOS Scheme		–	–	8,311	–	–	8,311	–	8,311
Profit for the year, representing total comprehensive income for the year		–	249,497	–	–	–	249,497	(821)	248,676
Transfer to statutory reserve		–	(30,420)	–	–	30,420	–	–	–
Balance as at 31 December 2014		440,948	1,035,167	10,531	(31,413)	133,162	1,588,395	3,248	1,591,643

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the Financial year ended 31 December 2014

	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000 (Restated)
Cash Flows from Operating Activities		
Profit before taxation	**422,432**	442,193
Adjustments for:		
Fair value of the option derivatives in relation to the convertible bonds	**155,805**	43,638
Depreciation of property, plant and equipment	**47,388**	34,499
Gain on disposal of a subsidiary	**–**	(5,080)
Amortisation of land use rights	**2,398**	1,193
Amortisation of subsidy	**134**	134
Share-based payment expense under ESOS Scheme	**8,311**	2,220
Gain on disposal of property, plant and equipment (net)	**(3,029)**	(7)
Interest expense	**85,680**	88,818
Interest income	**(1,000)**	(1,028)
Operating cash flows before working capital changes	**718,119**	606,580
Increase in deposits pledged with banks	**(39,828)**	(3,709)
(Increase)/Decrease in inventories	**(4,786)**	5,368
Increase in operating receivables	**(567,096)**	(368,213)
Increase in operating payables	**143,472**	10,198
Cash generated from operations	**249,881**	250,224
Income tax paid	**(184,921)**	(139,159)
Interest paid	**(4,763)**	(1,965)
Net cash generated from operating activities	**60,197**	109,100
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	**(140,109)**	(249,423)
Disposal of a subsidiary (Note 25)	**–**	4,944
Proceeds from disposal of property, plant and equipment	**5,323**	23
Interest received	**1,000**	1,028
Net cash used in investing activities	**(133,786)**	(243,428)
Cash Flows from Financing Activities		
Proceeds from issue of ordinary shares (Note 14)	**163,642**	117,750
Share issuance expenses (Note 14)	**(5,272)**	(3,069)
Bank loans obtained	**70,000**	13,000
Bank loans repaid	**(23,800)**	(44,000)
Partial repurchase of convertible bonds	**(38,566)**	–
Decrease in amount owing to related parties	**–**	(74)
Net cash generated from financing activities	**166,004**	83,607
Net increase/(decrease) in cash and cash equivalents	**92,415**	(50,721)
Cash and cash equivalents at beginning of year	**82,019**	132,740
Cash and cash equivalents at end of year (Note 13)	**174,434**	82,019

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

The Company was incorporated in Singapore on 20 April 2007 as a limited private company under the name of Sino Grandness Food Industry Group Pte. Ltd. On 12 November 2009, the Company was converted into a public company and assumed the present name of Sino Grandness Food Industry Group Limited. The Company was listed on the SGX-ST on 23 November 2009.

The registered office of the Company is located at Six Battery Road, #10-00, Singapore 049909. The principal place of business of the Group is located in 56th Floor Tower A, Union Plaza, No.5022, Binhe Road, Futian District, Shenzhen, Guangdong Province, The People's Republic of China.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are disclosed in Note 8 to the financial statements.

2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Accounting Standards Council ("ASC") of Singapore. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi ("RMB") which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand unless otherwise stated.

Significant judgements

The preparation of the consolidated financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are described below:

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the respective entities in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the local management's assessment of the economic environment in which the entities operate and the respective entities' process of determining sales prices.

Income taxes (Notes 10 and 21)

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The extent of deferred taxation provided on the undistributed profits of the Company's PRC subsidiaries is disclosed in Note 10(b) to the financial statements.

2(a) Basis of preparation (cont'd)

Significant judgements (cont'd)

Convertible bonds repayment

As of 31 December 2014, the Group has cash balances and cash on hand of RMB 223.6 million (2013: RMB 91.3 million), including bank deposits pledged of RMB49.1 million (2013: RMB 9.3 million). As of that date, it has bank borrowings and convertible bonds of RMB59.2 million and RMB 722.1 million respectively (2013: RMB 13.0 million and RMB 523.9 million respectively). The Group has recorded a net profit of RMB 248.7 million (2013: RMB 287.0 million) and a net cash generated from operating activities of RMB 60.2 million (2013: RMB 109.1 million) for the year ended 31 December 2014.

The Company had on 1 July 2013 announced that it was proposing to spin-off its beverage business segment under its wholly-owned foreign subsidiary, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited together with its group of subsidiaries on an internationally recognised stock exchange (the "Proposed IPO"). The Proposed IPO is still in progress as at the date of the financial statements. In the event that the Proposed IPO is not completed by the maturity date of the two convertible bonds (refer to Note 17) which is due in June 2015 and July 2015 respectively, the Group would have to repay the convertible bonds. The estimated maximum cash redemption sum for the convertible bonds is approximately RMB 652.3 million. Assuming the convertible bonds are redeemed at RMB 652.3 million instead of the carrying amount of RMB 722.1 million in the statement of financial position as at 31 December 2014, the difference of RMB 69.8 million would be recognised in profit or loss. If the convertible bond holders choose to fully convert the convertible bonds in lieu of cash payment, the carrying amount of RMB 722.1 million would be recognised in equity at the date of conversion.

The Group is of the view that it will have sufficient cash resources to repay the convertible bonds in the event of a full redemption in cash upon the maturity dates for the following reasons:

- the Group has net current assets of RMB 667.9 million as at 31 December 2014 (2013: RMB 401.6 million);
- as at 31 December 2014, the Group's cash and bank balances were approximately RMB 223.6 million (2013: RMB 91.3 million). As at 28 February 2015, the Group's cash and bank balances has improved further to approximately RMB 400.0 million;
- the Group is actively monitoring the collection from its customers. As at 31 December 2014, the Group's trade receivables amount was approximately RMB 1.1 billion. As at 28 February 2015, approximately RMB 427.0 million has been received from customers;
- as part of its normal business operations, the Group is in regular contact with various banks to secure, extend or renew its banking facilities. The Group presently has untapped banking facilities of about RMB 128.4 million as at 31 December 2014 extended by various banks in the PRC. As at 31 March 2015, the Group has untapped banking facilities of approximately RMB 242.8 million;
- the management is in the midst of exploring and discussing with various international banks to secure additional bank loans of approximately USD 50 million (RMB 305.9 million);
- the management may negotiate with the convertible bondholders for partial redemption and/or extension; and
- while continuing to move ahead with its plan with the Proposed IPO, the Group's management will also actively monitor and manage its cash flow positions, banking facilities, trade receivables and capital investment plans. If required, the senior management shall reduce investment sums or postpone its capital investment plans in the new plant in Anhui Province in order to further strengthen its cash flow position.

Management anticipate that the repayment of the convertible bonds will be met out of operating cash flows and additional borrowings that are under negotiation. Accordingly, management has a reasonable expectation that the Group has adequate resources to meet its funding requirements or repay its borrowing facilities as and when they fall due or in the case of a redemption and to continue in operational existence for the foreseeable future.

2(a) Basis of preparation (cont'd)

Critical accounting estimates and key sources of estimation uncertainty

In the process of applying the Company's and the Group's accounting policies, which are described in Note 3, management had made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements.

Amortisation of land use rights (Note 5)

Land use rights are amortised on a straight-line basis over their estimated useful lives. The Group has been granted rights of use of land of 50 years. The carrying amount of the Group's land use rights as at 31 December 2014 is RMB 113.9 million (2013: RMB 55.1 million). Changes in the expected level of usage and technological developments could impact the economic useful lives of land use rights, therefore future amortisation charges could be revised. If amortisation on land use right increases/decreases by 10% from management, the Group's profit for the year will decrease/increase by approximately RMB 0.2 million (2013: RMB 0.1 million).

Depreciation of property, plant and equipment (Note 6)

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 5 to 40 years. The carrying amounts of the Group's and the Company's property, plant and equipment as at 31 December 2014 are RMB 828.5 million (2013: RMB 738.1 million) and RMB 17,000 (2013: RMB 13,000) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. If depreciation on property, plant and equipment increases/decreases by 10% from management, the Group's profit for the year will decrease/increase by approximately RMB 4.7 million (2013: RMB 3.4 million).

Useful lives of plant and machinery (Note 6)

Plant and machinery are depreciated on a straight-line basis over their estimated economic useful lives. Management estimates the useful lives of these assets to be 10 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and machinery at the end of reporting period is disclosed in Note 6 to the financial statements. A 10% difference in the expected useful lives of these assets from management's estimates would result in approximately 0.1% increase/decrease in the Group's result for the financial year.

Allowance for inventory obsolescence (Note 11)

The Group reviews the ageing analysis of inventories at each reporting date, and makes provisions for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

If the net realisable value of the inventories decrease by 10% from management's estimates, the Group's results may decrease by RMB 5.1 million (2013: RMB 4.6 million).

Allowance for bad and doubtful debts (Note 12)

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables 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 judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

If the net present values of estimated cash flows had been lower by 10% from management's estimates for all past due loans and receivables, the allowance for impairment of the Group may have been higher by RMB 142.7 million (2013: RMB 92.1 million). However, the Group does not foresee any additional impairment in trade and other receivables, other than as disclosed in Note 12.

2(a) Basis of preparation (cont'd)

Critical accounting estimates and key sources of estimation uncertainty (cont'd)

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Board of Directors of the Group uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Chief Financial Officer reports the valuation findings to the Board of Directors of the Group at the end of each reporting period to explain the cause of fluctuations in the fair value of the liabilities.

The amortised cost of the convertible bonds was based on the cash flows of the convertible bonds at their corresponding discount rates and the option derivatives were determined by the Binomial Option Pricing Model, and which are subject to the limitation of the Binomial Option Pricing Model that incorporates market data and involving uncertainty in estimates used by the directors of the Company in the assumptions. Because the Binomial Option Pricing Model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in Note 17.

As at 31 December 2014, the amortised cost of the liability component and fair value of the option derivatives of the convertible bonds was RMB 484.4 million (2013: RMB 442.0 million) and RMB 237.7 million (2013: RMB 81.9 million) respectively.

If the discount rate used is 1% higher than management's estimates, the carrying amount of the liability component and the option derivatives will be an estimated of RMB 481.7 million (2013: RMB 436.2 million) and RMB 239.7 million (2013: RMB 83.0 million) respectively. If the discount rate used is 1% lower than management's estimates, the carrying amount of the liability component and the option derivatives will be an estimated of RMB 487.0 million (2013: RMB 448.0 million) and RMB 235.7 million (2013: RMB 80.5 million) respectively.

In the previous financial year, the fair value of the conversion option which is linked to and must be settled by delivery of unquoted equity instrument was deemed to be not reliably measurable as the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, and the variability in the range of reasonable fair value estimates was considered to be significant. Consequently, the fair value of the option derivatives was carried at cost less allowance for impairment in accordance with FRS 39. The determination of the fair value of the convertible bonds is complex and requires significant judgement. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex.

Please refer to Note 17 for the revised redemption amounts (Scenarios 1, 2 and 3) and the three conversion proportions and different conversion periods.

The accounting policies used by the Company and the Group have been applied consistently to all periods presented in these financial statements.

2(b) Interpretations and amendments to published standards effective in 2014

On 1 January 2014, the Company and the Group adopted the amended FRSs that are mandatory for application from that date. Changes to the Company's and the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS. This includes the following FRSs which are relevant to the Company and the Group:

Reference	Description
Revised FRS 27	Separate Financial Statements
Revised FRS 28	Investments in Associates and Joint Ventures
FRS 110	Consolidated Financial Statements
FRS 111	Joint Arrangements
FRS 112	Disclosure of Interests in Other Entities
Amendments to FRS 110, FRS 112 and FRS 27	Investment Entities
Amendments to FRS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to FRS 36	Recoverable Amount Disclosures to Non-Financial Assets
Amendments to FRS 39	Novation of Derivatives and Continuation of Hedge Accounting
INT FRS 121	Levies

The adoption of the above FRSs did not have a material impact on the financial statements of the Group and the Company in the period of their initial adoption except for the following:

<u>FRS 110 *Consolidated Financial Statements* and Revised FRS 27 *Separate Financial Statements*</u>

FRS 110 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by FRS 110 will require management to exercise significant judgement to determine whether entities are controlled and therefore are required to be consolidated by the Group, compared with the requirements that were in FRS 27. Therefore, FRS 110 may change which entities are consolidated within a group. The revised FRS 27 was amended to address accounting for subsidiaries, jointly controlled entities and associates in the separate financial statements.

The Group has reassessed of which entities the Group controls and there are no resulting changes required.

2(c) FRS issued but not yet effective

The following are the new or amended FRS and INT FRS issued that are not yet effective but may be early adopted for the current financial year:

Reference	Description	Effective date (Annual periods beginning on or after)
FRS 19	*Defined Benefit Plan: Employee Contribution*	1 July 2014
Improvements to FRSs (January 2014)		
- FRS 16	*Property, Plant and Equipment*	1 July 2014
- FRS 24	*Related Party Transaction*	1 July 2014
- FRS 38	*Intangible Assets*	1 July 2014
- FRS 40	*Investment Property*	1 July 2014
- FRS 102	*Share-based Payment*	1 July 2014
- FRS 103	*Business Combinations*	1 July 2014
- FRS 108	*Operating Segments*	1 July 2014
- FRS 113	*Fair Value Measurement*	1 July 2014
- FRS 19	*Employee Benefits*	1 January 2016
- FRS 34	*Interim Financial Reporting*	1 January 2016
- FRS 105	*Non-current Assets Held for Sale and Discontinued Operations*	1 January 2016
- FRS 107	*Financial Instruments: Disclosures*	1 January 2016
FRS 27	*Amendments to FRS 27: Equity Method in Separate Financial Statements*	1 January 2016
FRS 16, FRS 38	*Amendments to FRS 16 and FRS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
FRS 16, FRS 41	*Amendments to FRS 16 and FRS 41. Agriculture: Bearer Plants*	1 January 2016
FRS 110, FRS 28	*Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2016
FRS 111	*Amendments to FRS 111: Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
FRS 114	*Regulatory Deferral Accounts*	1 January 2016
FRS 115	*Revenue from Contracts with Customers*	1 January 2017
FRS 109	*Financial Instruments*	1 January 2018
FRS 1	*Amendments to FRS 1: Disclosure Initiative*	1 January 2016
FRS 110, FRS 112, FRS 28	*Amendments to FRS 110, FRS 112 and FRS 28: Investment Entities: Applying the Consolidation Exception*	1 January 2016

Improvements to FRSs (January 2014) *Related Party Disclosures*

Improvements to FRSs (January 2014) Related Party Disclosures clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The improvements to FRSs (January 2014) FRS 24 Related Party Disclosures are effective from annual periods beginning on or after 1 July 2014. As this is a disclosure standard, it will not have any impact on the financial performance or the financial position of the Group and the Company when implemented.

2(c) FRS issued but not yet effective (cont'd)

Improvements to FRS (January 2014) *Operating Segments*

The Improvements to FRSs (January 2014) Operating Segments clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. In addition, the entity is required to disclose the judgements made by management in applying the aggregation criteria to operating segments. As this is a disclosure standard, it will not have any impact on the financial statements.

Amendments to FRS 1 *Presentation of Financial Statements*

The amendments to FRS 1 clarify that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group or the Company when applied.

FRS 109 *Financial Instruments*

FRS 109 Financial Instruments replaces FRS 39 and it is a package of improvements introduced by FRS 109 includes a logical model for:

- classification and measurement;
- a single, forward – looking "expected loss" impairment model; and
- a substantially reformed approach to hedge accounting

FRS 109 is effective for annual periods beginning on or after 1 January 2018. The directors are still assessing its impact but which cannot be ascertained presently.

