# Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.

## Financial Report

## Year Ended 31 December 2014 and 31 December 2013

## Contents

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Statement of profit or loss and other comprehensive income**
**For the year ended 31 December 2014 and 31 December 2013**

| | Note | Consolidated 2014 $ | 2013 $ |
|---|---|---|---|
| **Revenue** | 4 | 24,030,022 | 20,337,401 |
| Share of profits from interests in associate accounted for using the equity method | 14 | 44,422 | - |
| **Expenses** | | | |
| Cost of sales | 5 | (22,039,789) | (18,534,575) |
| Administrative expenses | | (391,212) | (123,233) |
| Sales expenses | | (331,665) | (212,140) |
| Other expenses | | (338) | (721) |
| Interest expense | | (60,716) | (40,210) |
| **Profit before income tax expense** | | 1,250,724 | 1,426,522 |
| Income tax expense | 6 | (4,327) | - |
| **Profit after income tax expense for the year** | | 1,246,397 | 1,426,522 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | 20 | 1,263,776 | 820,645 |
| Share of the associate's other comprehensive income | 20 | 154,801 | - |
| Other comprehensive income for the year, net of tax | | 1,418,577 | 820,645 |
| **Total comprehensive income for the year** | | 2,664,974 | 2,247,167 |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Qingzhou JiaJiaFu Modern Agriculture Group Co. Ltd**
**Statement of financial position**
**As at 31 December 2014 and 31 December 2013**

| | Note | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 35,724 | 1,163 |
| Trade and other receivables | 8 | 2,613,954 | 1,269,542 |
| Prepayments | 9 | 4,809,047 | 6,220 |
| Inventories | 10 | 492,420 | 219,619 |
| Biological assets | 11 | 2,290,550 | 2,165,710 |
| Other current assets | | 8,217 | - |
| Total current assets | | 10,249,912 | 3,662,254 |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 10,559,625 | 9,850,272 |
| Prepaid lease assets | 13 | 717,848 | 431,682 |
| Investments accounted for using the equity method | 14 | 1,991,843 | 1,650,498 |
| Intangible assets | 15 | 2,384 | - |
| Total non-current assets | | 13,271,700 | 11,932,452 |
| **Total assets** | | **23,521,612** | **15,594,706** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 7,474,433 | 8,164,917 |
| Borrowings | 17 | 695,370 | 550,166 |
| Total current liabilities | | 8,169,803 | 8,715,083 |
| **Non-current liabilities** | | | |
| Deferred revenue | 18 | 279,969 | - |
| Total non-current liabilities | | 279,969 | - |
| **Total liabilities** | | **8,449,772** | **8,715,083** |
| **Net assets** | | **15,071,840** | **6,879,623** |
| **Equity** | | | |
| Capital contribution | 19 | 8,670,344 | 3,261,225 |
| Foreign currency translation reserve | 20 | 2,251,309 | 832,732 |
| Share-based payment reserve | 20 | 118,124 | - |
| Retained earnings | | 4,032,063 | 2,785,666 |
| **Total equity** | | **15,071,840** | **6,879,623** |

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Statement of changes in equity**
**For the year ended 31 December 2014 and 31 December 2013**

| **Consolidated** | **Capital Contribution $** | **Foreign currency translation reserve $** | **Share-based payment reserve $** | **Retained earnings $** | **Total Equity $** |
|---|---|---|---|---|---|
| Balance at 1 January 2014 | 3,261,225 | 832,732 | - | 2,785,666 | 6,879,623 |
| Profit after income tax expense for the year | - | - | - | 1,246,397 | 1,246,397 |
| Other comprehensive income for the year, net of tax | - | 1,418,577 | - | - | 1,418,577 |
| Total comprehensive income for the year | - | 1,418,577 | - | 1,246,397 | 2,664,974 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Capital injection (note 19) | 5,409,119 | - | - | - | 5,409,119 |
| Share-based payments (note 20, 29) | - | - | 118,124 | - | 118,124 |
| Balance at 31 December 2014 | 8,670,344 | 2,251,309 | 118,124 | 4,032,063 | 15,071,840 |

