

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd

2013 ANNUAL REPORT

For the year ended 31 December 2013

Contents

	Page
Statement of Profit or Loss and Other Comprehensive Income	1
Statement of Financial Position	2
Statement of Changes in Equity	3
Statement of Cash Flows	4
Director's declaration	28
Independent auditor's report	29

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Note	2013 RMB	2012 RMB
Revenue	2	12,697,260	245,631
Cost of sales		(10,486,596)	(218,096)
Gross profit		2,210,664	27,535
Net gain arising from changes in fair value of inventory and biological assets		2,695,991	-
Other revenues	2	102,098	-
Operating expenses	3	(66,485)	-
Administration expenses	4	(1,361,652)	(71,129)
Finance costs	5	(1,952)	-
Profit before income tax		3,578,664	(43,594)
Income tax expense	6	(119)	(438)
Profit for the year		3,578,545	(44,032)
Other comprehensive income		-	-
Total comprehensive income for the year		3,578,545	(44,032)
Profit for the year is attributable to:			
Owner of Gansu Dahe Chinese Herbal Medicine Development Co.,Ltd		3,578,545	(44,032)
Total comprehensive income for the year is attributable to:			
Owner of Gansu Dahe Chinese Herbal Medicine Development Co.,Ltd		3,578,545	(44,032)

These financial statements should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 31 December 2013

	Note	2013 RMB	2012 RMB
Current assets			
Cash and cash equivalents	7	1,384,283	253,000
Trade and other receivables	8	20,068,552	20,000,000
Inventory	9	2,179,148	5,032
Biological assets	10	4,056,713	-
Prepayments	11	3,484,139	-
Total current assets		31,172,835	20,258,032
Non-current assets			
Property, plant and equipment	12	8,971,684	-
Intangible assets	13	19,035	-
Total non-current assets		8,990,719	-
Total assets		40,163,554	20,258,032
Current liabilities			
Trade and other payables	14	14,392,030	302,064
Revenue received in advance	15	2,237,011	-
Total current liabilities		16,629,041	302,064
Total liabilities		16,629,041	302,064
Net assets		23,534,513	19,955,968
Equity			
Issued capital	16	20,000,000	20,000,000
Retained earnings		3,534,513	(44,032)
Total equity		23,534,513	19,955,968

These financial statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 31 December 2013

	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 year	-	(44,032)	(44,032)
Balance at 31 December 2012	20,000,000	(44,032)	19,955,968
Additional capital	-	-	-
Dividends declared	-	-	-
Total comprehensive income for the year	-	3,578,545	3,578,545
Balance at 31 December 2013	20,000,000	3,534,513	23,534,513

These financial statements should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 RMB	2012 RMB
Cash flows from operating activities			
Receipts from customers		11,294,310	245,631
Payments to suppliers and employees		(18,123,733)	(240,730)
Interest received		2,098	-
Finance costs		-	-
Income tax paid		(119)	-
Net cash provided by (used in) operating activities	21	(6,827,444)	4,901
Cash flows from investing activities			
Purchase of property, plant and equipment from non-related party		(903,098)	-
Purchase of property, plant and equipment from related party		(8,489,794)	-
Purchase of intangible assets		(19,800)	-
Net cash provided by (used in) investing activities		(9,412,692)	-
Cash flows from financing activities			
Cash received in capital contribution		-	20,000,000
Receipt/(Payment) made from/(to) related parties		6,862,008	(19,777,830)
Receipts from non-related parties		10,509,411	25,929
Net cash provided by (used in) financing activities		17,371,419	248,099
Net change in cash and cash equivalents held		1,131,283	253,000
Cash and cash equivalents at beginning of financial year		253,000	-
Cash and cash equivalents at end of financial year	7	1,384,283	253,000

These financial statements should be read in conjunction with the accompanying notes.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

5

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.

Third statement of financial position

Two comparative periods are presented for the statement of financial position when the Company:

- i Applies an accounting policy retrospectively,
- ii Makes a retrospective restatement of items in its financial statements, or
- iii Reclassifies items in the financial statements.

