Gansu Dahe Chinese Herbal Medicine Development Co., Ltd

FINANCIAL REPORT

For the period ended 31 December 2012

Contents

Statement of Profit or Loss and Other Comprehensive Income

For the period ended 31 December 2012

	Note	2012* RMB
Revenue	2	245,631
Cost of sales		(218,096)
Gross profit		27,535
Administration expenses	3	(71,129)
Profit before income tax		(43,594)
Income tax expense	4	(438)
Profit/(loss) for the period		**(44,032)**
Other comprehensive income		-
Total comprehensive income for the period		**(44,032)**
Profit for the period is attributable to:		
Owner of Gansu Dahe Chinese Herbal Medicine Development Co.,Ltd		(44,032)
Total comprehensive income for the period is attributable to:		
Owner of Gansu Dahe Chinese Herbal Medicine Development Co.,Ltd		(44,032)

*Gansu Dahe Chinese Herbal Medicine Development Co., Ltd was incorporated on the 27th November 2012.

Statement of Financial Position

As at 31 December 2012

	Note	2012 RMB
Current assets		
Cash and cash equivalents	5	253,000
Trade and other receivables	6	20,000,000
Inventory	7	5,032
Total current assets		20,258,032
Total assets		**20,258,032**
Current liabilities		
Trade and other payables	8	302,064
Total current liabilities		302,064
Total liabilities		**302,064**
Net assets		**19,955,968**
Equity		
Issued capital	9	20,000,000
Retained earnings		(44,032)
Total equity		**19,955,968**

Statement of Changes in Equity

For the period ended 31 December 2012

	Share Capital RMB	Retained earnings RMB	Total RMB
Balance at Incorporation*	**-**	**-**	**-**
Additional capital	20,000,000	-	20,000,000
Dividends declared	-	-	-
Total comprehensive income for the period	-	(44,032)	(44,032)
Balance at 31 December 2012	**20,000,000**	**(44,032)**	**19,955,968**

* Gansu Dahe Chinese Herbal Medicines Development Co., Ltd was incorporated on 27 November 2012.

Statement of Cash Flows

For the period ended 31 December 2012

	Note	2012 RMB
Cash flows from operating activities		
Receipts from customers		245,631
Payment to suppliers and employees		(240,730)
Net cash provided by (used in) operating activities	14	4,901
Cash flows from financing activities		
Cash received in capital contribution		20,000,000
Payment made to related parties		(19,777,830)
Receipts from non-related parties		25,929
Net cash provided by (used in) financing activities		248,099
Net change in cash and cash equivalents held		253,000
Cash and cash equivalents at beginning of financial period		-
Cash and cash equivalents at end of financial period	5	253,000

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the period ended 31 December 2012

1 Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and not in accordance with any applicable PRC company law.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd ("the Company") is a company limited by shares, incorporated and domiciled in China.

The Company is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue by the directors on 31 October 2014.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. All amounts are presented in Chinese Yuan (RMB) which is the Company's functional and presentational currency, unless otherwise noted.

As Gansu Dahe Chinese Herbal Medicine Development Co., Ltd was incorporated on the 27th November 2012, no comparative period for the financial statements is available for the current reporting period.

Significant accounting policies

a. Income Tax

The income tax expense (revenue) for the period comprises current income tax expense (income).

Current tax

The income tax expense (revenue) for the period comprises current income tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

b. Inventories

Inventories are finished goods held ready for sale including finished goods Chinese herbal plants purchased for sale. Inventories held for sale are measured at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

c. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

d. Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Financial instruments are classified and measured as set out below.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets ‘at fair value through profit or loss’.

Classification and subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss
Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short-term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity investments
These investments have fixed maturities, and it is the Company's intention to hold these investments to maturity. Any held-to-maturity investments held by the Company are stated at amortised cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are held at fair value with changes in fair value taken through the financial assets reserve directly in equity.