| **Consolidated** | **Capital contribution $** | **Foreign currency translation reserve $** | **Share-based payment reserve $** | **Retained earnings $** | **Total Equity $** |
|---|---|---|---|---|---|
| Balance at 1 January 2013 | 759,682 | 12,087 | - | 1,359,144 | 2,130,913 |
| Profit after income tax expense for the year | - | - | - | 1,426,522 | 1,426,522 |
| Other comprehensive income for the year, net of tax | - | 820,645 | - | - | 820,645 |
| Total comprehensive income for the year | - | 820,645 | - | 1,426,522 | 2,247,167 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Capital injection (note 19) | 2,501,543 | - | - | - | 2,501,543 |
| Balance at 31 December 2013 | 3,261,225 | 832,732 | - | 2,785,666 | 6,879,623 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Statement of cash flows**
**For the year ended 31 December 2014 and 31 December 2013**

| | Note | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of sales taxes) | | 22,809,720 | 20,648,411 |
| Payments to suppliers (inclusive of input taxes) | | (24,579,200) | (18,952,718) |
| Interest paid | | (60,716) | (40,210) |
| Income tax paid | | (4,327) | - |
| Net cash (used in)/generated from operating activities | 28 | (1,834,523) | 1,655,483 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (208,559) | (2,821,306) |
| Prepayments for assets leased | | (242,020) | (335,823) |
| Net cash paid on a business combination | 27 | (16,754) | - |
| Payments for equity accounted investments | | (3,166,137) | (1,500,926) |
| Net cash used in investing activities | | (3,633,470) | (4,658,055) |
| **Cash flows from financing activities** | | | |
| Proceeds from capital contribution | | 5,409,119 | 2,501,543 |
| Proceeds from borrowings | | 631,063 | 500,309 |
| Repayments of borrowings | | (540,912) | - |
| Net cash generated from financing activities | | 5,499,270 | 3,001,852 |
| Net increase/(decrease) in cash and cash equivalents | | 31,277 | (720) |
| Cash and cash equivalents at the beginning of the financial year | | 1,163 | 1,627 |
| Effects of exchange rate changes on cash and cash equivalents | | 3,284 | 256 |
| Cash and cash equivalents at the end of the financial year | 7 | 35,724 | 1,163 |

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## Note 1. Corporate Information

The consolidated financial statements of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd. ("the Company") and its subsidiaries for the year ended 31 December 2014 and 31 December 2013 were authorised for issue in accordance with a resolution of the directors as at the date of this report. The subsidiaries are Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd., Qingzhou Huifeng Green House Material Co., Ltd. and Qingzhou JiaJiaFu Agriculture Supermarket Co., Ltd. The Company and its subsidiaries together are referred to in these financial statements as the consolidated entity. All entities within the consolidated entity were incorporated in the People's Republic of China.

The principal activity of the consolidated entity during the respective years include:
-growing and sales of agriculture produce (e.g. vegetables);
-sourcing of agriculture products; and
-provision of construction of green houses services

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New, revised or amending Accounting Standards and Interpretations adopted**
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting periods.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**Basis of preparation**
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'). These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The consolidated entity is a for-profit entity.

*Historical cost convention*
The financial statements have been prepared under the historical cost convention, except for biological assets, which are measured at fair value at each balance date.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

**Note 2. Significant accounting policies (continued)**

**Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2014 and 31 December 2013 and the results of all subsidiaries for the years then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Foreign currency translation**
The financial statements are presented in Australian dollars. The functional currency of the consolidated entity is Chinese Yuan Renminbi (“RMB”).

*Foreign currency transactions*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**Revenue recognition**
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Sale of goods*
Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

**Note 2. Significant accounting policies (continued)**
**Revenue recognition (continued)**

*Rendering of services*
Rendering of services revenue from construction of greenhouses is recognised by reference to the stage of completion of the contracts.

*Interest*
Interest is recognised as revenue using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*
Other revenue is recognised when it is received or when the right to receive payment is established.

**Income tax**
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**Current and non-current classification**
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Note 2. Significant accounting policies (continued)**

**Cash and cash equivalents**
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Trade and other receivables**
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Biological assets**
Biological assets comprise vegetables that are to be harvested. The biological assets start with preparation of land for planting seedlings and end with the harvesting of crops in the form of mature vegetables. Thereafter, mature vegetables are directly sold to the market located nearby. Consistent with this process, the fair value of vegetables is determined using the market approach by reference to the active market price, estimated agriculture produce and reasonable costs to sell. The active market price is based on the average historical selling price. The estimated agriculture produce used to derive the fair value is derived by the yield subsequent to the balance date. And the costs to sell include the incremental selling costs, mainly including sales rebates and other promotion expenses.