3 Significant accounting policies

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intragroup transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Losses and other comprehensive income are attributable to the non-controlling interest even if that results in a deficit balance.

3 Significant accounting policies (cont'd)

Consolidation (cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts as at that date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Group controls an investee if and only if the Group has all of the following:

- power over the investee;
- exposure, or rights or variable returns from its involvement with the investee; and
- the ability to use its power over the investee 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:

- 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.

Changes in the Group's ownership interests in 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 Group.

3 Significant accounting policies (cont'd)

Consolidation (cont'd)

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 interest. 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 FRSs). The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on the initial recognition for subsequent accounting under FRS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combination

Common control business combination outside the scope of FRS 103

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the consolidated financial statements.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting year in which the common control combination occurs, and for any comparative years disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. A single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combination.

The carrying amounts are included as if such consolidated financial statements of the Group had been prepared by the controlling party, including adjustments required for conforming the combined entity's accounting policies and applying those policies to all years presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the combined entity.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

Land use rights

Land use rights are initially measured at cost. Following initially recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

3 Significant accounting policies (cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed utilising the straight-line method to allocate the depreciable amount of the assets over the estimated useful lives as follows:

Factory and warehouse premises	20 to 40 years
Renovation	5 years
Plant and machinery	10 years
Motor vehicles	5 to 10 years
Office equipment	5 to 10 years

No depreciation has been provided for construction-in-progress.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month after acquisition and to the month of disposal respectively. Fully depreciated property, plant and equipment, if any, are retained in the books of accounts until they are no longer in use.

The depreciation methods, useful lives and residual values of property, plant and equipment are reviewed and adjusted as appropriate at end of each reporting date. The depreciation methods and useful lives are reviewed at each financial year-end to ensure that the method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the financial period the asset is derecognised.

Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

Government grant/subsidy

Government grant/subsidy is recognised at its fair value where there is reasonable assurance that the grant/subsidy will be received and all attaching conditions will be complied with. Where the grant/subsidy relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

3 Significant accounting policies (cont'd)

Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable unless in rare circumstance as specified in the amendments to FRS 39 Financial Instruments: Recognition and Measurement and FRS 107 Financial Instruments: Disclosures.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

As at 31 December 2014, the Group carries loans and receivables on the statements of financial position. The Group does not have any financial assets at fair value through profit or loss, available-for-sale financial assets or held-to-maturity investment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets.

Loans and receivables include trade and other receivables, related party balances and deposits held in banks. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or writeback is recognised in profit or loss.

Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The company does not designate the derivative financial instruments as a hedging instrument. Consequently, the fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

3 Significant accounting policies (cont'd)

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on a weighted-average basis and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured inventories, cost includes all direct expenditure and production overheads based on the normal level of activity.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value.

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and bank deposits net of pledged deposits.

Financial liabilities

The Group's financial liabilities include borrowings, trade payables and other payables, and related party balances.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance costs" in profit or loss. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within twelve months after the end of the reporting period are included in current borrowings in the statement of financial position even though the original terms were for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of the reporting period. Borrowings to be settled within the Group's normal operating cycle are considered as current. Other borrowings due to be settled more than twelve months after the end of the reporting period are included in non-current borrowings in the statement of financial position.

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Dividend distributions to shareholders are included in current financial liabilities when the dividends are payable.

3 Significant accounting policies (cont'd)

Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the reporting year end date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices used for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions based on market conditions that are existing at each reporting year end date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis and Binomial Option Pricing Model are also used to determine the fair values of the financial instruments.

The fair values of currency forwards are determined using actively quoted forward exchange rates.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

Convertible bonds

The liability component is recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

<u>Conversion option</u>

If the conversion option in a convertible bond is settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the issuer's own equity instruments, the conversion option is a derivative liability. The derivative is required to be carried at fair value with changes in fair value recognised in profit or loss.

On issuance of such convertible bonds, the proceeds are allocated between the embedded equity conversion option and the liability component. The embedded option is recognised at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the equity conversion option.

The equity conversion option is subsequently carried at its fair value with fair value changes recognised in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on conversion or redemption.

When an equity conversion option is exercised, the carrying amounts of the liability component and the equity conversion option are derecognised with a corresponding recognition of share capital.

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of a guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

3 Significant accounting policies (cont'd)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Borrowing costs

Borrowing costs are recognised in the profit or loss in the period they are incurred.

Operating leases

Rentals on operating leases are charged to the profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the profit or loss when incurred.

Where the Group is the lessor, rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(a) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period; and

(b) based on the tax consequence that will follow from the manner in which the Company and the Group expect, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

3 Significant accounting policies (cont'd)

Income taxes (cont'd)

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a transaction which is recognised either in other comprehensive income or directly in equity.

Deferred tax liability has been recognised in respect of the temporary differences associated with undistributed earnings of certain of the Group's subsidiaries. The Group has determined that not all the undistributed earnings of the subsidiaries will be distributed in the foreseeable future. Withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in Mainland China. The Group made provision for deferred tax liabilities on withholding tax of the forecasted dividend payout of the earnings of its PRC subsidiaries.

Value-added tax

The Group's sales of goods in the PRC are subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivable" or "other payable" in the statement of financial position. The Group's export sales are not subject to VAT.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Employee benefits

<u>Pension obligations</u>

The Company and the Group participate in the defined contribution/pension schemes as provided by the laws of the countries in which it has operations. In particular, the Singapore incorporated company in the Group contributes to the Central Provident Fund, a defined contribution plan regulated and managed by the Government of Singapore, which applies to the majority of the employees. The subsidiaries in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. The contributions to national pension schemes are charged to the profit or loss in the period as incurred to which the contributions relate.

<u>Employee leave entitlements</u>

No provision has been made for employee leave entitlements as any unconsumed annual leave will be forfeited.

3 Significant accounting policies (cont'd)

Employee benefits (cont'd)

Employee Share Option Scheme ("ESOS Scheme")

The Company has an employee share option plan for the granting of non-transferable options.

The Company issues equity-settled share-based payments to certain employees. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in the share option reserve in equity over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At the end of each reporting period, the Company revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are re-issued to the employees.

In the Company's separate financial statements, the fair value of options granted to employees of its subsidiaries is recognised as an increase in the cost of the Company's investment in subsidiaries, with a corresponding increase in equity over the vesting period.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Directors are considered key management personnel.

Related parties

A related party is defined as follows:

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

  (i) has control or joint control over the Company;

  (ii) has significant influence over the Company; or

  (iii) is a member of the key management personnel of the Group or the Company or of a parent of the Company.

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

  (i) the entity and the Company are members of the same group (which means that each parent, 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 of which the other entity is a member);

  (iii) both entities are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

3 Significant accounting policies (cont'd)

Related parties (cont'd)

(b) An entity is related to the Group and the Company if any of the following conditions applies: (cont'd)

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

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

Impairment of non-financial assets

The carrying amounts of the Company's and the Group's non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to equity.

With the exception of goodwill,

- An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decrease.

- An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

- A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

An impairment loss in respect of goodwill is not reversed, even if it relates to impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or end of reporting period.

3 Significant accounting policies (cont'd)

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes relevant value-added tax and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from the sale of canned vegetables and fruits and beverage is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transactions can be measured reliably.

Interest income is recognised on a time-apportioned basis using the effective interest method.

Rental income from the rental of office units is recognised upon acceptance of tenancy.

Functional currency

Functional and presentation currency

Items included in the consolidated financial statements of the Company and the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company and the Group ("the functional currency"). The consolidated financial statements of the Company and the Group are presented in RMB, which is also the functional currency of the Company.

Conversion of foreign currencies

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in the profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the translations.

Financial instruments

Financial instruments carried on the statements of financial position include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management objectives and policies are provided in Note 28.

Operating segments

For management purposes, operating segments are organised based on their products which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers are directly accountable to the Chief Executive Officer who regularly reviews the segment results in order to allocate resources to the segments and to assess segment performance.

4 Revenue

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Sale of		
- canned asparagus	**351,901**	313,763
- canned long beans	**107,704**	119,971
- canned mushrooms	**164,521**	187,353
- canned fruits	**318,585**	257,653
- beverage	**1,876,738**	1,382,278
	2,819,449	2,261,018

5 Land use rights

The Group	Note	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Cost			
Balance at beginning of year		**58,774**	62,531
Additions		**61,203**	–
Elimination on disposal of a subsidiary	25	**–**	(3,757)
Balance at end of year		**119,977**	58,774
Accumulated amortisation			
Balance at beginning of year		**3,717**	3,010
Amortisation for the year	20(c) & 20(f)	**2,398**	1,193
Elimination on disposal of a subsidiary	25	**–**	(486)
Balance at end of year		**6,115**	3,717
Net book value		**113,862**	55,057

As at the end of the reporting period, the carrying amount of land use rights of the Group which have been pledged to financial institutions to secure banking facilities are as follows:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Net book value	**7,344**	7,513

5 Land use rights (cont'd)

Land use rights relate to the following parcel of lands:

Location		Period	Land area (square metres) ["sq m"]
#1	Land at Qiongxin Road side, Linqiong Town, Qionglai City People's Republic of China (邛崃市临邛镇邛新路侧)	50 years (expiring on 2 March 2055)	80,834.47
#2	West of Nanduan Road, Yuanyi Road, Economic Development Zone, Shan County People's Republic of China (单县开发区园艺路南段路西)	50 years (expiring on 30 December 2057)	70,895.00
#3	Land at Jing Xiu Jiang Nan East Side, Guang Dong Road, Dang Yang City People's Republic of China (当阳市广州路(锦绣江南东侧))	50 years (expiring on 30 September 2061)	101,720.20
#4	Land at East Side, Jing Yi Road Jing Ji Kai Fa District Gu Zhen Town, Beng Bu City An Hui Province People's Republic of China (安徽省蚌埠市固镇县经济开发区经一路东侧)	50 years (expiring on 7 August 2063)	133,333.33

These land use rights were acquired from:

#1 邛崃市人民政府;

#2 单县人民政府;

#3 当阳市人民政府; and

#4 固镇县人民政府 *

* The land use rights certificate was yet to be issued by local government.

6 Property, plant and equipment

The Company	Office equipment RMB'000
Cost	
At 1 January 2013	37
Additions	–
At 31 December 2013	**37**
Additions	**11**
At 31 December 2014	**48**
Accumulated depreciation	
At 1 January 2013	18
Depreciation for the year	6
At 31 December 2013	**24**
Depreciation for the year	**7**
At 31 December 2014	**31**
Net book value	
At 31 December 2014	**17**
At 31 December 2013	13

6 Property, plant and equipment (cont'd)

The Group	Factory and warehouse premises RMB'000	Office units RMB'000	Renovation RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost								
At 1 January 2013	254,626	2,729	3,715	212,112	5,290	1,934	96,627	577,033
Restated additions (Note 31(b))	842	–	35	6,734	159	225	241,428	249,423
Reclassification	89,996	–	–	10,939	–	–	(100,935)	–
Elimination on disposal of a subsidiary (Note 25)	(7,382)	–	–	(2,069)	(891)	(240)	–	(10,582)
Restated disposal (Note 31(b))	–	–	–	–	(61)	(118)	–	(179)
At 31 December 2013	**338,082**	**2,729**	**3,750**	**227,716**	**4,497**	**1,801**	**237,120**	**815,695**
Additions	**331**	**–**	**62**	**40,859**	**100**	**194**	**98,563**	**140,109**
Reclassification	**3,623**	**–**	**–**	**192,068**	**–**	**–**	**(195,691)**	**–**
Disposal	**–**	**(2,729)**	**–**	**(92)**	**(73)**	**(5)**	**–**	**(2,899)**
At 31 December 2014	**342,036**	**–**	**3,812**	**460,551**	**4,524**	**1,990**	**139,992**	**952,905**
Accumulated depreciation								
At 1 January 2013	22,115	376	3,313	17,943	2,850	1,134	–	47,731
Depreciation for the year	12,047	55	200	21,623	359	215	–	34,499
Elimination on disposal of a subsidiary (Note 25)	(2,219)	–	–	(1,249)	(798)	(171)	–	(4,437)
Disposal	–	–	–	–	(57)	(106)	–	(163)
At 31 December 2013	**31,943**	**431**	**3,513**	**38,317**	**2,354**	**1,072**	**–**	**77,630**
Depreciation for the year	**16,744**	**55**	**147**	**29,838**	**371**	**233**	**–**	**47,388**
Disposal	**–**	**(486)**	**–**	**(50)**	**(66)**	**(3)**	**–**	**(605)**
At 31 December 2014	**48,687**	**–**	**3,660**	**68,105**	**2,659**	**1,302**	**–**	**124,413**
Net book value								
At 31 December 2014	**293,349**	**–**	**152**	**392,446**	**1,865**	**688**	**139,992**	**828,492**
At 31 December 2013	306,139	2,298	238	189,399	2,143	729	237,120	738,065

6 Property, plant and equipment (cont'd)

(a) Depreciation is charged to:

The Group	Note	31 December 2014 RMB'000	31 December 2013 RMB'000
Cost of sales		**23,721**	11,415
Distribution costs	20(b)	**691**	658
Administrative expenses	20(c)	**22,976**	22,426
	20(f)	**47,388**	34,499

(b) Factory and warehouse premises are located at:

The Group	31 December 2014 RMB'000	31 December 2013 RMB'000
At cost		
Factory and warehouse premises		
- #1 (Note 5)	**51,657**	51,657
- #2 (Note 5)	**52,005**	51,950
- #3 (Note 5)	**193,815**	189,916
- #4*	**44,559**	44,559
	342,036	338,082

* Relate to the following lands:

Location	Land area (sq m)	Ownership	Effective date	Expiry date
山西省永济市南郊粮库内	1,909.41	永济市粮食局	1 January 2008	31 December 2026
永济市蒲州镇	10,025.13	永济市蒲州镇西文学村村民委员会	26 November 2008	20 November 2015

* The respective ownerships to the properties have the right to sub-lease the said factory and warehouse premises to a subsidiary, Shanxi Yongji Huaxin Food Co., Ltd.

Additional information on lease on factory and warehouse premises at Shanxi is further discussed in Note 26.

6 Property, plant and equipment (cont'd)

(c) Office units comprise:

Location	Description	Built-in area (sq m)	Tenure
No. 3013 Yitian Road, Futian District Tower B Southern International Plaza, Shenzhen People's Republic of China (滨河路与益田路3013号 南方国际广场B座 深圳市福田区)	6 office units (Unit 2115-2120)	265.68	70 years commencing 29 April 2000

The title deeds to these office units which are registered in the name of a director of the Group, Huang Yupeng (黄育鹏) are held in trust for Shenzhen Grandness Industry Groups Co., Ltd.

During the financial year, the office units had been sold to Huang Yupeng (黄育鹏) based on market value assessed by an independent valuer.

Disclosure of related party transaction is provided in Note 24.

(d) As at the end of the reporting period, the carrying amount of property, plant and equipment of the Group which have been pledged to financial institutions to secure banking facilities are as follows:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Factory and warehouse premises – net book value	**37,776**	40,351

(e) The construction-in-progress relate to:

		Estimated date of completion
(i)	the construction of factory at Land at West of Nanduan Road, Yuanyi Road, Economic Development Zone, Shan County, People's Republic of China (单县开发区园艺路南段路西);	September 2015
(ii)	the administration building on the existing Land at West of Nanduan Road, Yuanyi Road, Economic Development Zone, Shan County, People's Republic of China (单县开发区园艺路南段路西);	September 2015
(iii)	the administration building and warehouse (厂房), at Jing Xiu Jiang Nan East Side, Guangzhou Road, Dang Yang City (当阳市广州路(锦绣江南东侧)); and	Note A
(iv)	the construction of factory at Land at East Side, Jing Yi Road, Economic Development Zone, Gu Zhen Town, Beng Bu City, An Hui Province, People's Republic of China (安徽省蚌埠市固镇县经济开发区经一路东侧)	January 2016

Note A: The construction-in-progress of Dang Yang City has been completed during the year.