The management have determined that only one comparative period for the statement of financial position was required for the current reporting period.

Significant accounting policies

a. Income Tax

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

Current tax

The income tax expense (revenue) for the year 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

6

b. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property, Plant and equipment are measured at cost less depreciation and impairment losses.

The cost of fixed assets constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the re-valued carrying amount of asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation surplus to retain earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Buildings on leasehold land are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate	Depreciation Basis
Office and equipment	20%	Straight line
Buildings	5%	Straight line
Motor vehicle	10%	Straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

7

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

c. Inventories

Raw materials include seeds purchased from third parties and chemical fertilizer, which are all measured at cost.

Consumable inventories include farming tools and other planting accessories that are valued at cost plus cost of delivery to site.

Finished goods comprise Chinese herbal medicine purchased for sale and agriculture produce self-generated seeds. Seeds 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 and storage costs.

d. 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.

e. 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

8

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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

9

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.

f. 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

10

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.

g. 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.

h. 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.

i. 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.

Government grant relating to subsidy is credited to the statement of profit or loss and other comprehensive income.

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

j. 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

11

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.

k. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

l. Critical accounting estimates and judgments

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.

m. Foreign currency translation

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 2013 financial year.

n. 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). At 31 December 2013 the Company has 240 acres of Chinese herbal medicine seeds and sprouts being cultivated in the ground. The harvest of sprouts from 75% of the acreage being cultivated will be sold to the market with the remaining 25% to be utilised for the cultivation of seeds.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

12

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.

o. 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 wholesales 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.

p. 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.

2 Revenue

	2013 RMB	2012 RMB
Operating activities		
Sale of Chinese herbal medicine*	8,604,121	245,631
Sale of seeds and sprouts of Chinese herbal medicine*	4,093,139	-
Total Revenue	12,697,260	245,631
Non-operating activities		
Interest received	2,098	-
Grant income (Note(a))	100,000	-
Other Income	102,098	-

*During the year revenue from top ten customers amounted to RMB 12,697,260 (2012: RMB 245,631) arising from sale of Chinese herbal medicine and seeds/sprouts.

Note (a)

Government grant arises from donation by Ding Xi Commerce Association funding the recovery of business operation affected by the earthquake in Ding Xi area in 2013.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

13

3 Operating expenses

	2013 RMB	2012 RMB
Operating expenses		
Salary expenses	9,285	-
Marketing expense	57,200	-
Total operating expenses	66,485	-

4 Administration expenses

	2013 RMB	2012 RMB
Administration expenses		
Travelling expense	100,447	1,373
Salary and wages expenses	464,464	45,200
Depreciation and amortisation	6,937	-
Other administration expenses	789,804	24,556
Total administration expenses	1,361,652	71,129

5 Finance Cost

	2013 RMB	2012 RMB
Finance costs:		
Other expenses	1,952	-
Total finance costs	1,952	-

6 Income Tax Expense

	2013 RMB	2012 RMB
The components of tax expense comprise:		
Current tax	119	438
	119	438
Reconciliation of tax expense		
Profit before income tax	3,578,664	(43,594)
Prima facie tax payable on profit before income tax at China tax rate of 25% (2012:25%)	894,666	(10,898)
Add:		
Tax effect of adjustments	(662,698)	9,040
Tax effect on non-deductible expenses	3,641,464	63,704
Tax effect on non-taxable income	(3,873,313)	(61,408)
Income tax attributable to the Company	119	438
The applicable weighted average effective tax rate are as follows:	1%	1%

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

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

14

7 Cash and Cash Equivalents

	2013	2012
	RMB	RMB
Cash on hand	1,322	-
Cash at bank	1,382,961	253,000
Total cash and cash equivalent	1,384,283	253,000

8 Trade and Other Receivables

	2013	2012
	RMB	RMB
Current		
Trade receivables	3,739,961	-
Other receivables	3,710,262	-
Related party receivable	12,618,329	20,000,000
Total current trade and other receivables	20,068,552	20,000,000

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The company does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title.

The average credit period on sales of goods is 30 days. Extended credit terms may be provided through negotiation with customers. No interest is charged on the trade receivables.