Changes in fair value of vegetables are recognised in cost of sales. Farming costs, such as farmland rental, labour costs fertilisers and pesticides, and appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity are capitalised as part of biological assets.

**Inventories**
Raw materials are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs.

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

**Associates**
Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**Property, plant and equipment**
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

**Note 2. Significant accounting policies (continued)**

**Property, plant and equipment (continued)**
Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

| | |
|---|---|
| Buildings and plant facilities | 5-50 years |
| Green house | 5-20 years |
| Leasehold improvements | Over the lease term |
| Office and other equipment | 3-10 years |
| Motor vehicles | 8-10 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**Goodwill**
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

**Prepaid lease assets**
*Prepaid rental of buildings*
The consolidated entity prepaid rental to lease a building located in Heguan Town, a village in China. The prepaid rental are amortised using the straight-line method over the lease term, which is 50 years according to the lease contract.

**Impairment of non-financial assets**
Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Trade and other payables**
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

**Finance costs**
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

**Employee benefits**

*Short-term employee benefits*
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

## Note 2. Significant accounting policies (continued)

### Employee benefits (continued)

*Defined contribution superannuation expense*
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

### Government grant
Grants from the government are recognised at fair value where there is a reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

### Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### Share-based payments
The consolidated entity receives services from external parties for considerations that are paid for by equity instruments issued by the consolidated entity.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair value of service received is recognised as an expense when incurred, with a corresponding credit to share-based payment reserve in the consolidated entity’s accounts.

### Capital contribution
Capital contribution is classified as equity.

**Note 2. Significant accounting policies (continued)**

### Operating leases

The consolidated entity leases farmland to plant and cultivate vegetables. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are capitalised as the historical cost of biological assets 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 lease term.

Capitalised rental expenses on operating leases for the year ended 31 December 2014 and 31 December 2013 are $625,147 and $ 578,221 respectively.

### Chinese Value Added Tax ("VAT") and Business Tax (“BT”)

According to Chinese tax regulations, agriculture products are exempted from VAT. Since all goods sold by the consolidated entity are agriculture products, the sales of goods of the consolidated entity are not subject to VAT.

Construction service revenue is subject to BT. Revenues, expenses and assets are recognised net of the amount of BT. The amount of BT incurred is not recoverable from the local tax office. In these circumstances, BT is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

### Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2014 and 31 December 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments and its consequential amendments*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

## Note 2. Significant accounting policies (continued)

### New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

*AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)*
Parts A to C of these amendments is applicable to annual reporting periods beginning on or after 1 July 2014 and affects the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination. The adoption of these amendments from 1 January 2015 will not have a material impact on the consolidated entity.

*AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. AASB 2014-3 amends AASB 11 Joint Arrangements and requires an acquisition of an interest in a joint operation, being an activity that constitutes a business, to be accounted for and presented using AASB 3 (and other relevant accounting standards) business combination principles and disclosures. The adoption of these amendments from 1 January 2016 will not have a material impact on the consolidated entity.

*AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. AASB 2014-4 amends AASB 116 and AASB 138 to clarify that depreciation and amortisation should be based on the expected pattern of consumption of an asset, that the use of revenue based methods to calculate depreciation is not appropriate, and that there is a rebuttable presumption that revenue is an inappropriate basis for measuring the consumption of the economic benefit embodied in an intangible asset. The adoption of these amendments from 1 January 2016 will not have a material impact on the consolidated entity.

## Note 2. Significant accounting policies (continued)

*AASB 15 Revenue from Contracts with Customers*
This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 16 Leases*
This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2019. The standard eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Estimation of useful lives of assets*
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life prepaid lease assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold are written off or written down.

**Note 3. Critical accounting judgements, estimates and assumptions (continued)**

*Provision for impairment of receivables*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

*Provision for impairment of inventories*
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

*Fair value of biological assets*
The fair value of biological assets is determined by using valuation techniques. The valuation expert employed by the consolidated entity uses management's judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The consolidated entity has used market approach and adjusted cash flow analysis for immature vegetable.

*Recognition of buildings with pending legal title ownership*
The consolidated entity has recognised buildings with pending legal title ownership as property, plant and equipment. The recognition is on the basis that the consolidated entity has entered into legally binding sales and purchase contracts for these buildings thus having the rights to the use of these assets as well as the consolidated entity's current use of these assets to generate future economic benefits, and the expectation of the consolidated entity receiving the legal title ownership from the relevant authority within a 6 to 12 month period from the date of this financial report.