Financial liabilities
The Company's financial liabilities include trade and other payables. Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in the financial assets reserve in other comprehensive income.

e. Impairment of Non-Financial Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f. Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

g. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

h. Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

All revenue is stated net of the amount of value added tax (VAT).

i. Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except where the amount of VAT incurred is not recoverable from the Local Taxation Office. In these circumstances, the VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of VAT.

Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT component of investing and financing activities, which are disclosed as operating cash flows.

j. Segment information

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Types of products by segment

i. Sale of cultivated products
The Company engages in the trading activities to buy and sell finished goods of Chinese herbal medicine.

ii. Sale of seeds and sprouts
All seeds and sprouts are aggregated as one reportable segment as the seeds and sprouts are similar in nature though at different biological transformation stages, they are grown and distributed to similar type of customers and they are subject to a similar regulatory environment.

k. Critical accounting estimates

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. Actual results may differ from these estimates.

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

Key estimates — Impairment of non-financial assets

The Company assesses impairment at each reporting date by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

l. Foreign current transactions and balances

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the operating entity Gansu Dahe Chinese Herbal Medicine Development Co., Ltd is in Chinese Yuan (RMB).

The financial statements are presented in Chinese Yuan (“RMB”), which is the operating entity’s functional and presentation currency.

Transactions and balances

No foreign currency transactions and balances have occurred in financial period.

m. Biological assets

Biological assets include Chinese herbal medicine seeds planted and sprouts that have yet to be harvested. These are valued under IAS41.

Seeds and sprouts are valued at their fair value less estimated point-of-sale costs based on estimated sale value. The estimated sale value is measured at the most recent market transaction price. The estimated point-of-sale costs are based on expected shrinkage, delivery costs, storage costs and costs to complete (harvest costs).

Currently insurance cover is not available at commercially acceptable rates for the biological assets. The directors have chosen to proactively manage the risk as preferred alternative.

n. Accounting standards not yet effective

There are new accounting standards and IFRIC interpretations that have been published that are not mandatory for current reporting periods. The Company’s assessment of the impact of these new standards and interpretations is that there would be no material impact on the historical or reported financial information.

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2 Revenue

	2012 RMB
Operating activities	
Sale of Chinese herbal medicine *	245,631
Total Revenue	245,631

* During the period revenue from top ten customers amounted to RMB 245,631 arising from the sale of Chinese herbal medicine.

3 Administration expenses

	2012 RMB
Administration expenses	
Travelling expense	1,373
Salary and wages expenses	45,200
Other administration expenses	24,556
Total administration expenses	71,129

4 Income Tax Expense

	2012 RMB
The components of tax expense comprise:	
Current tax	438
	438
Reconciliation of tax expense	
Profit before income tax	(43,594)
Prima facie tax payable on profit before income tax at China tax rate of 25%	(10,898)
Add:	
Tax effect of adjustments	9,040
Tax effect on non-deductible expenses	63,704
Tax effect on non-taxable income	(61,408)
Income tax attributable to the Company	438
The applicable weighted average effective tax rate are as follows:	1%

The Company is subject to the tax law of People's Republic of China (PRC).

5 Cash and Cash Equivalents

	2012 RMB
Cash on hand	-
Cash at bank	253,000
Total cash and cash equivalent	253,000

6 Trade and Other Receivables

	2012 RMB
Current	
Trade receivables	-
Related party receivables*	20,000,000
Total current trade and other receivables	20,000,000

Other receivable is used by related party to fund the Company's incoming business activities. Refer Note 15 for more details on related party balances.

7 Inventory

	2012 RMB
Current	
Inventory at cost	5,032
Provision for obsolete stock	-
Net inventory	5,032

Finished goods purchased for sale are Chinese angelica and have been determined to be valued at the lower of cost and net realisable value at balance date. The accounting principles used for the lower of cost and net realisable value are explained in Note 1 Significant Accounting Policies.

8 Trade and Other Payables

	2012 RMB
Current	
Trade payables	-
Other payables	25,929
Related party payables*	222,170
Salary payable	45,200
Other taxes payables	8,765
	302,064

*Refer Note 15 for more details on related party balances.