Some of the unimpaired trade receivables are past due as at the reporting date. These relate to customers who have a good credit history with the Company and are expected to be recovered in full.

The age of trade receivables past due but not impaired is as follows:

	2013	2012
	RMB	RMB
31 – 60 days	3,739,961	-
61 – 90 days	-	-
90 – 180 days	-	-
Total	3,739,961	-

9 Inventory

	2013	2012
	RMB	RMB
Current		
Raw material (net)	30,839	-
Other inventories (net)	122,348	-
Finished goods ready for sale (net)	2,025,961	5,032
Net inventory	2,179,148	5,032

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

15

i. Raw material

	2013 RMB	2012 RMB
Current		
Seeds and fertilizer purchased at cost	30,839	-
Net raw material	30,839	-

ii. Other inventories

	2013 RMB	2012 RMB
Current		
Planting consumables and accessories	122,348	-
Net other inventories	122,348	-

iii. Finished goods ready for sale

	2013 RMB	2012 RMB
Current		
Chinese angelica purchased at cost	5,032	5,032
Seeds	651,973	-
Change in market value of growing stock	1,368,956	-
Net finished goods ready for sale	2,025,961	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.

Agriculture produce seeds comprise two types of Chinese herbal medicine seeds harvested from biological assets Chinese herbal medicine sprouts and have been determined to be valued at its fair value less costs to sell.

10 Biological Assets

	2013 RMB	2012 RMB
Current		
Consumable biological - sprouts to be harvested for sale		
Carrying amount at beginning of period	-	-
Value of seeds inventory purchased	479,500	-
Cost of cultivation arising from physical changes	2,250,178	-
Gain arising from physical changes at fair value less estimated sale costs	2,534,986	-
Write down value of biological assets	(1,207,951)	-
Carrying amount at end of period	4,056,713	-

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

16

Valuation of Biological Assets

The accounting principles used for the valuation of biological assets are explained in Note 1 Significant Accounting Policies.

Assumptions Used for Determining Fair Value of Seeds and Sprouts

Assumption used for determining fair value of biological assets being sprouts planted in the ground but not harvested.

The estimated value of sprouts will always be based on uncertain assumptions, even though the Company has built substantial expertise in assessing these factors. Estimates are applied to the following factors: volume, costs to bring the product to harvest and market prices.

Volume is an estimate based on the planted land and yields expected to be achieved after taking into account shrinkage. Costs of cultivation are subject to changes arising from changes in time for the product to be harvested and costs of inputs such as delivery, storage, labour and consumables.

The market price assumption materially impacts the valuation and even small changes in the market price will significant changes in the valuation. Market prices will be based on the best available estimates and available government guidelines.

11 Prepayments

	2013 RMB	2012 RMB
Current		
Prepayments	3,484,139	-
Total prepayments	3,484,139	-

Other assets represent advances/security deposits to suppliers for inventory purchases.

12 Property, plant and equipment

	2013 RMB	2012 RMB
Office Equipment and Motor Vehicle		
At cost	195,504	-
Accumulated depreciation	(20,018)	-
Total Office Equipment and Motor Vehicle	175,486	-
Buildings		
At cost	7,588,181	-
Accumulated depreciation	(334,985)	-
Total Buildings	7,253,196	-
Machinery		
At cost	763,708	-
Accumulated depreciation	(66,206)	-
Total Machinery	697,502	-
Construction in Progress	845,500	-
Total property, plant and equipment	8,971,684	-

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

17

a Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Office Equipment and Motor Vehicle RMB	Buildings RMB	Machinery RMB	Construction in Progress (CIP) RMB	Total RMB
Balance at 1 January 2012	-	-	-	-	-
Addition	-	-	-	-	-
Disposal	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Balance at 31 December 2012	-	-	-	-	-
Addition	195,504	7,588,181	763,708	845,500	9,392,893
Disposal	-	-	-	-	-
Depreciation expense	(20,018)	(334,985)	(66,206)	-	(421,209)
Balance at 31 December 2013	175,486	7,253,196	697,502	845,500	8,971,684