7 Subsidy

The Group	Note	31 December 2014 RMB'000	31 December 2013 RMB'000
Subsidy		**1,236**	1,236
Less: Amortisation			
Balance at beginning of year		**(1,102)**	(968)
Amortisation for the year	20(c) & 20(f)	**(134)**	(134)
Balance at end of year		**(1,236)**	(1,102)
		–	134

The subsidy relates to money paid to farmers to provide financial assistance and support of vegetables farming. The governmental related agency, 邛崃市刀豆产业发展领导小组, also participates in the said contribution to ease certain subsidiaries in PRC in rendering financial assistance to the farmers.

8 Subsidiaries

The Company	Note	31 December 2014 RMB'000	31 December 2013 RMB'000
Unquoted equity investments, at cost		**1,848**	1,848
Fair value of share options granted	(a)	**8,914**	–
Restructuring	(b)	**40,173**	–
		50,935	1,848

(a) Being fair value of share options granted to the employees of the subsidiaries. Refer to Note 23.

(b) During the financial year, Grandness (HK) Industry Co., Limited has transferred its 100% equity interest in Shanxi Yongji Huaxin Food Co., Ltd to the Company as part of the group restructuring exercise. The transfer has been accounted on a common control basis. Refer to Note 9.

The subsidiaries are:

Name	Country of incorporation / principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2014 RMB'000	2013 RMB'000	**2014 %**	2013 %	
Held by the Company						
Grandness (HK) Industry Co., Limited * (振鹏达(香港)实业有限公司)[1]	Hong Kong	**1,848**	1,848	**100**	100	Investment holding
Shanxi Yongji Huaxin Food Co., Ltd. * (山西永济华鑫食品有限公司)[2]	People's Republic of China	**40,173**	–	**100**	–	Production and sale of canned vegetables and fruits
Balance carried forward		**42,021**	1,848			

8 Subsidiaries (cont'd)

Name	Country of incorporation / principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2014	2013	**2014**	2013	
		RMB'000	RMB'000	**%**	%	
Balance brought forward		**42,021**	1,848			
Held by Grandness (HK) Industry Co., Limited (振鹏达(香港)实业有限公司)						
Shanxi Yongji Huaxin Food Co., Ltd. * (山西永济华鑫食品有限公司)[2]	People's Republic of China	**–**	–	**–**	100	Production and sale of canned vegetables and fruits
Shenzhen Grandness Industry Groups Co., Ltd. * (深圳振鹏达实业集团有限公司)[3]	People's Republic of China	**5,488**	–	**58.3**	58.3	Sale of canned vegetables and fruits
Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited * (鲜绿园(香港)果蔬饮料有限公司)[1]	Hong Kong	**–**	–	**100**	100	Investment holding
Grandness (Anhui) Foods Co., Ltd. * (振鹏达(安徽)食品有限公司)	People's Republic of China	**–**	–	**100**	–	Production and sale of fruits and vegetable juices
Garden Fresh Group Holding Co., Ltd +, * (鲜绿园集团控股有限公司)	Cayman Islands	**–**	–	**100**	–	Investment holding
Held by Garden Fresh Group Holding Co., Ltd (鲜绿园集团控股有限公司)						
Garden Fresh Group Co., Limited+, * (鲜绿园集团股份有限公司)	Hong Kong	**–**	–	**100**	–	Investment holding
Held by Shanxi Yongji Huaxin Food Co., Ltd. (山西永济华鑫食品有限公司)						
Shenzhen Grandness Industry Groups Co., Ltd. * (深圳振鹏达实业集团有限公司)[3]	People's Republic of China	**–**	–	**41.7**	41.7	Sale of canned vegetables and fruits
Grandness (Sichuan) Foods Co., Ltd. * (四川振鹏达食品有限公司)[4]	People's Republic of China	**–**	–	**20.77#**	20.77#	Production and sale of canned vegetables and fruits
Balance carried forward		**47,509**	1,848			

8 Subsidiaries (cont'd)

Name	Country of incorporation / principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2014	2013	**2014**	2013	
		RMB'000	RMB'000	**%**	%	
Balance brought forward		**47,509**	1,848			
Held by Shenzhen Grandness Industry Groups Co., Ltd. (深圳振鹏达实业集团有限公司)						
Grandness (Sichuan) Foods Co., Ltd. * (四川振鹏达食品有限公司)[4]	People's Republic of China	**–**	–	**51#**	51#	Production and sale of canned vegetables and fruits
Dongpeng (Chengdu) Agricultural Development Co., Ltd. * (成都东鹏农业发展有限公司)[4]	People's Republic of China	**–**	–	**100**	100	Inactive
Grandness (Shanxian) Food Co., Ltd. * (山东单县振鹏达食品有限公司)[5]	People's Republic of China	**–**	–	**100**	100	Production and sale of canned vegetables and fruits
Grandness (Hubei) Foods Co., Ltd * (湖北振鹏达食品有限公司)[6]	People's Republic of China	**–**	–	**100**	100	Production and sale of canned vegetables and fruits
Held by Grandness (Shanxian) Food Co., Ltd. (山东单县振鹏达食品有限公司)						
Grandness (Sichuan) Foods Co., Ltd. * (四川振鹏达食品有限公司)[4]	People's Republic of China	**–**	–	**4.78#**	4.78#	Production and sale of canned vegetables and fruits
Held by Dongpeng (Chengdu) Agricultural Development Co., Ltd. (成都东鹏农业发展有限公司)						
Grandness (Sichuan) Foods Co., Ltd. * (四川振鹏达食品有限公司)[4]	People's Republic of China	**–**	–	**4.78#**	4.78#	Production and sale of canned vegetables and fruits
Balance carried forward		**47,509**	1,848			

8 Subsidiaries (cont'd)

Name	Country of incorporation / principal place of business	Cost of investment 2014 RMB'000	Cost of investment 2013 RMB'000	Effective percentage of equity held 2014 %	Effective percentage of equity held 2013 %	Principal activities
Balance brought forward		**47,509**	1,848			
Held by Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited (鲜绿园(香港)果蔬饮料有限公司)						
Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited * (鲜绿园(深圳)果蔬饮料有限公司)[3]	People's Republic of China	**3,426**	–	**100**	100	Sale of fruits and vegetable juices
Garden Fresh (Hubei) Food & Beverage Co., Limited * (鲜绿园(湖北)食品饮料有限公司)[6]	People's Republic of China	**–**	–	**100**	100	Production and sale of fruits and vegetable juices
Held by Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited (鲜绿园(深圳)果蔬饮料有限公司)						
Garden Fresh (Sichuan) Fruit & Vegetable Beverage Co., Limited * (四川鲜绿园果蔬饮料有限公司)[4]	People's Republic of China	**–**	–	**90**	90	Production and sale of fruits and vegetable juices
Held by Garden Fresh (Hubei) Food & Beverage Co., Limited (鲜绿园(湖北)食品饮料有限公司)						
Garden Fresh (Sichuan) Fruit & Vegetable Beverage Co., Limited * (四川鲜绿园果蔬饮料有限公司)[4]	People's Republic of China	**–**	–	**10**	10	Production and sale of fruits and vegetable juices
		50,935	1,848			

* Audited by Foo Kon Tan LLP for consolidation purposes.

\# Together with other wholly-owned subsidiaries of Sino Grandness Food Industry Group Limited, the effective interest in Grandness (Sichuan) Foods Co., Ltd. remained at 81.33%.

\+ The subsidiaries were newly incorporated during the financial year by using injection of cash capital contribution of HKD 1,001 in total.

1. The local auditor is Qual-Mark CPA Limited (优志执业会计师有限公司).

2. The local auditor is Yun Cheng Huang He Certified Public Accountants Co., Ltd (运城黄河会计师事务所有限公司).

3. The local auditor is Shenzhen Yida Certified Public Accountants Co., Ltd (深圳市义达会计师事务所有限责任公司).

4. The local auditor is Sichuan Sanhe Certified Public Accountants Co., Ltd (四川三和会计师事务所).

5. The local auditor is Shan Dong He Hua United Public Accountants (山东荷华联合会计师事务所).

6. The local auditor is Yichang Tiancheng Certified Public Accountants Co., Ltd (宜昌天成会计师事务所有限公司).

9 Amount owing by subsidiaries

The Company	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Non-current		
Non-trade		
- Grandness (HK) Industry Co., Limited	**168,738**	218,774
- Shenzhen Grandness Industry Groups Co., Ltd.	**4,509**	12,119
- Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited	**1,426**	–
	174,673	230,893

The non-trade amounts owing by subsidiaries are unsecured and interest-free. There are no fixed terms of repayment and the settlements are neither planned nor likely to be settled in the foreseeable future. Accordingly, it is not practicable to determine the fair value of these amounts owing. The reduction in amount owing by subsidiaries was mainly due to the restructuring process during the current financial year as Shanxi Yongji Huaxin Food Co., Ltd was transfered from Grandness (HK) Industry Co., Limited to the Company at its carrying amount.

The non-trade amounts owing by subsidiaries are denominated in the following currencies:

The Company	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Non-trade		
- Singapore dollar	**193,605**	202,241
- United States dollar	**119**	122
- Renminbi	**(19,051)**	28,530
	174,673	230,893

10 Deferred taxation

10(a) Deferred tax assets

	The Company		**The Group**	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Balance at beginning of year	**–**	–	**1,678**	1,943
Disposal of a subsidiary	**–**	–	**–**	(265)
Balance at end of year	**–**	–	**1,678**	1,678
The balance comprises tax on				
- excess of tax written down value of qualifying property, plant and equipment over net book value	**–**	–	**904**	904
- provision	**–**	–	**774**	774
To be recovered after one year	**–**	–	**1,678**	1,678

10 Deferred taxation (cont'd)

10(b) Deferred tax liabilities

	The Company		The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Balance at beginning and end of year	**20,241**	20,241	**20,241**	20,241
The balance comprises tax on				
- undistributed earnings of subsidiaries	**19,241**	19,241	**19,241**	19,241
- unremitted income	**1,000**	1,000	**1,000**	1,000
To be settled after one year	**20,241**	20,241	**20,241**	20,241

Deferred income tax liabilities of RMB 20.2 milllion (2013: RMB 20.2 million) have not been recognised for additional withholding and other taxes that will be payable on the earnings of overseas subsidiaries when remitted to the holding company in accordance with the Group's policy on income taxes.

11 Inventories

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Finished goods, at cost	**40,159**	38,392
Packaging materials, at cost	**6,871**	5,329
Raw materials, at cost	**3,713**	2,236
	50,743	45,957
Included in cost of sales are inventories charged of:	**1,666,426**	1,372,265
Reversal of inventories written down	**–**	19

The write-off of inventories relates to normal loss which is in the course of normal business operations where certain goods were discarded due to quality control purpose. There is no allowance made to the inventories at the financial year end.

The write-down of inventories is reversed to the profit or loss due to the recovery of selling prices of finished goods.

12 Trade and other receivables

	The Company		The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Trade receivables				
- external parties	**–**	–	**1,110,361**	633,597
Less: Impairment loss on trade receivables				
Balance at beginning of year	**–**	–	**(154)**	(154)
Allowance for the year	**–**	–	**–**	–
Balance at end of year	**–**	–	**(154)**	(154)
Net trade receivables	**–**	–	**1,110,207**	633,443
Other receivables				
Advances to				
- contractors	**–**	–	**30**	18,112
- suppliers of property, plant and equipment	**–**	–	**55,000**	46,016
- suppliers	**–**	–	**77,286**	25,598
- employees	**41**	18	**696**	441
- third parties	**–**	–	**853**	789
- Shenzhen Cheng Xingwang Import and Export Co., Ltd (深圳市成兴旺进出口有限公司)	**–**	–	**1,120**	1,120
Prepayments	**–**	–	**11,215**	6,403
VAT receivable	**–**	–	**120,730**	69,235
Export tax refunds	**–**	–	**48,411**	51,373
Tax recoverable	**–**	31	**–**	31
Deposits	**12**	5	**1,557**	1,561
Guzhen (Anhui) Municipal Government (安徽固镇镇政府)	**–**	–	**51**	63,600
Yunnan Shizong Datong Shenghong Flourmill (云南师宗大同盛宏面粉厂)	**–**	–	**–**	3,579
Others	**2**	–	**190**	183
Sub-total	**55**	54	**317,139**	288,041
Grand total	**55**	54	**1,427,346**	921,484

12 Trade and other receivables (cont'd)

Trade and other receivables are denominated in the following currencies:

	The Company		The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Trade				
United States dollar	**–**	–	**182,624**	60,605
Renminbi	**–**	–	**927,583**	572,838
	–	–	**1,110,207**	633,443
Non-trade				
Renminbi	**–**	1	**303,748**	285,343
United States dollar	**–**	–	**9,705**	2,264
Hong Kong dollar	**–**	–	**240**	16
Singapore dollar	**55**	53	**3,446**	418
	55	54	**317,139**	288,041
	55	54	**1,427,346**	921,484

Trade receivables are usually due within 60 - 90 days and do not bear any interest. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers. No additional allowance for impairment has been considered necessary.

(i) The age analysis of trade receivables neither past due nor impaired was as follows:

	The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000
Current - neither past due nor impaired	**796,473**	559,177

(ii) The age analysis of trade receivables past due and not impaired was as follows:

	The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000
Past due 0 to 3 months	**313,711**	74,263
Past due 3 to 6 months	**–**	3
Past due over 6 months	**23**	–
	313,734	74,266

12 Trade and other receivables (cont'd)

(iii) The age analysis of trade receivables past due and impaired was as follows:

	The Group	
	31 December 2014	31 December 2013
	RMB'000	RMB'000
Past due 0 to 3 months	**–**	–
Past due 3 to 6 months	**–**	–
Past due over 6 months	**154**	154
	154	154

(iv) The credit risk for trade receivables based on the information provided to key management was as follows:

	The Company		The Group	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
By geographical areas				
The People's Republic of China	**–**	–	**927,583**	482,477
Europe	**–**	–	**163,752**	133,292
North America	**–**	–	**10,121**	17,674
Others	**–**	–	**8,751**	–
	–	–	**1,110,207**	633,443

Impairment on trade receivables is made on specific debts for which the directors of the Group are of the opinion that debts are not recoverable.

The advances which are unsecured, interest-free and repayable on demand are mainly made to:

- contractor relates to the construction of newly acquired land and existing factory and warehouse;
- suppliers of property, plant and equipment relate to the purchase of plant and machinery;
- suppliers relate to the purchase of raw material, packing materials and finished goods; and
- employees pertaining to business purpose.

Prepayment includes prepaid Initial Public Offering ("IPO") expenses of a subsidiary, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Ltd, amounting to RMB 11.0 million (2013: RMB 5.9 million) that relate solely to the equity offering.

Export tax refunds relate to tax refunds which is calculated at 15% (2013 - 15%) on overseas sales.

Guzhen (Anhui) Municipal Government (安徽固镇镇政府) relates to the land use right payment in Anhui province. An amount of RMB 61.2 million was reclassified to land use right during the year. Refer to Note 5.

Amount receivable from Yunnan Shizong Datong Shenghong Flourmill (云南师宗大同盛宏面粉厂) relates to the remaining unpaid sales consideration of disposal of Yunnan Shizong Zhenhua Food Co., Ltd, a subsidiary of the Group.