**Note 4. Revenue**

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| *Sales revenue* | | |
| Sales of goods | 22,945,126 | 20,232,837 |
| Provision of service | 957,414 | - |
| | 23,902,540 | 20,232,837 |
| *Other revenue* | | |
| Government grants | 121,297 | 104,564 |
| Others | 6,185 | - |
| | 127,482 | 104,564 |
| Revenue | 24,030,022 | 20,337,401 |

**Note 5. Expenses**

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Profit before income tax includes the following specific expenses: | | |
| *Cost of Sales* | | |
| Sales of Goods | 21,096,689 | 18,534,575 |
| Provision of service | 943,100 | - |
| | 22,039,789 | 18,534,575 |
| Depreciation and Amortisation | 38,950 | 24,578 |
| Employee benefits expense | 388,549 | 261,771 |
| Interest expenses | 60,716 | 40,210 |
| Travelling expenses | 43,102 | 23,171 |
| Professional service fee in relation to potential IPO | 155,235 | - |
| Promotion expenses | 14,382 | 12,922 |

## Note 6. Income tax expense

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 4,327 | - |
| Aggregate income tax expense | 4,327 | - |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 1,250,724 | 1,426,522 |
| Less: Tax-free income (ii) | (1,942,468) | (1,698,262) |
| Tax at the statutory tax rate of 25% (2013: 25%) (a) | (172,936) | (67,935) |
| Effect on preferential tax rate (i) | (39) | - |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible entertainment expenses | 6,018 | 392 |
| Non-deductible fines and penalties | - | 73 |
| Accrued expenses | 5,746 | 3,017 |
| Other adjustments | (21,986) | - |
| Capitalised government grants | 130,883 | - |
| Amortisation of capitalised government grant | (2,900) | |
| Unrecognised deductible timing differences (b) | 59,541 | 64,453 |
| Income tax expense | 4,327 | - |

(a) The tax rate used for the 2014 and 2013 reconciliations above is the corporate tax rate of 25% payable by Chinese corporate entities on taxable profits under Chinese tax law and regulations. However the consolidated entity enjoys the following tax benefits:
(i) The income tax rate for Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd. is 15%, since it met the definition of low-income entity in 2014 and can enjoy a low rate; and
(ii) According to Chinese tax regulations, the sales of vegetables and agriculture products is exempted from income tax. Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd. has obtained the tax exemption certificate for the sales of agriculture products and vegetables for year 2014 and year 2013.

(b) Based on the available objective evidence, including the consolidated entity's history of losses and tax exemption, management believes it is more likely than not that the net deferred tax assets relating to taxable losses will not be realisable in the future. Accordingly, the consolidated entity did not recognise any deferred tax assets as at 31 December 2014 and 31 December 2013.

## Note 7. Current assets - cash and cash equivalents

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Cash on hand | 24,457 | 1,090 |
| Cash at bank | 11,267 | 73 |
| | 35,724 | 1,163 |

## Note 8. Current assets - trade and other receivables

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Trade receivables | 2,579,559 | 1,269,542 |
| Other receivables | | |
| Deposits | 993 | - |
| Loan due from shareholders (i) | 33,402 | - |
| | 34,395 | - |
| | 2,613,954 | 1,269,542 |

(i) As at 31 December 2014, the consolidated entity has a loan due from one of the consolidated entity's owners of $33,402, which was fully collected in 2015.

*Past due but not impaired*

As at 31 December 2014, no amounts (2013: nil) were overdue nor impaired. The ageing analysis of trade and other receivables is as follows:

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| 0-1 year | 2,613,954 | 1,269,542 |
| | 2,613,954 | 1,269,542 |

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

## Note 9. Prepayments

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Purchase of goods (i) | 1,141,622 | - |
| Prepaid transaction costs in relation to potential IPO | 26,350 | - |
| Prepaid financial advisory service fee | 131,435 | - |
| Deposits for equity investment (ii) | 3,488,772 | - |
| Others | 20,868 | 6,220 |
| | 4,809,047 | 6,220 |

(i) Prepayments include balances of RMB 5,746,115 equating to approximately $1,141,622 (2013: nil) for purchase of finished goods which had been fully received subsequent to the reporting date.