9 Issued Capital

	2012 RMB
Share capital	20,000,000

Share capital represents capital contributions made by shareholders. Shareholdings are determined based on the percentage of capital contributions made of the total share capital.

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10 Capital Management

Management controls the capital of the company in order to maintain a good debt to equity ratio, and ensure that the company can fund its operations and continue as a going concern.

The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Pursuant to the current People's Republic of China Company Law, the Company is required to transfer between 5% to 10% of its profit after taxation to a statutory reserve until the surplus reserve balance reaches minimal 50% of the registered capital.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

11 Commitments

(a) Capital Commitments

No capital commitments existed as at 31 December 2012.

(b) Operating Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	2012
	RMB
Payable — minimum lease payments	
not later than 12 months	120,000
between 12 months and five years	480,000
greater than five years	1,585,000
	2,185,000

Non-cancellable operating leases contracted are pertinent to lease of the cultivating lands on which seeds and sprouts of Chinese herbal medicine are planted.

12 Segment Reporting

Identification of reportable segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Company is managed primarily on the basis of product category and service offerings as the diversification of the Company's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment; and
- the type or class of customer for the products or services.

Types of products and services by segment
Segments as determined by the Directors and Management are as follows:

- Sale of seeds and sprouts
- Cultivation of seeds and sprouts

The Company operates predominately in one geographical segment, being the People's Republic of China.

Basis of accounting for purposes of reporting by operating segments:

Accounting policies adopted
Unless stated otherwise, all amounts reported to the Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Company.

Inter-segment transactions
Inter-segment loans payables and receivables are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, there are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities
Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Company as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items
The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- income tax expense;
- current tax liabilities; and
- other financial liabilities.

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	Sale of seeds and sprouts	Cultivation of seeds and sprouts	Total
	RMB	RMB	RMB
31/12/2012			
Segment revenue to external customer	**-**	**245,631**	**245,631**
Segment COGS	-	(218,096)	(218,096)
Segment results	-	27,535	27,535
Unallocated expense net of unallocated revenue			(71,129)
Profit before tax			(43,594)
Income tax expense			(438)
Net profit after tax			(44,032)
Segment assets			
Total corporate and unallocated assets			20,258,032
Total assets			20,258,032
Segment liabilities			
Total corporate and unallocated liabilities			302,064
Total liabilities			302,064

13 Events After the Balance Sheet Date

The Company's financial statements for the financial period ended 31 December 2012, the financial year ended 31 December 2013 and period ended on 30 June 2014 have been signed on the same date, 31 October 2014.

Matters or circumstances that have arisen since the financial period ended 31 December 2012 to the date of signing which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years have been appropriately disclosed within the financial statements ended 30 June 2014.

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Notes to the financial statements
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14 Cash Flow Information

Reconciliation of Net Profit after Tax to Net Cash Flows from Operations

	2012
	RMB
Operating Profit/(Loss) after income tax	**(44,032)**
Non-cash flows in operating surplus/(deficit)	
Depreciation/Amortisation	-
Changes in assets and liabilities	
(Increase)/Decrease in Inventory	(5,032)
(Increase)/Decrease in Trade and other payables	53,965
Cash flows from operations	**4,901**

15 Related party transactions

a) Transaction with key management personnel

The following comprises transactions with key management personnel and their related entities during the period.

2012	
	RMB
Cash advances to Mr. Li Yan Long	(20,000,000)
Cash advances from Mr. Li Yan Long	222,170

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

a) Related party balances

Amounts receivable from and payable to key management personnel and their related entities at balance date arising are as follows:

2012	Receivable from related party	Payable to related party
	RMB	RMB
Mr. Li Yan Long	20,000,000	222,170
Total related party balances	**20,000,000**	**222,170**

Related party balances comprise related party receivable used for to fund the Company's business activities. No specific terms and conditions have been attached to the above transactions.

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Notes to the financial statements
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16 Financial Instrument Risk Management

16.1 Risk management objectives and policies

The Company is exposed to a variety of financial risks through its use of financial instruments.