13 Cash and bank balances

	The Company		The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Cash on hand	**–**	–	**257**	112
Bank balances	**161,543**	4,179	**223,315**	91,217
	161,543	4,179	**223,572**	91,329
Amount as shown above			**223,572**	91,329
Less: Deposits placed in banks for bank borrowings and notes payable (Notes 16 and 19)			**(49,138)**	(9,310)
Cash and cash equivalents for consolidated statement of cash flows purposes at the end of the year			**174,434**	82,019

Cash and bank balances are denominated in the following currencies:

	The Company		The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
United States dollar	**–**	–	**31,032**	182
Renminbi	**–**	–	**30,111**	61,243
Singapore dollar	**161,543**	4,179	**161,599**	29,883
Others	**–**	–	**830**	21
	161,543	4,179	**223,572**	91,329

14 Share capital

	← Number of shares →		The Company	
	2014	2013	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Issued and fully paid ordinary shares with no par value:				
Balance at beginning of year	**587,344**	265,172	**282,578**	167,897
Shares issued pursuant to placement	**86,000**	28,500	**163,642**	117,750
Share issuance expenses	**–**	–	**(5,272)**	(3,069)
Ordinary share split of every one ordinary share split into two ordinary shares	**–**	293,672	**–**	–
Balance at end of year	**673,344**	587,344	**440,948**	282,578

On 30 December 2014, the Company issued new share placement of 86.0 million (2013: 28.5 million) ordinary shares at a placement price of S$0.40 (2013: S$0.82) for each ordinary shares. Total consideration received was S$34.7 million (RMB 163.6 million) (2013: S$23.4 million (RMB 117.8 million)) to provide funds for the expansion of the Group's operations. The newly issued shares rank pari passu in all respects with the previously issued shares.

14 Share capital (cont'd)

On 23 September 2013, the Company completed the share split of every one ordinary share in the share capital of the Company into two ordinary shares. Prior to the share split, the Company had an issued and paid up share capital of RMB 282.6 million comprising of 293.7 million ordinary shares. Following the completion of share split, the Company has an issued and paid up share capital comprising 587.3 million ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

15 Other reserves

	The Company		The Group	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Statutory common reserve				
Balance at beginning of year	**–**	–	**102,742**	71,708
Movement during the year	**–**	–	**30,420**	31,034
Balance at end of year	**–**	–	**133,162**	102,742
ESOS Scheme reserve				
Balance at beginning of year	**2,220**	–	**2,220**	–
Movement during the year	**8,311**	2,220	**8,311**	2,220
Balance at end of year	**10,531**	2,220	**10,531**	2,220
Merger reserve				
Balance at beginning and end of year	**–**	–	**(31,413)**	(31,413)
Grand total	**10,531**	2,220	**112,280**	73,549

Statutory common reserve

According to the PRC Company Law, the subsidiaries in PRC are required to transfer between 10% and 50% of their profit after taxation to statutory common reserve until the common reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the PRC accounting standards. The transfer to this reserve must be made before the distribution of dividends to shareholders.

Statutory common reserve can be used to make good previous years' losses and for conversion to capital, if any, provided that the balance remains not less than 25% of the registered capital.

ESOS Scheme reserve

ESOS Scheme reserve represents the equity-settled share options granted to employees (Refer to Note 23). The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

Merger reserve

The merger reserve arises from the difference between the purchase consideration and the carrying value of the share capital acquired under the pooling-of-interests method of consolidation.

16 Bank borrowings

The Group	Note	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Bank loans			
- 中信银行股份有限公司深圳分行	(a)	**40,000**	–
- 中信银行股份有限公司深圳分行	(b)	**–**	8,000
- 星展银行(中国)有限公司深圳分行	(c)	**10,000**	–
- 星展银行(中国)有限公司深圳分行	(d)	**–**	5,000
- 平安银行深圳总行	(e)	**9,200**	–
		59,200	13,000
Amount repayable:			
Not later than one year		**59,200**	13,000
Later than one year and not later than five years		**–**	–
		59,200	13,000

(a) The secured bank loan facility of RMB 48 million comprises a tranch of RMB 8 million which has been repaid during the financial year. The loan is repayable on 25 June 2015 and was secured by inter-alia;

(i) the land use rights costing and factory and warehouse premises with a carrying amount of RMB 7.3 million and RMB 37.8 million respectively belonging to a subsidiary, Grandness (Shanxian) Foods Co., Ltd;

(ii) a personal guarantee by a director of the company, Huang Yupeng; and

(iii) a corporate guarantee provided by a wholly-owned subsidiary, Grandness (Shanxian) Foods Co., Ltd.

Interest is charged between 6.16% and 8.10% per annum.

(b) The secured bank loan facility of RMB 8 million was repayable on 22 August 2014. The loan was secured by inter-alia;

(i) a personal guarantee by a director of the company, Huang Yupeng; and

(ii) a corporate guarantee provided by a wholly-owned subsidiary, Grandness (Shanxian) Foods Co., Ltd.

Interest was charged at 7.20% per annum.

(c) The secured bank loan facility of RMB 10 million is repayable on 12 May 2015. The loan was secured by inter-alia;

(i) a personal guarantee by a director of the company, Huang Yupeng;

(ii) a corporate guarantee provided by a wholly-owned subsidiary, Shanxi Yongji Huaxin Food Co., Limited; and

(iii) a pledge of cash and bank balance of RMB 4 million of a wholly-owned subsidiary, Shenzhen Grandness Industry Groups Co., Ltd.

Interest is charged at 7.00% per annum.

16 Bank borrowings (cont'd)

(d) The secured bank loan facility of RMB 5 million was repayable on 24 January 2014. The loan was secured by inter-alia;

(i) a personal guarantee by a director of the company, Huang Yupeng;

(ii) a corporate guarantee provided by a wholly-owned subsidiary, Grandness (Shanxian) Foods Co., Ltd;

(iii) a corporate guarantee provided by the ultimate holding company, Sino Grandness Food Industry Group Limited; and

(iv) a pledge of cash and bank balances of RMB 4 million of a wholly-owned subsidiary, Shenzhen Grandness Industry Groups Co., Ltd.

Interest was charged at 7.00% per annum.

(e) The secured bank loan facility of RMB 9.2 million is repayable on 5 September 2015. The loan was secured by inter-alia;

(i) a personal guarantee by a director of the company, Huang Yupeng; and

(ii) a corporate guarantee provided by two wholly-owned subsidiaries, Shanxi Yongji Huaxin Food Co., Limited and Grandness (Shanxian) Food Co., Ltd.

Interest is charged between 7.28% and 7.80% per annum.

17 Convertible bonds including derivatives

The Group	**31 December 2014** **RMB'000**	31 December 2013 (Restated) RMB'000	1 January 2013 (Restated) RMB'000
2012 Convertible Bond	**526,509**	377,724	278,572
2011 Convertible Bond	**195,567**	146,196	114,857
	722,076	523,920	393,429
Current portion	**722,076**	523,920	–
Non-current portion	**–**	–	393,429
	722,076	523,920	393,429
Comprising:			
Liability component at amortised cost			
- 2012 Convertible Bond	**353,558**	310,107	248,068
- 2011 Convertible Bond	**130,827**	131,927	107,113
Sub-total	**484,385**	442,034	355,181
Option derivatives at fair value			
- 2012 Convertible Bond	**172,951**	67,617	30,504
- 2011 Convertible Bond	**64,740**	14,269	7,744
Sub-total	**237,691**	81,886	38,248
	722,076	523,920	393,429

2011 Convertible Bond

In financial year 2011, a wholly-owned subsidiary, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited ("Garden Fresh (HK)" or "the issuer") entered into a Subscription Agreement with Sun Hung Kai Investment Services Limited to issue RMB100 million zero coupon convertible bonds ("2011 Convertible Bond"). The maturity date is 19 October 2014 ("Scheduled Maturity Date") with an option to extend to 30 June 2015 ("Extended Maturity Date").

On 8 October 2014, the 2011 Convertible Bondholders representing 80.5% of the principal amount of the 2011 Convertible Bonds ("2011 Convertible Bondholders") have exercised their right to extend the Maturity Date of the Convertible Bonds from 19 October 2014 to 30 June 2015.

Garden Fresh (HK) has completed the process of repurchasing 19.5% of the principal amount of the 2011 Convertible Bond (the "Repurchase") on 29 October 2014. Payment for the Repurchase in the total amount of approximately RMB 38.6 million was made on 6 October 2014. Upon settlement of the Repurchase, the relevant repurchased Convertible Bond was cancelled, and the total outstanding principal amount of the Convertible Bond was reduced from RMB 100 million to RMB 80.5 million.

Garden Fresh (HK) and the 2011 Convertible Bondholders have entered into a supplemental agreement on 27 October 2014 (the "Supplemental Agreement"). The key changes include:

- Garden Fresh (HK) to pay a simple cash interest of 3.5% per annum on the outstanding principal amount to the 2011 Convertible Bondholders from 20 October 2014 to the earlier of (a) the redemption of 2011 Convertible Bond in accordance with the applicable terms and conditions of the 2011 Convertible Bond in effect as at the time of the redemption and (b) the listing on an approved exchange at the higher of (i) 9 times valuation and (ii) 9 times 2014 valuation as a result of a Qualifying IPO;

17 Convertible bonds including derivatives (cont'd)

2011 Convertible Bond (cont'd)

- the 2011 Convertible Bondholders have exercised their rights to extend the Maturity Date of the Convertible Bonds from 19 October 2014 to 30 June 2015; and

- in the event Garden Fresh (HK) completes a Qualifying IPO prior to the Extended Maturity Date at a Qualifying IPO price that is less than the higher of (i) 9 times valuation and (ii) 9 times 2014 valuation; the 2011 Convertible Bondholders have the options to (i) request the issuer to redeem and cancel the bonds and pay to the 2011 Convertible Bondholders the redemption amount as calculated under Scenario #2 of Revised Redemption amount below or (ii) continue to be the bondholders on the same terms and conditions of the 2011 Convertible Bond in effect immediately preceding the time of the IPO, subject to any necessary amended terms and conditions which the issuer and Listco may be required to comply with for the purpose of achieving on an Approved Exchange.

The simple cash interest payable to the 2011 Convertible Bondholders based on the period from 20 October 2014 to 30 June 2015 is approximately RMB 2.0 million.

Terms of conversion

The conversion option is convertible any time prior to the Extended Maturity Date at the option of the 2011 Convertible Bondholders.

The conversion will be determined by the principal amount of outstanding bond divided by aggregate principal amount of all bonds times the aggregate conversion shareholding, which was determined by the relevant share capital times aggregate conversion proportion.

(i) If reference net profit > RMB 250 million and the performance requirement is satisfied, principal amount of all bonds divided by RMB 1,500 million

(ii) If reference net profit > RMB 200 million and < or = RMB 250 million, and the performance requirement is satisfied, principal amount of all bonds divided by 5.5 times reference net profit

(iii) If neither (i) nor (ii) is applicable, principal amount of all bonds divided by 5 times reference net profit

The convertible bonds are converted into a variable number of shares on the basis of:

(i) a cap that limits the number of shares that the entity is required to deliver no more than 19.9% of the total issued share capital of Garden Fresh (HK) in order to prevent excessive dilution of the existing shareholders through the issue of new shares; and

(ii) a floor (i.e., a collar) that requires the entity to deliver to Bondholders in accordance to Revised Redemption Amounts as listed below:

In the event that the IPO of Garden Fresh (HK) does not occur prior to the Extended Maturity Date, the Subscription Agreement triggers the Revised Redemption Clause. Dependent on the phase of the IPO of Garden Fresh (HK) is at, the corresponding Revised Redemption Amount will be granted to the Bondholders at the Extended Maturity Date is:

17 Convertible bonds including derivatives (cont'd)

2011 Convertible Bond (cont'd)

Revised Redemption Amount 1 ("Scenario 1")

Formal application for listing of the shares has not been made to an Approved Exchange by the Extended Maturity Date and no agreement has been made among the 2011 Convertible Bondholders and the issuer for an extension of the maturity of the 2011 Convertible Bond;

Outstanding Principal Amount multiplied by 1.25^{x}

Where ^{x} *= number of calendar days from and including issue date to, but excluding Redemption Date, divided by 365*

The maximum redemption amount payable is approximately RMB 183.8 million (2013: RMB 195.4 million#) under Scenario 1 before accounting the simple interest imposed.

Revised Redemption Amount 2 ("Scenario 2")

Formal application for listing of the shares has been made to an Approved Exchange by the Extended Maturity Date but a Qualifying IPO has not yet taken place, and no agreement has been made among the 2011 Convertible Bondholders and the issuer for an extension of the maturity of the 2011 Convertible Bond;

Outstanding Principal Amount multiplied by 1.25^{y} *+ Outstanding Principal Amount multiplied by* 1.15^{x} *(-) Outstanding Principal Amount of the Bond*

Where ^{y} *= number of calendar days from and including issue date to and including 19 October 2014 divided by 365*

Where ^{x} *= number of calendar days from and including 20 October 2014 to, but excluding Redemption Date, divided by 365*

The maximum redemption amount payable is approximately RMB 165.6 million (2013: RMB 152.1 million#) under Scenario 2 before accounting the simple interest imposed.

Revised Redemption Amount 3 ("Scenario 3")

Garden Fresh (HK) completes a Qualifying IPO prior to the Extended Maturity Date at a Qualifying IPO price that is less than the higher of (i) 9 times valuation and (ii) 9 times 2014 valuation;

Outstanding Principal Amount multiplied by 1.10^{x}

The maximum redemption amount payable is approximately RMB 114.5 million (2013: RMB 133.1 million) under Scenario 3 before accounting the simple interest imposed.

Where ^{x} *= number of calendar days from and including issue date to, but excluding Redemption Date, divided by 365*

 # This is calculated based on the original principal amount of RMB 100 million on its original scheduled maturity date of 19 October 2014 and based on the original redemption terms.

17 Convertible bonds including derivatives (cont'd)

2011 Convertible Bond (cont'd)

Valuation of the convertible bond

The convertible bonds do not contain any equity component or equity instrument as the conversion option in the convertible bond is settled other than by the exchange of a fixed number of the issuer's own equity instruments (i.e. fixed for floating); the conversion option elements are derivative liabilities.

The amortised cost of the convertible bonds was calculated using cash flows of the convertible bonds at their corresponding discount rates and the fair value of the option derivatives was calculated using the Binomial Option Pricing Model. The option derivatives consisting the conversion option and extension option were carried at fair value at the inception date and the end of each reporting period with change in fair value recognised in profit or loss. Details of the variables and assumptions of the model were as follows:

	31 December 2014	31 December 2013	1 January 2013	On issue date
Risk-free rate	**0.06%**	0.26%	0.12%	0.56%
Expected volatility	**37.73%**	34.11%	38.95%	50.05%
Redemption return	**0%-25%***	15.00%	15.00%	15.00%
Discount rate	**16.72%**	17.82%	19.50%	21.20%
Coupon rate	**3.50%**	0%	0%	0%
Dividend yield	**0%**	0%	0%	0%

* *In 2014, a weighted-average of the probabilities of the occurrence and non-occurrence of an IPO event corresponding to their respective redemption returns has been applied.*

Expected volatility was determined by using the historical volatility of Garden Fresh (HK) as at the issue date.

2012 Convertible Bond

In financial year 2012, a wholly-owned subsidiary, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited ("Garden Fresh (HK)" or "the issuer") entered into a Subscription Agreement with Goldman Sachs Investments Holdings (Asia) Limited to issue RMB 270 million zero coupon convertible bonds ("2012 Convertible Bond"). The Maturity Date is 25 July 2015.

Terms of conversion

The conversion options is convertible any time:

(a) prior to Maturity Date; or

(b) prior to the Qualifying IPO Date if the issuer undertakes a Qualifying IPO prior to the Maturity Date

17 Convertible bonds including derivatives (cont'd)

2012 Convertible Bond (cont'd)

Terms of conversion (cont'd)

The conversion will be determined by the principal amount of outstanding bond divided by aggregate principal amount of all bonds times the aggregate conversion shareholding, which was determined by the relevant share capital times aggregate conversion proportion.