(ii) Prepayment of RMB 17,560,000 equating to approximately $3,488,772 (2013: nil) represents a deposit made to Qingzhou Jiajiafu Fruit and Vegetables Professional Cooperative, the associate entity, in relation to further acquisition of units in the investment (refer note 14 for more information). The transaction was completed subsequent to year end.

## Note 10. Current assets – inventories

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Raw materials - at cost | 492,420 | 219,619 |
| | 492,420 | 219,619 |

## Note 11. Biological assets

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Agriculture produce (Vegetables) – at fair value | 2,290,550 | 2,165,710 |
| | 2,290,550 | 2,165,710 |

(a) Reconciliation of changes in carrying amount of biological assets

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Opening balance at 1 January | 2,165,710 | 1,835,404 |
| Change in fair value | (274) | (97,310) |
| Increase due to purchases | 20,250,235 | 18,497,102 |
| Decrease due to harvests | (20,300,518) | (18,435,597) |
| Net exchange difference | 175,397 | 366,111 |
| Closing balance at 31 December | 2,290,550 | 2,165,710 |

(b) Measurement of Fair values

Fair value hierarchy
The fair value measurements for the consolidated entity's biological assets have been categorised as Level 2 fair value based on the inputs to the valuation technique used, which are directly or indirectly observable, since the consolidated entity uses market selling prices and observable cost data to develop their estimation of fair value.

(c) Risk management strategy related to biological activities
Regulatory and environmental risks
The consolidated entity is subject to laws and regulations in the various locations in which it operates. The consolidated entity has established environmental policies and procedures aimed at compliance with local environmental and other relevant law.

Supply and demand risk
The consolidated entity is exposed to risk arising from fluctuations in the price and sales volume of all its vegetables. Management performs regular industry trend analyses to project harvest volumes and pricing. Where possible, the consolidated entity manages this risk by aligning its harvest volume to market supply and demand.

Climate and other risks
The consolidated entity's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The consolidated entity has extensive processes in place aimed at monitoring and mitigating these risks, including protected techniques across most vegetables.

## Note 12. Non-current assets – property, plant and equipment

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Plant and equipment - at cost | 12,564,986 | 10,855,703 |
| Less: Accumulated depreciation | (2,005,361) | (1,005,431) |
| | 10,559,625 | 9,850,272 |

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | Buildings & Plant facilities $ | Green House $ | Office and Other Equipment $ | Leasehold improvement $ | Motor Vehicles $ | Construction in Progress $ | Total $ |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 607,023 | 5,435,717 | 5,637 | - | - | 89,571 | 6,137,948 |
| Additions | 1,797,295 | 767,879 | 62,098 | - | 25,913 | 103,370 | 2,756,555 |
| Disposals | (13,230) | - | - | - | - | - | (13,230) |
| Depreciation expense | (159,477) | (322,070) | (8,008) | - | (2,108) | - | (491,663) |
| Exchange differences | 284,158 | 1,139,265 | 6,525 | - | 2,372 | 28,342 | 1,460,662 |
| Balance at 31 December 2013 | 2,515,769 | 7,020,791 | 66,252 | - | 26,177 | 221,283 | 9,850,272 |
| Transfer | 271,652 | - | - | - | - | (271,652) | - |
| Additions | 181,593 | 401,248 | 26,253 | 66,712 | - | 54,091 | 729,897 |
| Depreciation expense | (407,526) | (401,138) | (13,071) | (6,678) | (2,977) | - | (831,390) |
| Exchange differences | 214,390 | 585,313 | 6,867 | 6,119 | 1,879 | (3,722) | 810,846 |
| Balance at 31 December 2014 | 2,775,878 | 7,606,214 | 86,301 | 66,153 | 25,079 | - | 10,559,625 |

Included in Buildings & Plant Facilities are buildings with a net carrying value of $249,141 as at 31 December 2014 (31 December 2013: nil) with pending legal title ownership to the consolidated entity. Refer note 3 for details on the basis of recognition.