13 Intangible assets

	2013 RMB	2012 RMB
Cost – Software use rights	19,800	-
Accumulated Amortisation	(765)	-
Total Intangible assets	19,035	-

14 Trade and Other Payables

	2013 RMB	2012 RMB
Current		
Trade payables	385,563	-
Related party payable*	3,848,110	222,170
Accrued expenses	-	45,200
Other taxes payable	58,357	8,765
Other payables	10,100,000	25,929
	14,392,030	302,064

*Refer Note 23 for more details on related party balances.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

18

15 Revenue received in advance

	2013 RMB	2012 RMB
Current		
Revenue received in advance	2,237,011	-
	<u>2,237,011</u>	<u>-</u>

Revenue receive in advance are deposits from customers to secure sales orders.

16 Issued Capital

	2013 RMB	2012 RMB
Share capital	20,000,000	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.

17 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

19

18 Commitments

(a) Capital Commitments

The Company has capital commitments at 31 December 2013 as follows:

	2013 RMB	2012 RMB
Payable		
not later than 12 months	2,339,928	-
between 12 months and five years	-	-
greater than five years	-	-
	2,339,928	-

(b) Operating Commitments

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

	2013 RMB	2012 RMB
Payable — minimum lease payments		
not later than 12 months	249,176	120,000
between 12 months and five years	761,835	480,000
greater than five years	1,956,667	1,585,000
	2,967,678	2,185,000

Non-cancellable operating leases contracted are property leases on which seeds and sprouts of Chinese herbal medicine are planted.

19 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

20

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 group 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

21

	Sale of seeds and sprouts RMB	Cultivation of Chinese herbal medicine RMB	Total RMB
31/12/2013			
Segment revenue to external customer	4,093,139	8,604,121	12,697,260
Segment COGS	(2,279,572)	(8,207,024)	(10,486,596)
Segment results	1,813,567	397,097	2,210,664
Other income			102,098
Net financing costs			(1,952)
Unallocated expense net of unallocated revenue			1,267,854
Profit before tax			3,578,664
Income tax expense			(119)
Net profit after tax			3,578,545
Segment assets			
Total corporate and unallocated assets			40,163,554
Total assets			40,163,554
Segment liabilities			
Total corporate and unallocated liabilities			16,629,041
Total liabilities			16,629,041

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

22

	Sale of seeds and sprouts	Cultivation of Chinese herbal medicine	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
Other income			-
Net financing costs			-
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

20 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

23

21 Cash Flow Information

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

	2013	2012
	RMB	RMB
Operating Profit/(Loss) after income tax	3,578,545	(44,032)
Non-cash flows in operating surplus/(deficit)		
Depreciation/Amortisation	7,702	-
Net (gain)/loss in fair value of biological assets	(2,695,991)	-
Changes in assets and liabilities		
(Increase)/Decrease in Trade receivables	(3,739,961)	-
(Increase)/Decrease in prepayments	(3,484,140)	-
(Increase)/Decrease in Inventory	(3,120,565)	(5,032)
(Increase)/Decrease in Trade and other payables	340,363	53,965
Increase/(Decrease) in other tax payable	49,592	-
Increase/(Decrease) in revenue received in advance	2,237,011	-
Cash flows from operations	(6,287,444)	4,901

22 Related party transactions

a) Transaction with key management personnel

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

	2013	2012
	RMB	RMB
Cash advances to Mr. Li Yan Long	-	(20,000,000)
Cash advances from Mr. Li Yan Long	23,000,000	222,170
Purchases of property, plant and equipment from Gansu Dahe Planting Industrial (Associated with Mr. Li Yan Long)	(8,489,794)	-
Purchases of seeds, sprouts and finished goods from Gansu Dahe Planting Industrial (Associated with Mr. Li Yan Long)	(2,678,581)	-
Cash advance to Gansu Dahe Planting Industrial (Associated with Mr. Li Yan Long)	(12,300,425)	-
Cash advance to Min Xian Dahe Zhuisu Agricultural Products (Associated with Mr. Li Yan Long)	(3,500,000)	-
Purchase of raw materials from Longxi County Xiao Ling Bio-organic Fertilizer (Associated with Mr. Li Yan Long)	(385,350)	-
Cash advance to Mr. Gou Ping Jun	(435,340)	-
Cash advance to Xue Feng	(1,376,819)	-
Cash advance from Xue Feng	1,292,378	-
Cash advance to Lv Fu Min	(10,000)	-
Cash advance to Mr. Li Yan Jiang	(687,162)	-
Cash advance from Mr. Li Yan Jiang	563,803	-