(i) If reference net profit > RMB 250 million and the performance requirement is satisfied, principal amount of all bonds divided by RMB 1,500 million

(ii) If reference net profit > RMB 200 million and < or = RMB 250 million, and the performance requirement is satisfied, principal amount of all bonds divided by 5.5 times reference net profit

(iii) If neither (i) nor (ii) is applicable, principal amount of all bonds divided by 5 times reference net profit

The convertible bonds are converted into a variable number of shares on the basis of:

(i) a cap that limits the number of shares that the entity is required to deliver no more than 30% of the total issued share capital of Garden Fresh (HK) in order to prevent excessive dilution of the existing shareholders through the issue of new shares; and

(ii) a floor (i.e., a collar) that requires the entity to deliver to Bondholders in accordance to Revised Redemption Amounts as listed below:

In the event that the IPO of Garden Fresh (HK) does not occur prior to the Maturity Date, the Subscription Agreement triggers the Revised Redemption Clause. Dependent on the phase of the IPO Garden Fresh (HK) is at and the date of redemption of 2012 Convertible Bond, the corresponding Revised Redemption Amount will be granted to the Bondholders at the Scheduled Maturity Date of 25 July 2015 is:

Revised Redemption Amount 1 ("Scenario 1")

IPO process is either incomplete prior to one month of Maturity Date (unless it is not completed due to the occurrence, on or after Issuance Date, of changes in the rules and regulations of the relevant Approved Exchange applicable to Garden Fresh (HK) and Sino Grandness Food Industry Group Limited) or Garden Fresh (HK) does not list its shares on an Approved Exchange on or before the Maturity Date (unless such listing is impossible due to regulatory reasons beyond the control of the Garden Fresh (HK) and Sino Grandness Food Industry Group Limited);

Principal Amount multiplied by 1.20^{x}

The maximum redemption amount payable is approximately RMB 466.6 million (2013: RMB 466.6 million) under Scenario 1.

Revised Redemption Amount 2 ("Scenario 2")

IPO process is completed on or before the date falling one month prior to the Maturity Date and Garden Fresh (HK) is unable to complete a Qualifying IPO on or one month before the Maturity Date due to regulatory restrictions beyond the control of Garden Fresh (HK) and Sino Grandness Food Industry Group Limited; or

Principal Amount multiplied by 1.15^{x}

The maximum redemption amount payable is approximately RMB 410.6 million (2013: RMB 410.6 million) under Scenario 2.

17 Convertible bonds including derivatives (cont'd)

2012 Convertible Bond (cont'd)

Revised Redemption Amount 3 ("Scenario 3")

Garden Fresh (HK) completes a Qualifying IPO on or before the Maturity Date at a Qualifying IPO price that is less than 9 times the Reference Net Profit;

Principal Amount multiplied by 1.10^{x}

The maximum redemption amount payable is approximately RMB 359.4 million (2013: RMB 359.4) under Scenario 3.

In the event the 2011 Convertible Bond is to be redeemed, whether voluntarily or mandatorily, earlier than the 2012 Convertible Bond's Maturity Date, the 2012 Convertible Bond shall be accelerated and treated as a pari passu redemption obligation by the issuer at the applicable Revised Redemption Amount in accordance with the terms and conditions of the 2012 Convertible Bond. Consequently, the 2012 Convertible Bond is treated to be due within twelve months of the reporting year end date. The maximum Revised Redemption Amount for the 2012 Convertible Bond have been computed on the basis of the 2011 Convertible Bond's Scheduled Maturity Date and Extended Maturity Date of 19 October 2014 and 30 June 2015 respectively on account of the right of 2012 Convertible Bondholders to accelerate the redemption in accordance with the terms and conditions of the 2012 Convertible Bond.

The maximum redemption amount payables under Scenarios 1, 2 and 3 on the Accelerated Maturity Date of 2011 Convertible Bond fall on 30 June 2015 is:-

Revised Redemption Amount (Scenario 1)
The maximum redemption amount payable is approximately RMB 460. 8 million (2013: RMB 460.8 million) under Scenario 1.

Revised Redemption Amount (Scenario 2)
The maximum redemption amount payable is approximately RMB 406.7 million (2013: RMB 406.7 million) under Scenario 2.

Revised Redemption Amount (Scenario 3)
The maximum redemption amount payable is approximately RMB 357.0 million (2013: RMB 357.0 million) under Scenario 3.

Where ^{x} *= number of calendar days from and including issue date to, but excluding Redemption Date, divided by 365*

Valuation of the convertible bond

The convertible bonds do not contain any equity component or equity instrument as the conversion option in the convertible bond is settled other than by the exchange of a fixed number of the issuer's own equity instruments (i.e. fixed for floating); the conversion option is a derivative liability.

17 Convertible bonds including derivatives (cont'd)

2012 Convertible Bond (cont'd)

Valuation of the convertible bond (cont'd)

The amortised cost of the convertible bond was calculated using cash flows of the convertible bonds at their corresponding discount rates and the fair value of the option derivatives was calculated using the Binomial Option Pricing Model. The conversion option was carried at fair value at the end of each reporting period with changes in fair value recognised in profit or loss. Details of the variables and assumptions of the model were as follows:

	31 December 2014	31 December 2013	1 January 2013	On issue date
Risk-free rate	**0.07%**	0.27%	0.12%	0.17%
Expected volatility	**38.50%**	34.16%	38.97%	44.18%
Redemption return	**0%-20%***	15.00%	15.00%	15.00%
Discount rate	**16.73%**	17.95%	19.65%	21.08%
Dividend yield	**0%**	0%	0%	0%

* *In 2014, a weighted-average of the probabilities of the occurrence and non-occurrence of an IPO event corresponding to their respective redemption returns has been applied.*

Expected volatility was determined by using the historical volatility of Garden Fresh (HK) as at the issue date.

Fair value of convertible bonds

As disclosed in Note 31, the Group has reassessed the fair values of the convertible bonds during the current financial year.

The proceeds received from the issue of the convertible bonds had been split into the liability component, the conversion options and the extension option of 2011 Convertible Bond (these options are collectively known as the "option derivatives"). The liability component was measured at fair value on initial recognition and carried at amortised cost at effective interest rate method. The option derivatives were measured at fair value on initial recognition and remeasured at the end of each reporting periods with the changes in fair value recognised in profit or loss.

The fair values of the 2011 and 2012 Convertible Bonds over the relevant periods were carried out by Jones Lang LaSalle Corporate and Appraisal Advisory Limited, independent professional valuer not connected to the Group.

17 Convertible bonds including derivatives (cont'd)

2012 Convertible Bond (cont'd)

Fair value of convertible bonds (cont'd)

The fair value and movements of the liability component and option derivatives of the convertible bonds are set out as below:

	2012 Convertible Bond			2011 Convertible Bond			
	Liability component	Option derivatives	Sub-total	Liability component	Option derivatives	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(At amortised cost)	(At fair value)		(At amortised cost)	(At fair value)		
At 1 January 2013 as previously stated	243,639	–	243,639	88,679	–	88,679	332,318
Prior years adjustment (Note 31(a))	4,429	30,504	34,933	18,434	7,744	26,178	61,111
Restated balance as at 1 January 2013	248,068	30,504	278,572	107,113	7,744	114,857	393,429
Interest expense	62,039	–	62,039	24,814	–	24,814	86,853
Changes in fair value	–	37,113	37,113	–	6,525	6,525	43,638
At 31 December 2013	310,107	67,617	377,724	131,927	14,269	146,196	523,920
Partial repurchase:							
Principal amount	–	–	–	(19,500)	–	(19,500)	(19,500)
Interest expense	–	–	–	(12,191)	–	(12,191)	(12,191)
Changes in fair value	–	–	–	–	(15,681)	(15,681)	(15,681)
Sub-total	–	–	–	(31,691)	(15,681)	(47,372)	(47,372)
Interest expense	43,451	–	43,451	30,591	–	30,591	74,042
Changes in fair value	–	105,334	105,334	–	66,152	66,152	171,486
At 31 December 2014	353,558	172,951	526,509	130,827	64,740	195,567	722,076

18 Trade and other payables

	The Company		The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Trade payables	**–**	–	**20,385**	9,056
Accruals	**1,394**	1,412	**116,566**	53,090
Sub-total	**1,394**	1,412	**136,951**	62,146
Other payables				
Amount owing to (non-trade)				
- contractors	**–**	–	**2,192**	1,105
- suppliers of property, plant and equipment	**–**	–	**99**	1,337
- suppliers	**–**	–	**224**	249
- employees	**–**	–	**306**	222
- third parties	**5,758**	413	**7,767**	1,067
Accrual of directors' fees	**509**	438	**509**	438
VAT and government tax payable	**–**	–	**4,074**	8,724
Withholding tax payable	**199**	199	**287**	287
Advance from customers	**–**	–	**501**	681
Deposits	**–**	–	**102**	232
Director of the Company	**8,502**	7,212	**12,178**	6,862
Rental payables	**–**	–	**2,850**	–
Others	**–**	–	**709**	2,627
Sub-total	**14,968**	8,262	**31,798**	23,831
Grand total	**16,362**	9,674	**168,749**	85,977

The carrying amount of trade and other payables, due to their short duration, approximates their fair values.

Accruals relate to liabilities for employee benefit costs, purchase of packaging materials and raw materials and rental of warehouse and factory premises.

The non-trade amounts owing are unsecured, interest-free and are repayable on demand:

- the amount owing to contractors relates to the road construction works, painting on the existing premises and construction of existing factory; and

- the amount owing to employees relate to money withheld for employees' uniform.

18 Trade and other payables (cont'd)

Trade and other payables are denominated in the following currencies:

	The Company		The Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Trade				
Renminbi	**–**	–	**135,557**	60,749
Singapore dollar	**1,394**	1,412	**1,394**	1,397
	1,394	1,412	**139,951**	62,146
Non-trade				
Renminbi	**8,104**	7,212	**21,330**	12,284
Singapore dollar	**6,864**	1,050	**9,561**	1,821
Hong Kong dollar	**–**	–	**–**	63
Euro	**–**	–	**–**	33
United States dollar	**–**	–	**907**	9,630
	14,968	8,262	**31,798**	23,831
	16,362	9,674	**168,749**	85,977

19 Notes payable

The notes payable, which are secured by fixed deposit pledged to a bank (Refer to Note 13) and with an annual effective interest rate from 4.97% to 5.20%, mature at varying dates between 17 January 2015 and 24 June 2015.

20(a) Other operating income

The Group	Note	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Sale of scrap		**96**	477
Sales of raw materials and packaging materials		**–**	3,904
Cost of scrap		**(27)**	(38)
Cost of raw materials and packaging materials		**–**	(2,095)
		69	2,248
Government subsidy		**–**	25
Government grant		**1,703**	4,075
Interest income - banks		**1,000**	1,028
Exchange gain	20(f)	**5,400**	–
Rental income		**93**	365
Gain on disposal of property, plant and equipment	20(f)	**3,051**	7
Gain on disposal of a subsidiary	20(f)	**–**	5,080
Miscellaneous income		**642**	32
		11,958	12,860

20(b) Distribution costs

The Group	Note	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Employee benefit costs	20(e)	**10,457**	12,834
Transportation		**149,030**	131,219
Entertainment		**214**	136
Travelling		**1,634**	1,033
Consumable expenses		**226**	343
Packaging		**12,957**	11,289
Depreciation expense	6(a)	**691**	658
Advertisement and promotion		**122,648**	34,990
Barcoding fee		**1,775**	129
Promotion expense		**78,687**	24,764
Rental expenses		**113**	150
Sample		**693**	22
Telephone expenses		**221**	14
Others		**482**	663
		379,828	218,244

20(c) Administrative expenses

The Group	Note	31 December 2014 RMB'000	31 December 2013 RMB'000
Amortisation of land use rights	5	**2,398**	1,193
Amortisation of subsidy	7	**134**	134
Audit fees paid/payable to:			
- auditors of the Company	20(f)	**1,340**	1,179
- other auditors	20(f)	**143**	167
Other audit or review fees:			
- auditors of the Company	20(f)	**988**	145
- other auditors	20(f)	**594**	–
Bank charges		**1,102**	481
Consumable expenses		**184**	96
Directors' fee		**594**	561
Depreciation expense	6(a)	**22,976**	22,426
Employee benefit costs		**20,287**	16,216
Share-based payment expense under ESOS Scheme	20(e) &20(f)	**8,311**	2,220
	20(e)	**28,598**	18,436
Entertainment		**2,063**	1,375
Exchange loss	20(f)	**9,015**	19,706
Government tax expenses		**5,727**	5,336
IPO expenses		**3,022**	9,774
Loss on disposal of property, plant and equipment	20(f)	**22**	-
Motor vehicle expenses		**435**	469
Professional and legal fees		**1,480**	590
Rental expenses	20(f)	**6,655**	4,522
Repair and maintenance		**364**	165
Travelling expenses		**2,493**	1,553
Utilities		**697**	697
Others		**5,025**	5,782
		96,049	94,787

20(d) Finance costs

The Group	31 December 2014 RMB'000	31 December 2013 RMB'000 (restated)
Interest expenses:		
- bank borrowings	**1,860**	1,965
- notes payable	**2,903**	-
Convertible bonds – liability component at amortised cost	**80,917**	86,853
	85,680	88,818
The effective interest rate per annum:		
- bank borrowings	**6.16 - 8.10%**	7.00 - 7.20%
- notes payable	**4.97 - 5.20%**	–
- convertible bonds	**16.72 - 16.73%**	17.82 - 17.95%

20(e) Employee benefit costs

The Group	Note	31 December 2014 RMB'000	31 December 2013 RMB'000
Directors' remuneration:			
- salaries and related costs		**10,230**	8,971
- defined contributions		**85**	80
Key management personnel (other than directors):			
- salaries and related costs		**1,791**	1,038
- defined contributions		**73**	72
Other than directors and key management personnel:			
- salaries and related costs		**41,710**	40,508
- defined contributions		**1,417**	572
Share-based payment expense under ESOS Scheme	20(c) & 20(f)	**8,311**	2,220
		63,617	53,461

Employee benefit costs are charged to:

The Group	Note	31 December 2014 RMB'000	31 December 2013 RMB'000
Cost of sales		**24,562**	22,191
Distribution costs	20(b)	**10,457**	12,834
Administrative expenses	20(c)	**28,598**	18,436
		63,617	53,461

20(f) Profit before taxation

The Group	Note	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Profit before taxation has been arrived at after charging/(crediting):			
Amortisation of subsidy	7	**134**	134
Amortisation of land use rights	5	**2,398**	1,193
Audit fees paid/payable to:			
- auditors of the Company	20(c)	**1,340**	1,179
- other auditors	20(c)	**143**	167
Other audit or review fees:			
- auditors of the Company	20(c)	**988**	145
- other auditors	20(c)	**594**	–
Depreciation of property, plant and equipment	6(a)	**47,388**	34,499
Changes in fair value of option derivatives in relation to convertible bonds	17	**155,805**	43,638
Directors' fees		**594**	561
Exchange loss (Net)	20(a) & 20(c)	**3,615**	19,706
Gain on disposal of property, plant and equipment (Net)	20(a) & 20(c)	**(3,029)**	(7)
Gain on disposal of a subsidiary	20(a)	**–**	(5,080)
Rental expense:			
- factory and warehouse		**4,645**	2,666
- others		**2,010**	1,856
	20(c)	**6,655**	4,522
Share-based payment expense under ESOS Scheme	20(c) & 20(e)	**8,311**	2,220

21 Taxation

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Current taxation	**173,756**	154,778
Underprovision in respect of prior year	**–**	460
	173,756	155,238

21 Taxation (cont'd)

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the relevant statutory rate of income tax on Group's results as a result of the following:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000 (Restated)
Profit before taxation	**422,432**	442,193
Tax at statutory rate of 25%	**170,712**	150,182
Tax at statutory rate of 17%	**(3,932)**	(4,673)
Tax at statutory rate of 16.5%	**(39,152)**	(21,611)
Tax effect on non-taxable income	**(1,022)**	(1,960)
Tax effect on non-deductible expenses	**48,931**	26,944
Deferred tax asset not recognised	**1,126**	5,661
Utilisation of deferred tax assets previously not recognised	**(2,926)**	–
Underprovision of corporate tax in respect of prior year	**–**	460
Others	**19**	235
	173,756	155,238

Non-deductible expenses included in the tax reconciliation of the Group relate mainly to the amortised interest expenses and changes in fair values of option derivatives in relation to the convertible bonds which are not tax deductible.