**Note 13. Non-current assets – prepaid lease assets**

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Prepaid lease of buildings and fixture in Heguan Town - at cost | 743,898 | 440,493 |
| Less: Accumulated amortisation | (26,050) | (8,811) |
| | 717,848 | 431,682 |

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | Prepaid lease of buildings and fixture In Heguan Town $ |
|---|---|
| Balance at 1 January 2013 | - |
| Additions | 400,575 |
| Amortisation expense | (8,663) |
| Exchange differences | 39,770 |
| Balance at 31 December 2013 | 431,682 |
| Additions | 242,020 |
| Amortisation expense | (14,978) |
| Exchange differences | 59,124 |
| Balance at 31 December 2014 | 717,848 |

**Note 14. Non-current assets – Investment accounted for using the equity method**

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Investment – at cost | 1,792,620 | 1,650,498 |
| Share of the associate's comprehensive income | | |
| - Share of profit after income tax | 44,422 | - |
| - Share of other comprehensive income | 154,801 | - |
| | 1,991,843 | 1,650,498 |

Information relating to the associate is set out below.

| **Name of Company** | **Country of incorporation** | **Nature of relationship** | **Measurement method** | **Ownership interest 2014** | **Ownership interest 2013** |
|---|---|---|---|---|---|
| Qingzhou Jiajiafu Fruits and Vegetables Professional Cooperative ("The Cooperative") | People's Republic of China | Associate | Equity method | 24.96% | 24.96% |

The Cooperative serves as a distribution channel, organising the sales of fruits and vegetables among their members. This investment is a strategic plan for the sales of vegetables produced by the consolidated entity. The senior management, including Mr. Li, CEO of the consolidated entity, play a managerial role in the Cooperative. The senior management of the consolidated entity was nominated by the board of the Cooperative for the managerial role for the period of 3 years. Thus, the consolidated entity has a significant influence over the Cooperative but not control.

## Note 14. Non-current assets – Investments accounted for using the equity method (continued)

*Summarised financial information*

| | Cooperative | |
|---|---|---|
| | **31 December 2014 $** | **31 December 2013 $** |
| *Summarised statement of financial position* | | |
| Current assets | 8,669,399 | 4,682,614 |
| Non-current assets | 3,976,461 | 2,802,116 |
| Total assets | 12,645,860 | 7,484,730 |
| Current liabilities | 4,669,573 | 503,201 |
| Total liabilities | 4,669,573 | 503,201 |
| Net assets | 7,976,287 | 6,981,529 |

*Summarised statement of profit or loss and other comprehensive income*

| | Cooperative | |
|---|---|---|
| | **2014** $ | **December 2013** $ |
| Revenue | 4,952,918 | 266,456 |
| Expenses | (4,578,357) | (238,811) |
| Profit before income tax | 374,561 | 27,645 |
| Income tax expense | - | - |
| Profit after income tax | 374,561 | 27,645 |
| Other comprehensive income | 620,197 | 2,755 |
| Total comprehensive income | 994,758 | 30,400 |

According to the constitution of the Cooperative, its retained earnings shall be appropriated to its statutory reserve of up to 20% of the net profit for the year. 65% of the remaining unappropriated profit will be returned to the members of the Cooperative in proportion to the transaction amount between the Cooperative and its members during the year. The remaining 35% of the unappropriated profits can be distributed to the Cooperative's investors based on their interest into the Cooperative. In this case, the consolidated entity can share 11.98% of the Cooperative's net profit for the year. The Cooperative has not distributed any profit since the consolidated entity's initial investment.

The consolidated entity made its initial investment in the associate in late November 2013. Since the associate did not have a material operating income for December 2013, the consolidated entity did not recognise its share in the Cooperative's profit for 2013.

## Note 15. Non-current assets – Intangibles

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Goodwill – at cost | 2,384 | - |
| | 2,384 | - |

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| | Goodwill $ |
|---|---|
| Balance at 31 December 2013 | - |
| Additions through business combination (note 27) | 2,164 |
| Exchange difference | 220 |
| Closing balance at 31 December 2014 | 2,384 |

## Note 16. Current liabilities - trade and other payables

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Trade payables | 1,099,266 | 1,481,233 |
| Deferred revenue (i) | 19,172 | - |
| Other payables (ii) | 6,355,995 | 6,683,684 |
| | 7,474,433 | 8,164,917 |

(i) Deferred revenue related to a portion of assets-related government grants to be recognised into profit or loss in the next twelve months.