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

24

b) 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 RMB	Payable to related party RMB
Mr. Li Yan Long - Chairman	20,000,000	222,170
Total related party balances	20,000,000	222,170
2013	Receivable from related party RMB	Payable to related party RMB
Mr. Li Yan Long - Chairman	-	3,222,170
Gansu Dahe Planting Industrial Co.,Ltd	12,300,424	146,600
Mr. Gou Ping Jun	-	435,340
Xue Feng	84,442	-
Lv Fu Min	10,000	-
Mr. Li Yan Jiang	77,463	44,000
	12,618,329	3,848,110

Related party balances comprise related party loans and no specific terms and conditions have been attached to the above transactions.

23 Financial Instrument Risk Management

23.1 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 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

25

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.

23.2 Market risk analysis

The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk, foreign currency risk, customer concentration risk, credit risk and liquidity risk, which result from both its operating and investing activities. The Company does not have significant exposure to price risk.

Interest rate risk sensitivity

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

Foreign currency risk sensitivity

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

Customer concentration risk

The Company's exposure to customer concentration risk relates to its dependence on major customers. The Company's top 10 customers in 2013 generated 100% (2012: 100%) of the Company's revenues during the financial period.

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.

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.

26

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd
Notes to the financial statements
For the year ended 31 December 2013

	Weighted Average Effective Interest Rate		Interest Bearing Maturing within 1 Year		Interest Bearing Maturing within 2 Years		Non-interest Bearing Maturing within 1 Year		Total	
	2013 %	2012%	2013 RMB	2012 RMB	2013 RMB	2012 RMB	2013 RMB	2012 RMB	2013 RMB	2012 RMB
Financial Assets:										
- Cash and cash equivalents (Variable interest rate)	0.31% p.a	0.39% p.a	1,382,961	253,000	-	-	-	-	1,382,961	253,000
- Trade and other receivables	-	-	-	-	-	-	20,068,552	20,000,000	20,068,552	20,000,000
- Security deposits to suppliers	-	-	-	-	-	-	3,484,139	-	3,484,139	-
Total Financial Assets			1,382,961	253,000	-	-	23,552,691	20,000,000	24,935,652	20,530,000
							-			
Financial Liabilities:										
- Trade and other payables	-	-	-	-	-	-	14,392,030	302,064	14,392,030	302,064
- Revenue received in advance	-	-	-	-	-	-	2,237,011	-	2,237,011	-
Total Financial Liabilities			-	-	-	-	16,629,041	302,064	16,629,041	302,064
Net Financial Assets (Liabilities)									8,306,611	19,950,936

23.3 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.

Gansu Dahe Chinese Herbal Medicine Development Co., Ltd

Notes to the financial statements

For the year ended 31 December 2013

27

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:

	2013 RMB	2012 RMB
Classes of financial assets -		
Carrying amounts:		
Cash and cash equivalents	1,384,283	253,000
Cash advanced to suppliers	3,484,139	-
Trade and other receivables	20,068,552	20,000,000
Total	24,936,974	20,530,000

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.

24 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.

25 Key Management Personnel Compensation

The directors and key management personnel received personal compensation of RMB 271,800 from the Company during the 2013 financial year.

26 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 27, are in accordance with International Financial Reporting Standards and presents fairly the financial position as at 31 December 2013 and of the performance for the year 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 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year 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.

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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 2013 and of its performance and cash flows for the year then ended; and
 - ii complies with International Accounting Standards.


GRANT THORNTON AUDIT PTY LTD
Chartered Accountants


S J Gray
Partner – Audit & Assurance

Adelaide, 31 October 2014