The domestic tax rates applicable to the profit of the following companies are as follows:

		Rate	Basis
-	Grandness (HK) Industry Co., Limited	16.5%	Full tax
-	Shenzhen Grandness Industry Groups Co., Ltd.	25%	Full tax
-	Grandness (Sichuan) Foods Co., Ltd.	25%	Full tax
-	Shanxi Yongji Huaxin Food Co., Ltd.	25%	Full tax
-	Yunnan Shizong Zhenhua Food Co., Ltd.	25%	Full tax
-	Dongpeng (Chengdu) Agricultural Development Co., Ltd.	25%	Full tax
-	Grandness (Shanxian) Food Co., Ltd.	25%	Full tax
-	Grandness (Anhui) Food Co., Ltd	25%	Full tax
-	Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited	16.5%	Full tax
-	Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited	25%	Full tax
-	Garden Fresh (Hubei) Fruit & Vegetable Beverage Co., Limited	25%	Full tax
-	Garden Fresh (Sichuan) Food & Beverage Co., Limited	25%	Full tax
-	Sino Grandness Food Industry Group Limited	17%	Full tax

21 Taxation (cont'd)

As at the reporting date, none of deferred tax liability is recognised for financial year 2014 on the undistributed earnings of the PRC subsidiaries.

The Group has unabsorbed tax losses of certain subsidiaries amounting to approximately RMB 21.1 million (2013: RMB 28.3 million), which are subject to agreement with the relevant tax authorities. These unabsorbed tax losses can be carried forward for offsetting against future taxable income provided that the provisions of the relevant tax legislations are complied with. These unabsorbed losses cannot be allowed to offset the taxable profits of other subsidiaries. All tax losses will expire after five years from the year of assessment they relate to.

The unrecognised tax losses will expire as follows:

	31 December 2014	31 December 2013
	RMB'000	RMB'000
Year 2015	**72**	72
Year 2016	**3,632**	6,511
Year 2017	**5,323**	8,025
Year 2018	**7,571**	13,695
Year 2019	**4,504**	–
Total	**21,102**	28,303

Deferred tax assets have not been recognised in respect of the unutilised tax benefits of RMB 5.3 million (2013: RMB 7.1 million) arising from these unabsorbed tax losses because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

22 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the year or if later, the date of the issue of the potential ordinary shares.

For share options, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

The following table reflects the consolidated statement of profit or loss and other comprehensive income and share data used in the computation of basic and diluted earnings per share for the financial years ended 31 December:

	31 December 2014	31 December 2013
The Group	**RMB'000**	RMB'000
		(Restated)
Net profit attributable to equity holders of the Company	**249,497**	287,743

22 Earnings per share (cont'd)

The Group	**2014**	2013
	No. of shares '000	
Weighted average number of ordinary shares outstanding for the basic earnings per share	**587,577**	575,164
Adjustment for the effect of share options	**1,185**	3,095
Weighted average number of ordinary shares outstanding for the diluted earnings per share	**588,762**	578,259

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000 (Restated)
Basic earnings per share (cents)	**42.5**	50.0
Diluted earnings per share (cents)	**42.4**	49.8

23 Employee Share Option Scheme (the "ESOS Scheme")

The Company has an employee share incentive plan for the granting of non-transferable options to directors and other full-time eligible executive officers. Options are granted for terms of 8 years to purchase the Company's ordinary shares at not less than 20% of the market value of the shares at the date of grant. The options are exercisable beginning on the second anniversary of the date of the grant over 10 years period.

Except for options granted to Huang Yushan, the options are exercisable any time after the second anniversary of the date of grant over a ten year period.

The share-based payment expense under ESOS Scheme for the year is RMB 8.3 million (2013: RMB 2.2 million).

Information with respect to the number of options granted under the Company's employee share option plan is as follows:

	Weighted average exercise options 2014 '000	**Options price 2014 S$**	Weighted average exercise options 2013 '000	Options price 2013 S$
Outstanding at the beginning of year	**16,710**	**0.60**	–	–
Granted	**–**	**–**	16,710	0.60
Forfeited	**(550)**	**0.60**	–	–
Expired	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Outstanding at end of the year	**16,160**	**0.60**	16,710	0.60
Exercisable at year end	**–**	**–**	–	–

The fair value of share options as at the date of grant, is estimated by an external valuer using a Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The inputs to the option pricing model is shown below:

23 Employee Share Option Scheme (the "ESOS Scheme") (cont'd)

	2013
Weighted average share price	S$0.75
Weighted average exercise price	S$0.60
Expected volatility	39.764%
Expected option life	8 years
Risk-free rate	2.287%
Expected dividend yield	0%
Fair value at measurement date	S$0.416

The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Other than stated, no other features of the option grant were incorporated into the measurement of fair value.

24 Related party transaction

In relation to the related party information disclosed elsewhere in the financial statements, the following are significant transactions with related parties:

The Group	**2014** **RMB'000**	2013 RMB'000
Gain on disposal of properties to a director of the Company (Notes 6(c) and 20(a))	**3,051**	–

25 Disposal of a subsidiary

The Group disposed of Yunnan Shizong Zhenhua Food Co., Ltd on 28 February 2013. The disposal consideration was partly settled in cash and the remaining unpaid balance as at 31 December 2013 was RMB 3.5 million as disclosed in Note 12. The disposal consideration was fully settled during the year.

The value of assets and liabilities of Yunnan Shizong Zhenhua Food Co., Ltd recorded in the consolidated financial statements as at date of disposal, and the cash flow effect of the disposal were:

	2013 RMB'000
Property, plant and equipment	6,145
Land use rights	3,271
Trade and other receivables	2,895
Inventories	1,117
Deferred tax assets	266
Cash and cash equivalents	206
	13,900
Trade and other payables	(13,763)
Income tax payable	–
Carrying value of net assets derecognised	137
Less: Non-controlling interests	(67)
Net assets disposed of	70
Total consideration	10,000
Adjustment [(a)]	(4,850)
Adjusted consideration	5,150
Cash and cash equivalent of the subsidiary	(206)
Net cash inflow on disposal of a subsidiary	4,944

(a) *Being amount due to related companies and taxes not recognised by the buyer as stipulated in the sales and purchase agreement.*

26 Commitments

(i) Operating lease commitment (non-cancellable)

(A) Where Group is the lessee

At the end of the reporting period, the Group was committed to making the following lease rental payment under non-cancellable operating leases for factory, warehouse and office premises:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Not later than one year	**7,893**	3,582
Later than one year and not later than five years	**11,879**	840
Later than five years	**1,008**	1,176

The current rents payable on the leases on the Group's factory, warehouse and office premises per annum are as follows:

Location	**Land area (sq m)/Unit**	**Effective date**	**Expiry date**	**Rental per annum (RMB'000)**
Factory and warehouse premises				
山西省永济市南郊粮库内	1,909.41	1 January 2008	31 December 2026	168
永济市于乡镇	13,049.00	1 August 2014	31 July 2017	6,375
Office premises				
深圳福田区滨河路与彩田路交汇处 联合广场A栋塔楼	A5603 and A5607 - 09	28 April 2014	27 April 2017	113

(B) Where Group is the lessor

At the end of reporting period, the Group had the following rental income under non-cancellable lease for office premises, buildings and warehouse with a term of more than one year:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Not later than one year	**50**	250
Later than one year and not later than 5 years	**242**	250
Later than five years	**–**	42

The current rents receivable on the leases on the Group's factory and warehouse premises per annum are as follows:

Location	**Land area (sq m)/Unit**	**Effective date**	**Expiry date**	**Rental per annum RMB'000**
Factory and warehouse premises				
山西省永济市南郊粮库后门	12,800.00	1 November 2012	31 October 2020	50

The leases on the Group's premises on which rentals are receivable will expire on 31 October 2014 with renewals at the then prevailing rates.

26 Commitments (cont'd)

(ii) Capital commitments

The Group's capital commitments not provided for in the consolidated financial statements are as follows:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Expenditure contracted for the construction of:		
- production plant [(a)]	**600,000**	600,000
- factory plant	**19,481**	6,868
- equipment	**0**	1,913
	619,481	608,781

(a) In 2013, the Group has entered into a Cooperation Agreement with Guzhen (固镇) Municipal Government of Anhui Province, PRC whereby the Group principally agreed to invest RMB 600 million to construct a production plant to produce canned products and beverage. The investment cost would be executed in 3 phases whereby construction work was commenced in 2014 and expected to be completed by 2016.

27 Statement of operations by segments

For management purposes, the Group is organised into business units based on their products and services, and has two reportable segments as follows:

(1) Manufacturing and sale of canned vegetables and fruits ("Grandness segment"); and

(2) Sales of fruit beverages ("Garden Fresh segment").

The manufacturing arm and the distribution arm are regarded as one line business for segmental reporting.

Insofar as to the analysis of major customers, the Group does not have a single customer whose revenue reports 10% of the Group's total revenue.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as set out in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Group's income taxes are managed on a group basis and are not allocated to operating segments.

Allocation basis and transfer pricing

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income tax expense and non-controlling interests.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transaction with third parties, if any.

All non-current assets are located in the People's Republic of China.

27 Statement of operations by segments (cont'd)

(a) Business segments

	Canned vegetable and fruits		Fruit beverages		Total	
	2014	2013	**2014**	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
				(Restated)		(Restated)
REVENUE						
Total sales	**942,711**	878,741	**1,876,738**	1,382,277	***2,819,449**	*2,261,018
RESULTS						
Segment result	**188,315**	189,931	**475,602**	384,718	**663,917**	574,649
Finance costs	**(4,763)**	(1,965)	**(80,917)**	(86,853)	**(85,680)**	(88,818)
Changes in fair value of option derivatives in relation to convertible bonds	**–**	–	**(155,805)**	(43,638)	**(155,805)**	(43,638)
Profit before taxation	**183,552**	187,966	**238,880**	254,227	**422,432**	442,193
Taxation					**(173,756)**	(155,238)
Non-controlling interests	**821**	788	**–**	–	**821**	788
Net profit					**249,497**	287,743
OTHER INFORMATION						
Segment assets (excluding taxation)	**1,269,661**	858,300	**1,374,354**	993,726	**2,644,015**	1,852,026
Segment liabilities (excluding taxation)	**168,257**	44,079	**844,018**	580,368	**1,012,275**	624,447
Capital expenditure						
- Property, plant and equipment	**132,009**	7,545	**8,100**	241,878	**140,109**	249,423
Amortisation of land use rights	**1,473**	268	**925**	925	**2,398**	1,193
Depreciation of property, plant and equipment	**22,358**	19,836	**25,030**	14,663	**47,388**	34,499

* There were no inter-segment transactions during the financial year.

27 Statement of operations by segments (cont'd)

(b) Geographical segments

The following table shows the distribution of the Group's sales based on geographical location of customers:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Revenue		
- Europe	**564,044**	617,696
- America	**44,662**	50,230
- China	**2,184,019**	1,570,903
- Others	**26,724**	22,189
	2,819,449	2,261,018

There is no individual foreign country in Europe which is considered significant to be disclosed.

No geographical information is provided as the non-current assets employed by the Group are located in the PRC.

(c) Reconciliation of segments' total assets and total liabilities

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Reportable segments' assets are reconciled to total assets:		
Segment assets	**2,644,015**	1,852,026
Deferred tax assets	**1,678**	1,678
	2,645,693	1,853,704

Reportable segments' liabilities are reconciled to total liabilities:	**31 December 2014 RMB'000**	31 December 2013 RMB'000 (Restated)	1 January 2013 RMB'000 (Restated)
Segment liabilities	**1,012,275**	624,447	528,596
Deferred tax liabilities	**20,241**	20,241	20,241
Current tax payables	**21,534**	32,730	16,651
	1,054,050	677,418	565,488

28 Financial risk management objectives and policies

The Group does not have written risk management policies and guidelines. The Board of Directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. The Group uses financial instruments such as currency swaps to hedge certain financial risk exposures. The Group does not hold or issue derivative financial instruments for trading purposes.

28 Financial risk management objectives and policies (cont'd)

As at 31 December 2014 and 2013, the Group's financial instruments mainly consisted of cash and cash equivalents, financial assets and financial liabilities.

28.1 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group operates and sells its products in several countries other than PRC and transacts in foreign currencies. As a result, the Group is exposed to movements in foreign currency exchange rates arising from normal trading transactions, primarily with respect to United States dollar. However, the Group does not use any financial derivatives such as foreign currency forward contracts, foreign currency options or swaps for hedging purposes except for the forward currency contract stated in next paragraph to reduce foreign currency risks.

During the financial year, the Group entered into a forward currency contract with the same notional amount to eliminate the currency exposures for a borrowing pledged approximately USD 4.89 million (2013: Nil) with a bank. It is the Group's policy not to enter into forward contracts until a firm commitment is in place. The forward currency contract matures on 29 January 2015. The fair value of the forward currency contract at 31 December 2014 is insignificant.

Details of the forward currency contract are as follows:

	31 December 2014 RMB'000		
	Notional Amount	**Assets**	**Liabilities**
Forward currency contracts	29,946	–	–

<u>Sensitivity analysis for foreign currency risk</u>

The following table demonstrates the sensitivity to a reasonably possible change in the SGD and USD exchange rates (against RMB), with all other variable held constant, of the Group's profit net of tax and equity.

		31 December 2014 RMB'000		31 December 2013 RMB'000	
		Profit net of tax	**Equity**	Profit net of tax	Equity
SGD	- strengthened 5% (2013 - 5%)	**+7,774**	**+7,774**	+1,676	+1,676
	- weakened 5% (2013 - 5%)	**-7,774**	**-7,774**	-1,676	-1,676
USD	- strengthened 5% (2013 - 5%)	**+11,123**	**+11,123**	+3,634	+3,634
	- weakened 5% (2013 - 5%)	**-11,123**	**-11,123**	-3,634	-3,634

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of group exposure to currency risk.

28 Financial risk management objectives and policies (cont'd)

28.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Company's and the Group's financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from their bank borrowings and convertible bonds.

The table below analyses the maturity profile of the Company's and the Group's financial instruments that are exposed to interest rate risk:

The Group	Within 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	More than 3 years RMB'000	Total RMB'000
31 December 2014					
Fixed rate					
Convertible bonds including derivatives	(722,076)	–	–	–	(722,076)
Notes payable	(62,250)	–	–	–	(62,250)
Floating rate					
Bank borrowings	(59,200)	–	–	–	(59,200)
Cash and banks balances	223,572	–	–	–	223,572
31 December 2013 - Restated					
Fixed rate					
Bank borrowings	(13,000)	–	–	–	(13,000)
Convertible bonds including derivatives	(523,920)	–	–	–	(523,920)
Notes payable	(1,550)	–	–	–	(1,550)
Floating rate					
Cash and banks balances	91,329	–	–	–	91,329
1 January 2013 - Restated					
Fixed rate					
Bank borrowings	(44,000)	–	–	–	(44,000)
Convertible bonds including derivatives	(393,429)	–	–	–	(393,429)
Notes payable	(8,700)	–	–	–	(8,700)
Floating rate					
Cash and banks balances	138,342	–	–	–	138,342

28 Financial risk management objectives and policies (cont'd)

28.2 Interest rate risk (cont'd)

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than one month. Interest on financial instruments at fixed rates is fixed until the maturity of the instrument. The other financial instruments of the Group and the Company that are not included in the above tables are not subject to interest rate risks.