Financial instruments used

The principal categories of financial instrument used by the Company:

- Trade and other receivables
- Cash at bank
- Trade and other payables

The main types of risks are market risk, credit risk and liquidity risk.

This note discloses the Company's objectives, policies and processes for managing and measuring these risks.

The Company's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Company's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

16.2 Market risk analysis

The Company is exposed to market risk through its use of financial instruments and specifically to liquidity risk, interest rate risk, customer concentration risk, and certain other price risks, which result from both its operating and investing activities.

Foreign currency risk

The Company does not have balances denominated in currency other than the functional currency.

Interest rate risk sensitivity

The Company's exposure to interest rate risk relates principally to short term deposits placed with financial institution.

Price risk

The Company's financial instruments are not exposed to price risk.

Liquidity risk

Liquidity risk arises from the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring scheduled debt serving payments for financial liabilities as well as forecast cash inflows and outflows due in day-to-day business.

Customer concentration risk
The Company's exposure to customer concentration risk relates to its dependence on major consumers. The Group's top 10 customers in 2012 generated 100% of the Company's revenues during the financial period.

Financial instrument composition and maturity analysis
The table below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

	Weighted Average Effective Interest Rate 2012 %	Interest Bearing Maturing within 1 Year 2012 RMB	Interest Bearing Maturing within 2 Years 2012 RMB	Non-interest Bearing Maturing within 1 Year 2012 RMB	Total 2012 RMB
Financial Assets:					
- Cash and cash equivalents (Variable interest rate)	0.39% p.a	253,000	-	-	253,000
- Trade and other receivables	-	-	-	20,000,000	20,000,000
Total Financial Assets		253,000	-	20,000,000	20,253,000
Financial Liabilities:					
- Trade and other payables	-	-	-	302,064	302,064
Total Financial Liabilities		-	-	302,064	302,064
Net Financial Assets (Liabilities)					19,950,936

16.3 Credit risk analysis

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Company.

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The Company adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from default. The utilisation of credit limits by customers is regularly monitored by line management. For significant transactions, customers are required to make sufficient prepayments in order to reduce the credit risk to an acceptable level.

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2012 RMB
Classes of financial assets -	
Carrying amounts:	
Cash and cash equivalents	253,000
Trade and other receivables	20,000,000
Total	20,253,000

The Company's management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the Company's financial assets are secured by collateral or other credit enhancements.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

17 Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- **level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- **level 3:** unobservable inputs for the asset or liability

The value of the Company's financial assets and financial liabilities are determined by its short-term book value which is also its fair value.

18 Key Management Personnel Compensation

The directors did not receive any personal compensation from the Company during the period.

19 Company Details

The registered office of the Company is:

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
3 Dinglin Road, Anding District
Dingxi, Gansu 743099 China

Director's declaration

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 1 to 19, are in accordance with International Financial Reporting Standards and presents fairly the financial position as at 31 December 2012 and of the performance for the period ended on that date of the Company.

2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Executive Chairman
Li Yan Long

Dated this 31 day of October 2014

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GANSU DAHE CHINESE HERBAL MEDICINE DEVELOPMENT CO., LTD

We have audited the accompanying financial report of Gansu Dahe Chinese Herbal Medicine Development Co., Ltd (the "Company"), which comprises the statement of financial position as at 31 December 2012, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information to the financial report and the statement by the Directors.

Responsibility of the Directors for the financial report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with International Accounting Standards. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard IAS 1 Presentation of Financial Statements, the financial statements and notes, comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the applicable independence requirements of the Accounting Professional and Ethical Standards Board.

Auditor's Opinion

In our opinion,

a the financial report of Gansu Dahe Chinese Herbal Medicine Development Co., Ltd,

   i presents fairly, in all material respects, the Company's financial position as at 31 December 2012 and of its performance and cash flows for the period then ended; and

   ii complies with International Accounting Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Partner – Audit & Assurance

Adelaide, 31 October 2014