Sensitivity analysis for interest rate risk

At the end of reporting period, if interest rates (other than for convertible bonds – Refer to Note 17 and Note 2 Critical Judgements and key sources of estimation uncertainty on fair value of convertible bonds) had been 20 (2013: 20) basis points lower/higher with all other variables held constant, the Group's profit net of tax would have been RMB 0.27 million (2013 - RMB 0.24 million) lower/higher, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

28.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Company or the Group to incur a financial loss. The Company's and the Group's exposure to credit risk arises primarily from trade receivables. For trade receivables, the Company and the Group adopt the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. The five (2013 - five) largest debtors accounted about 9% (2013 - 11%) of the total receivables at year end. For other financial assets, the Company and the Group adopt the policy of dealing only with high credit quality counterparties.

The Company's and the Group's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

Exposure to credit risk

As the Company and the Group do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. The maximum exposure of the Company in respect of the intra-group financial guarantee (see note 28.4) at the reporting date is if the facility is drawn down by the subsidiary in the amount of RMB Nil (2013: RMB 13 million). At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the intra-group financial guarantee.

As at the reporting date, the Group has unutilised banking facilities approximately RMB 128.4 million (2013: RMB 38.5 million).

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the product sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	31 December 2014		31 December 2013	
The Group	**RMB'000**	**% of total**	RMB'000	% of total
By product sectors:				
Canned foods	**343,468**	**31%**	211,596	33%
Beverages	**766,739**	**69%**	421,847	67%
	1,110,207	**100%**	633,443	100%

28 Financial risk management objectives and policies (cont'd)

28.3 Credit risk (cont'd)

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and bank balances and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 12 (Trade and other receivables).

28.4 Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or other financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company's and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's and the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. Refer to Note 2(a) on significant judgements on convertible bonds repayment.

The table below analyses the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows over the remaining contractual maturities:

The Group	Less than 1 year RMB'000	Between 1 to 5 years RMB'000	Total RMB'000
As at 31 December 2014			
Bank borrowings	**59,200**	**–**	**59,200**
Trade and other payables	**168,749**	**–**	**168,749**
Convertible bonds including derivatives [1]	**652,264**	**–**	**652,264**
Notes payable	**62,250**	**–**	**62,250**
	942,463	**–**	**942,463**

[1] This is calculated based on the maximum Revised Redemption Amount payable for the 2011 and 2012 Convertible Bonds based on contractual redemption extended maturity of 30 June 2015 for 2011 Convertible Bond and scheduled maturity of 25 July 2015 for 2012 Convertible Bond and assuming the bonds are redeemed for cash. The amount includes the 3.5% simple cash interest payable on the 2011 Convertible Bond.

The Group	Less than 1 year RMB'000	Between 1 to 5 years RMB'000	Total RMB'000
As at 31 December 2013			
Bank borrowings	13,000	–	13,000
Trade and other payables	85,977	–	85,977
Convertible bonds including derivatives (restated) [2]	661,992	–	661,992
Notes payable	1,550	–	1,550
	762,519	–	762,519

[2] This is calculated based on the Revised Redemption Amount for the 2011 and 2012 Convertible Bonds based on contractual redemption scheduled maturity of 19 October 2014 for 2011 Convertible Bond and scheduled maturity of 25 July 2015 for 2012 Convertible Bond.

28 Financial risk management objectives and policies (cont'd)

28.4 Liquidity risk (cont'd)

The Company	Less than 1 year RMB'000	Between 1 to 5 years RMB'000	Total RMB'000
As at 31 December 2014			
Trade and other payables	**16,362**	–	**16,362**
		–	
As at 31 December 2013			
Trade and other payables	9,674	–	9,674
Financial guarantee contracts	5,000	–	5,000

The carrying amount of current borrowing approximates their fair values. The carrying amount and the fair values are disclosed as follows:

The Group	31 December 2014 Carrying amount RMB'000	31 December 2014 Fair values RMB'000	31 December 2013 Carrying amount RMB'000	31 December 2013 Fair values RMB'000
Variable interest rate loans				
Less than one year	**59,200**	**59,200**	13,000	13,395
Between one to five years	**–**	**–**	–	–
	59,200	**59,200**	13,000	13,395

The fair values are determined from the discounted cash flows analysis, using a discount rate based on the borrowing rate which the directors expect would be available to the Group at the end of the reporting period. No adjustment has been made to fair values as the differences between the carrying amounts and fair values are not significant to the Group.

28.5 Market price risk

The Group does not hold any quoted or marketable financial instrument; hence it is not exposed to any movement in market prices.

28.6 Fair value measurements

The table below presents assets and liabilities measured and carried at fair value and classified by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) 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) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

28 Financial risk management objectives and policies (cont'd)

28.6 Fair value measurements (cont'd)

See Note 17 for disclosure of the convertible bonds that are measured at fair value.

The Group 2014	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Liabilities				
Option derivatives in relation to convertible bonds	–	–	**237,691**	**237,691**
Total liabilities	–	–	**237,691**	**237,691**
2013				
Liabilities				
Option derivatives in relation to convertible bonds	–	–	81,886	81,886
Total liabilities	–	–	81,886	81,886

There were no transfers between Levels 1 and 2 during the year.

Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within Level 2 of the fair value hierarchy:

Derivatives

Forward currency contract is valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves.

28 Financial risk management objectives and policies (cont'd)

28.6 Fair value measurements (cont'd)

Level 3 fair value measurements

a) Information about significant unobservable inputs used in Level 3 fair value measurements

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value as at 31 December	Valuation techniques	Unobservable inputs	Range
2014	RMB'000	RMB'000	RMB'000	
Effect of cashflow on amortised cost of convertible bonds	**484,385**	Cashflow of the convertible bonds at their corresponding discount rates	Revised redemption return	0%-25%
			Discount rate	16.72%-16.73%
Recurring fair value measurement of option derivatives in relation to convertible bonds	**237,691**	Binomial Option Pricing Model	Expected volatility	37.73% - 38.50%
			Dividend yield	0%
	722,076			
2013				
Effect of cashflow on amortised cost of convertible bonds	442,034	Cashflow of the convertible bonds at their corresponding discount rates	Revised redemption return	15%
			Discount rate	17.82%-17.95%
Recurring fair value measurement of option derivatives in relation to convertible bonds	81,886	Binomial Option Pricing Model	Expected volatility	34.11%-34.16%
			Dividend yield	0%
	523,920			

b) Movements in Level 3 assets and liabilities measured at fair value

Please refer to Note 17 for the movement of convertible bonds.

28 Financial risk management objectives and policies (cont'd)

28.6 Fair value measurements (cont'd)

Level 3 fair value measurements

c) Valuation policies and procedures

The Group's Chief Financial Officer (CFO), who is assisted by the financial controllers (collectively referred to as the "CFO office") oversees the Group's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures. In this regard, the CFO office reports to the Group's Audit Committee.

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and FRS 113 fair value measurement guidance to perform the valuation.

For valuations performed by external valuation experts, the appropriateness of the valuation methodologies and assumptions adopted are reviewed along with the appropriateness and reliability of the inputs (including those developed internally by the Group) used in the valuations.

In selecting the appropriate valuation models and inputs to be adopted for each valuation that uses significant non-observable inputs, external valuation experts are requested to calibrate the valuation models and inputs to actual market transactions (which may include transactions entered into by the Group with third parties as appropriate) that are relevant to the valuation if such information are reasonably available. For valuations that are sensitive to the unobservable inputs used, external valuation experts are required, to the extent practicable to use a minimum of two valuation approaches to allow for cross-checks.

Significant changes in fair value measurements from period to period are evaluated for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.

The CFO office documents and reports its analysis and results of the external valuations to the Audit Committee on a quarterly basis. The Audit Committee performs a high-level independent review of the valuation process and results and recommends if any revisions need to be made before presenting the results to the Board of Directors for approval.

29 Capital management

The primary objectives of the Group's capital management are to ensure that it maintains a strong credit rating and to maintain an optimal capital structure to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or convertible loan. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

The Group and the Company are not subject to externally imposed capital requirement.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's goal in capital management is to maintain a capital to overall financing structure ratio of between 20% - 35%. Net debt is calculated as the sum of trade and other payables, bank borrowings, convertible bonds including option derivatives and notes payable and less cash and bank balances.

29 Capital management (cont'd)

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000 (Restated)	1 January 2013 RMB'000 (Restated)
Trade and other payables (Note 18)	**168,749**	85,977	82,393
Notes payable (Note 19)	**62,250**	1,550	8,700
Bank borrowings (Note 16)	**59,200**	13,000	44,000
Convertible bonds including derivatives (Note 17)	**722,076**	523,920	393,429
Amount owing to related parties	**–**	–	74
Less: Cash and bank balances (Note 13)	**(223,572)**	(91,329)	(138,342)
Net debt	**788,790**	533,118	390,254
Equity attributable to the equity holders of the Company	**1,588,395**	1,172,217	767,573
Capital and net debt	**2,377,098**	1,705,335	1,157,827
Gearing ratio	**33%**	31%	34%

30 Financial instruments

30.1 Fair values

The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approximate their fair values. The fair value of convertible bonds is disclosed in Note 17.

30.2 Accounting classifications of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities in each category were as follows:

The Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Financial assets		
Loans and receivables (Note 12):		
- Net trade receivables	**1,110,207**	633,443
- Advances to employees	**696**	441
- Advances to third parties	**853**	789
- Advances to Shenzhen Cheng Xingwang Import and Export Co., Ltd (深圳市成兴旺进出口有限公司)	**1,120**	1,120
- Deposits	**1,557**	1,561
- Yunnan Shizong Datong Shenghong Flourmill (云南师宗大同盛宏面粉厂)	**–**	3,579
- Others	**190**	183
Cash and bank balances (Note 13)	**223,572**	91,329
	1,338,195	732,445

30 Financial instruments (cont'd)

30.2 Accounting classifications of financial assets and financial liabilities (cont'd)

The Group	31 December 2014 RMB'000	31 December 2013 RMB'000 (Restated)
Financial liabilities at amortised cost:		
Trade and other payables (Note 18):		
- Trade payables	**20,385**	9,056
- Accruals	**116,566**	53,090
- Amount owing to contractors	**2,192**	1,105
- Amount owing to suppliers of property, plant and equipment	**99**	1,337
- Amount owing to suppliers	**224**	249
- Amount owing to employees	**306**	222
- Amount owing to third parties	**7,767**	1,067
- Accrual of directors' fees	**509**	438
- Deposits	**102**	232
- Rental payable	**2,850**	–
- Director of the Company	**12,178**	6,862
- Others	**709**	2,627
Convertible bonds at amortised cost (Note 17)	**484,385**	442,034
	648,272	518,319
Derivatives at fair value		
Option derivatives in relation to convertible bonds at fair value	**237,691**	81,886

The Company	31 December 2014 RMB'000	31 December 2013 RMB'000
Financial assets		
Loans and receivables (Note 12):		
- Advances to employees	**41**	18
- Deposits	**12**	5
Amount owing by subsidiaries (Note 9)	**174,673**	230,893
Cash and bank balances (Note 13)	**161,543**	4,179
	336,269	235,095
Financial liabilities at amortised cost		
Trade and other payables (Note 18):		
- Accruals	**1,394**	1,412
- Amount owing to third parties	**5,758**	413
- Accrual of directors' fees	**509**	438
- Director of the Company	**8,502**	7,212
	16,163	9,475

31 Prior Year Adjustments

(a) Convertible bonds

The valuations of the 2011 and 2012 Convertible Bonds in prior years had been computed on the basis that the IPO of the Company's wholly-owned foreign subsidiary, Garden Fresh (HK) will be successful on or before the maturity of the convertible bonds to enable the conversion by bondholders and hence a fair value was not attributed to the conversion options and extension options which meets the definition of a derivative financial liability. The effect of the redemption returns was also not computed as part of the amortised cost of the convertible bonds as it was considered then not to be closely related to the host debt instrument in a compound instrument relationship.

In financial year 2013, in conjunction with the proposed IPO of Garden Fresh (HK), the Group carried out a reassessment of the fair values of the 2011 and 2012 Convertible Bonds. The fair value of the conversion option and extension option which is linked to and must be settled by delivery of unquoted equity instrument was deemed to be not reliably measurable as the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, and the variability in the range of reasonable fair value estimates is considered to be significant. Consequently, the fair value of the conversion options was carried out at cost less allowance for impairment under FRS 39 for the financial year ended 31 December 2013.

During the current financial year, Garden Fresh (HK) had repurchased RMB 19.5 million or 19.5% of the 2011 RMB 100 million Convertible Bond at an agreed repurchase price of RMB 38.6 million with an implied interest cost which was close to the redemption return of 25% per annum compounded annually from the inception of the bond. In addition, the maturity of the remaining RMB 80.5 million 2011 Convertible Bond was extended to its Extended Maturity Date of 30 June 2015. In view of the above repurchase of the 2011 Convertible Bond and its Extended Maturity Date, and having regard to the maturity of the 2011 and 2012 Convertible Bonds which are due in June and July 2015 respectively, the Company in close consultation with its independent valuer have performed a reassessment of the fair values of the convertible bonds. The Company is of the view that the conversion options and extension options should have been fair valued notwithstanding the successful IPO assumption made in prior years and that the redemption returns should have been considered closely related to the host debt instrument being an amount that would have to be repaid as part of the amortised cost of the host debt instruments. Hence, a third statement of financial position is presented.

31 Prior Year Adjustments (cont'd)

(a) Convertible bonds (cont'd)

The effect of the above adjustments relating to the fair value of the convertible bonds is presented below:

	The Group	
	As restated	As previously reported
	2013	2013
	RMB'000	RMB'000
Statement of financial position		
Retained profits	816,090	990,554
Convertible bonds including derivatives	523,920	349,455
Consolidated statement of profit or loss and other comprehensive income		
Finance costs	88,818	19,102
Changes in fair value of option derivatives in relation to convertible bonds	43,638	–
Profit before taxation	442,193	555,547
Profit for the year and representing total comprehensive income	286,955	400,309
Profit and total comprehensive income attributable to equity holders of the parent	287,743	401,097
Consolidated statement of cash flows		
Cash flows from operating activities:		
Adjustments for:		
Interest expenses	88,818	19,102
Changes in fair value of option derivatives in relation to convertible bonds	43,638	–
Consolidated statement of changes in equity		
Retained profits	816,090	990,555
	Cents	**Cents**
	RMB	**RMB**
The effect of the above adjustments on earnings per share is as follows:		
Basic earnings per share	50.0	69.7
Diluted earnings per share	49.8	69.4

(b) Property, plant and equipment

In 2013, the additions of RMB 278.8 million in the cost of property, plant and equipment had included construction-in-progress of RMB 270.8 million. Included in the additions in construction-in-progress of RMB 270.8 million was VAT receivables of RMB 29.3 million. The VAT receivables of RMB 29.3 million was adjusted from construction-in-progress but was incorrectly disclosed as a disposal of construction-in-progress. The error has been corrected in the current year's financial statements. The additions to construction-in-progress have been adjusted from RMB 270.8 million to RMB 241.4 million accordingly.

32 Events after end of reporting period

The Company has on 1 July 2013 announced that it is proposing to spin-off its beverage business segment under its wholly-owned foreign subsidiary, Garden Fresh (HK) together with its group of subsidiaries (the "Proposed IPO") on an internationally recognised stock exchange. The Proposed IPO process is still in progress as at the date of the financial statements.

STATISTICS OF **SHAREHOLDINGS**

As at 13 March 2015

Class of Equity Securities	Number of Equity Securities	Voting Rights
Ordinary Shares	673,344,828	One vote per share (excluding treasury shares)
Treasury Shares	Nil	Nil

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 13 MARCH 2015

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	4	0.18	114	0.00
100 – 1,000	17	0.74	14,481	0.00
1,001 – 10,000	759	33.04	5,666,468	0.84
10,001 – 1,000,000	1,482	64.52	105,829,001	15.72
1,000,001 and above	35	1.52	561,834,764	83.44
Total	2,297	100.00	673,344,828	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 13 MARCH 2015

	SHAREHOLDER'S NAME	NO OF SHARES	%
1	RAFFLES NOMINEES (PTE) LTD	326,713,976	48.52
2	SOLEADO HOLDINGS PTE LTD	60,601,035	9.00
3	DBS NOMINEES PTE LTD	30,487,993	4.53
4	HL BANK NOMINEES (S) PTE LTD	27,581,565	4.10
5	CITIBANK NOMINEES SINGAPORE PTE LTD	19,582,238	2.91
6	BANK OF SINGAPORE NOMINEES PTE LTD	12,463,000	1.85
7	DB NOMINEES (S) PTE LTD	11,305,586	1.68
8	UOB KAY HIAN PTE LTD	6,846,000	1.02
9	MAYBANK KIM ENG SECURITIES PTE LTD	6,736,100	1.00
10	TAN CHENG GUAN	5,750,000	0.85
11	CHIA KEE KOON	5,743,300	0.85
12	PHILLIP SECURITIES PTE LTD	4,654,500	0.69
13	CIMB SECURITIES (SINGAPORE) PTE LTD	4,636,147	0.69
14	BNP PARIBAS NOMINEES SINGAPORE PTE LTD	3,730,000	0.55
15	UNITED OVERSEAS BANK NOMINEES PTE LTD	3,248,600	0.48
16	OCBC SECURITIES PRIVATE LTD	2,855,000	0.42
17	CHAN KONG HON	2,824,000	0.42
18	DBS VICKERS SECURITIES (S) PTE LTD	2,634,000	0.39
19	SEAH KOK BENG	2,418,000	0.36
20	TAN BEE HONG KATRINE	2,100,000	0.31
	Total	**542,911,040**	**80.62**

STATISTICS OF **SHAREHOLDINGS**

As at 13 March 2015

LIST OF SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Huang Yupeng	238,766,560	35.46	–	–
Asdew Acquisition Pte Ltd	44,217,000	6.57	–	–
Wang Yu Huei	–	–	44,217,000[1]	6.57
Chalermchai Mahagitsiri	–	–	86,000,000[2]	12.77
Soleado Holdings Pte. Ltd.	60,601,035	9.00	–	–
Thoresen Thai Agencies Public Company Limited	–	–	60,601,035[3]	9.00

Note:

1 Deemed interest arises from shares held by Asdew Acquisitions Pte Ltd

2 Deemed interest arises from shares held by Soleado Holdings Pte. Ltd. and PM Group Company Limited

3 Deemed interest arises from shares held by Soleado Holdings Pte. Ltd.

The percentage of shareholding above is computed based on the total issued shares of 673,344,828.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on information available to the Company as at 13 March 2015, approximately 41.66% of the Company's shares listed on the Singapore Exchange Securities Trading Limited were held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED ("the Company") will be held at Esplanade 1 Level 4 Carlton Hotel Singapore 76 Bras Basah Road Singapore 189558 on 22 April 2015 at 9.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company and the Group for the financial year ended 31 December 2014 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to the Articles of Association of the Company:

Mr Zeng Ming	(Retiring under Article 91)	**(Resolution 2)**
Mr Zhu Jun	(Retiring under Article 91)	**(Resolution 3)**
Mr Soh Beng Keng	(Retiring under Article 91)	**(Resolution 4)**
Mr Chalermchai Mahagitsiri	(Retiring under Article 97)	**(Resolution 5)**

[See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$145,000 for the financial year ending 31 December 2015 to be paid half-yearly in arrears. (2014: S$125,000) **(Resolution 6)**

4. To re-appoint Foo Kon Tan LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company be authorised and empowered to:

(a) (i) issue shares in the Company ("shares") whether by way of rights or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

(the "***Share Issue Mandate***")

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed 50% of the total number of issued shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed 20% of the total number of issued shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the total number of issued shares and Instruments shall be based on the total number of issued shares (excluding treasury shares) at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution; and

(c) any subsequent consolidation or subdivision of shares;

(3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)] **(Resolution 8)**

7. **Authority to issue shares under the Sino Grandness Employee Share Option Scheme**

That pursuant to Section 161 of the Companies Act, the Directors of the Company be authorised and empowered to offer and grant options ("**Options**") under the Sino Grandness Employee Share Option Scheme (the "**Scheme**") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed 15% of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)] **(Resolution 9)**

8. **Grant of Options under the Scheme to Ms Huang Yushan, an associate of a controlling shareholder of the Company**

That subject to and contingent upon the passing of Ordinary Resolution 9, the Remuneration Committee of the Company be and is hereby authorised to offer and grant Option(s) to Ms Huang Yushan, an associate of a controlling shareholder of the Company on the following terms:

(a)	Proposed Date of Grant of Option(s)	:	Any time within one (1) month from the date of this Annual General Meeting
(b)	Proposed Number of shares comprised in the proposed Option(s)	:	Up to 1,290,000 shares in two (2) equal tranches to be comprised in two (2) Options
(c)	Exercise Price per Share	:	*For the first (1st) of the two (2) Options:* Market Price as at the date of grant *For the second (2nd) of the two (2) Options:* Twenty per cent (20%) discount to the Market Price as at the date of grant
(d)	Exercise Period	:	(i) The first (1st) of the two (2) Options shall be exercisable at any time after the first (1st) anniversary of the date of grant of the Options and up to the tenth (10th) anniversary therefrom; and (ii) The second (2nd) of the two (2) Options shall be exercisable at any time after the second (2nd) anniversary of the date of grant of the Options and up to the tenth (10th) anniversary therefrom.

In this Resolution, "**Market Price**" means the price equal to the average of the last dealt price for a share in the capital of the Company, as determined by reference to the daily official list or other publication published by the SGX-ST for five (5) consecutive market days immediately preceding the date of grant, rounded up to the nearest whole cent in the event of fractional prices.

[See Explanatory Note (iv)] **(Resolution 10)**

9. **Renewal of Share Purchase Mandate**

That:

(a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**"), the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire ordinary shares in the capital of the Company (the "**Shares**") not exceeding in aggregate the Maximum Limit, at such prices as may be determined by the Directors of the Company from time to time up to the Maximum Price, whether by way of:-

(i) market purchase(s) (each a "**Market Purchase**") on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"); and/or

(ii) off-market purchase(s) (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access scheme(s) as may be determined or formulated by the Directors of the Company as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act,

and otherwise in accordance with all other laws and regulations and the Listing Manual of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Proposed Share Buy-back Mandate**");

(b) any Share that is purchased or otherwise acquired by the Company pursuant to the Proposed Share Buy-back Mandate shall, at the discretion of the Directors of the Company, either be cancelled or held in treasury and dealt with in accordance with the Companies Act;

(c) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Proposed Share Buy-back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the passing of this Resolution and expiring on the earliest of:-

(i) the date on which the next Annual General Meeting of the Company is held or is required by law to be held;

(ii) the date on which the share buy-backs are carried out to the full extent mandated; or

(iii) the date on which the authority contained in the Proposed Share Buy-back Mandate is varied or revoked; and

(d) in this Resolution:

"**Maximum Limit**" means the number of issued Shares representing 10% of the total number of issued Shares (excluding treasury shares, if applicable) as at the date of the last Annual General Meeting before the resolution authorising the Proposed Share Buy-back Mandate is passed or as at the date on which the resolution authorising the Proposed Share Buy-back Mandate is passed, whichever is the higher;

"**Maximum Price**" in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commissions, stamp duties, applicable goods and services tax and other related expenses) which shall not exceed:

(i) in the case of a Market Purchase, 105% of the Average Closing Price of the Shares;

(ii) in the case of an Off-Market Purchase of a Share, 120% of the Average closing Price of the Shares;

"**Average Closing Price**" means the average of the closing market prices of a Share over the last 5 Market Days, on which transactions in the Shares were recorded, preceding the date of the Market Purchase or, as the case may be, the day of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted for any corporate action that occurs after the relevant five-day period; and

"**day of the making of the offer**" means the day on which the Company announces its intention to make an offer for the purchase of Shares from Shareholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

(e) any of the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including without limitation, to execute all such documents as may be required and to approve any amendments, alterations or modifications to any documents), as they or he may consider desirable, expedient or necessary to give effect to the transactions contemplated by this Resolution.

[See Explanatory Note (v)] **(Resolution 11)**

By Order of the Board

Chew Kok Liang / Wong Chuen Shya (Huang Chunxia)
Company Secretaries

Singapore, 7 April 2015

Explanatory Notes:

(i) Mr Zeng Ming will, upon re-election as a Director of the Company, remain as an Executive Director.

Mr Zhu Jun will, upon re-election as a Director of the Company, remain as an Executive Director.

Mr Soh Beng Keng will, upon re-election as a Director of the Company, remain as a Lead Independent Director, Chairman of the Audit and Remuneration Committees and a member of the Nominating Committee. Mr Soh Beng Keng will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

Mr Chalermchai Mahagitsiri will, upon re-election as a Director of the Company, remain as a Non-Executive Director.

(ii) Resolution 8, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares), of which up to 20% may be issued other than on a pro-rata basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares will be calculated based on the total number of issued shares (excluding treasury shares) at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Resolution is passed and any subsequent consolidation or subdivision of shares.

(iii) Resolution 9, if passed, will empower the Directors of the Company, from the date of this Annual General Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in total (for the entire duration of the Scheme) 15% of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

(iv) Ordinary Resolution proposed in resolution 10 in item 8 above if passed will empower the Directors of the Company to grant options pursuant to Sino Grandness Employee Share Option Scheme ("**Scheme**") to subscribe up to 1,290,000 ordinary shares in the capital of the Company to Ms Huang Yushan ("**Proposed Options**").

Ms Huang Yushan is the sister of Mr Huang Yupeng, a controlling shareholder of the Company. Therefore, Ms Huang Yushan is considered an associate of Mr Huang Yupeng under the SGX-ST Listing Manual.

Rationale for the grant

Ms Huang Yushan is and has been an Executive Director of the Company since 2008. Since then, she has, and continues to, contribute significantly to the performance and strategic direction of the Group. Ms Huang Yushan is an important member of the executive team of the Group and it is believed she will continue to make invaluable contributions to the Group. In the Extraordinary General Meeting of the Shareholders of the Company held on 23 September 2013, the Shareholders of the Company had approved the participation of Ms Huang Yushan in the Scheme.

On 14 November 2013, the Directors granted options under the Scheme to Ms Huang Yushan to subscribe for 8,810,000 shares (the "**First Option**"). In addition to the First Option, the Board of Directors proposes to grant further options to Ms Huang Yushan to subscribe for up to 1,290,000 shares. The proposed grant will entitle Ms Huang Yushan to subscribe for an aggregate of up to 1,290,000 shares. The said 1,290,000 shares, together with the First Option, amount to an aggregate of 10,100,000 shares which does not exceed the limit of 10% of the total number of shares available under the Scheme.

The Company is proposing to grant the Proposed Options to reward Ms Huang Yushan for her past and continuing contributions to the Group and to motivate her to further create higher shareholders' value. The Proposed Options, if exercised, would increase Ms Huang's cost of investment in the Company and in turn demonstrate her long term commitment to further enhance shareholders' wealth through appreciation of the share price. Additionally, as the Proposed Options may not be exercised until after the first anniversary of the date of grant, the reward from the exercise of the Proposed Options would not be immediate. The value of the Proposed Options would be realized only when the results and prospects of the Group's long term performances and growth translate into higher share price and higher shareholder value.

Directors' recommendation

All Directors who are eligible to participate in the Scheme have refrained from making any recommendation in favour of the Ordinary Resolution in respect of the proposed grant of options to subscribe for up to 1,290,000 shares to Ms Huang Yushan at the Annual General Meeting.

The Company shall procure that Mr Huang Yupeng, Ms Huang Yushan, their respective associates, and all shareholders who are eligible to participate in the Scheme ("**Eligible Shareholders**") shall abstain from voting in the Ordinary Resolution on the proposed grant of options to subscribe for up to 1,290,000 shares to Ms Huang Yushan at this Annual General Meeting.

Mr Huang Yupeng, Ms Huang Yushan and other Eligible Shareholders shall not accept nomination as proxy or otherwise vote at this Annual General Meeting in respect of the Ordinary Resolution unless shareholders appointing them as proxies give specific instructions in the relevant proxy forms on the manner in which they wish their votes to be cast for the Ordinary Resolution.

Directors' responsibility statement

The Directors collectively and individually accept full responsibility for the accuracy of the information given herein and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, this notice constitutes full and true disclosure of all material facts about this Ordinary Resolution, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statements in this notice misleading. Where information herein has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced herein in its proper form and context.

SGX-ST's disclaimer

The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Notice of Annual General Meeting.

(v) Ordinary Resolution proposed in resolution 11 in item 9 above is to authorise the Directors of the Company from the date of the above meeting until the earliest of (i) the date on which the next Annual General Meeting of the Company is held or required by law to be held, (ii) the date on which the purchases or acquisitions by the Company pursuant to this mandate are carried out to the full extent mandated; or (iii) the date on which the authority conferred by this mandate is varied or revoked by Shareholders in general meeting, to purchase or otherwise acquire issued ordinary shares in the capital of the Company by way of market purchases or off-market purchases of up to 10% of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company. For more information on this resolution, please refer to the Circular dated 7 April 2015.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road #02-00 Singapore 068898 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

PERSONAL DATA PRIVACY

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED

(Company Registration No. 200706801H)
(Incorporated In the Republic of Singapore)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:

1. For investors who have used their CPF monies to buy Sino Grandness Food Industry Group Limited's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We, ________________________________ (Name) NRIC/Passport No.*________________________

of ____

being a member/members* of Sino Grandness Food Industry Group Limited (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our* proxy/proxies* to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at Esplanade 1 Level 4 Carlton Hotel Singapore 76 Bras Basah Road Singapore 189558 on 22 April 2015 at 9.00 a.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her* discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	To be used on a show of hands		To be used in the event of a poll	
		For**	Against**	No. of Votes For ***	No. of Votes Against ***
1	Directors' Report and Audited Accounts for the year ended 31 December 2014				
2	Re-election of Mr Zeng Ming as a Director				
3	Re-election of Mr Zhu Jun as a Director				
4	Re-election of Mr Soh Beng Keng as a Director				
5	Re-election of Mr Chalermchai Mahagitsiri as a Director				
6	Approval of Directors' fees amounting to S$145,000 for the financial year ending 31 December 2015 (2014: S$125,000)				
7	Re-appointment of Foo Kon Tan LLP as Auditors				
8	Authority to allot and issue new shares				
9	Authority to issue shares under the Sino Grandness Employee Share Option Scheme				
10	Grant of options to Huang Yushan, Associate of Controlling Shareholder				
11	Renewal of share buyback mandate				

Notes:
1. * Please delete accordingly.
2. ** Please indicate your vote "For" or "Against" with an "x" within the box provided.
3. **** If you wish to exercise all your votes "For" or "Against", please indicated with an "x" within the box provided. Alternatively, please indicated the number of votes as appropriate.

Dated this __________ day of ________________ 2015

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____

Signature of Shareholder(s)
or Common Seal of Corporate Shareholder

Notes :

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy shall be specified. If the proportion of shareholding is not specified, the Company shall be entitled to treat the first named proxy as representing the entire number of shares entered against his/her name in the Depository Register and any second named proxy as an alternate to the first named.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road #02-00 Singapore 068898 not less than forty-eight (48) hours before the time appointed for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of an attorney or duly authorised officer. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 7 April 2015.