(ii) Information relating to other payables is set out below.

| | Note | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|---|
| Loan from external party | (a) | 102,180 | - |
| Loan from shareholders | (b) | 5,546,114 | 6,667,779 |
| Loan from individuals | (c) | 353,248 | - |
| Acquisition of long-term assets | (d) | 249,141 | |
| Accrued expenses | | 30,777 | - |
| Accrued payroll | | 11,338 | 2,635 |
| Others | | 63,197 | 13,270 |
| Total | | 6,355,995 | 6,683,684 |

(a) Relate to loans provided by an external party, unsecured and at call.
(b) Relate to loans provided by the CEO of the consolidated entity, Qingkai Li and other shareholders. The loans are interest free, unsecured and at call. Please refer to note 25.
(c) Relate to loans provided by employees and other individuals. The loans are interest free, unsecured and at call. The loans have been fully repaid in year 2015.
(d) Relate to amounts owing to a third party for acquisition of buildings during the financial year.

Refer to note 22 for further information on financial instruments.

## Note 17. Current liabilities - borrowings

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Bank Loan (i) | 695,370 | 550,166 |

Refer to Note 22 for further information on financial instruments.

(i) The bank loan was provided by Bank of Weifang. The loan bears a fixed interest rate of 10.2% per annum and has been repaid in full on 24 March 2015.

## Note 18. Non-current liabilities – deferred revenue

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Assets-related government grant (i) | 279,969 | - |

(i) Relates to amounts received from local government for the construction of farming facilities and green houses. The construction was completed and the relevant farming facilities and green houses were capitalised as property, plant and equipment during year 2014.

## Note 19. Equity – capital contribution

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Capital contribution – authorised and fully paid | 8,670,344 | 3,261,225 |

*Capital contribution*
Capital contribution entitles the investors to participate in dividends and the proceeds on the winding up of the Company in proportion to amounts paid by the investors.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

| **Details** | **Date** | **$** |
|---|---|---|
| Balance | 1 January 2013 | 759,682 |
| Capital injection | | 2,501,543 |
| Balance | 31 December 2013 | 3,261,225 |
| Capital injection | | 5,409,119 |
| Balance | 31 December 2014 | 8,670,344 |

*Capital management*
Management controls the capital of the consolidated entity in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the consolidated entity can fund its operations and continue as a going concern.

The consolidated entity's debt and capital include capital contribution and financial liabilities, supported by financial assets.

The consolidated entity is not subject to any externally imposed capital requirements.

## Note 19. Equity – capital contribution (continued)

*Capital management (continued)*
Management effectively manages the consolidated entity's capital by assessing the consolidated entity'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 owners and share or other equity instrument issues.

There have been no changes in the strategy adopted by management to control the capital of the consolidated entity since its establishment. This strategy is to ensure that the consolidated entity's gearing ratio remains lower than 20%. The gearing ratios for the years ended 31 December 2014 and 31 December 2013 are as follows:

| | | Consolidated | |
|---|---|---|---|
| | **Note** | **2014 $** | **2013 $** |
| Total borrowings | **17** | 695,370 | 550,166 |
| Less: cash and cash equivalent | **7** | 35,724 | 1,163 |
| Net debt | | 659,646 | 549,003 |
| Total equity | | 15,071,840 | 6,879,623 |
| Total capital | | 15,731,486 | 7,428,626 |
| Gearing ratio | | 5% | 8% |

## Note 20. Equity – reserves

*Movements in Reserve*
Movements in each class of reserve during the current and previous financial year are set out below:

| | Consolidated | |
|---|---|---|
| | **2014 $** | **2013 $** |
| **Foreign currency translation reserve** | | |
| Balance at 1 January | 832,732 | 12,087 |
| Foreign currency translation | 1,263,776 | 820,645 |
| Share of the associate's currency translation reserve | 154,801 | - |
| Balance at 31 December | 2,251,309 | 832,732 |
| **Share-based payment reserve** | | |
| Balance at 1 January | | |
| Share-based payments | 118,124 | - |
| Balance at 31 December | 118,124 | - |

*Foreign currency translation reserve*
The reserve is used to recognise exchange difference arising from translation of the financial statements of foreign operation to Australian dollars.

*Share-based payment reserve*
The share-based payment reserve relates to a share-based payment transaction which involved the ultimate holding company of the consolidated entity issuing its shares in compensation for the financial advisory service provided by an external party to the consolidated entity.

## Note 21. Equity – dividends

No dividend was declared or paid in the year ended 31 December 2014 (2013: nil).

## Note 22. Financial instruments

### *Financial risk management objectives*

The consolidated entity's principal financial instruments comprise trade and other receivables, trade and other payables, borrowings and cash and cash equivalent. The consolidated entity's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The overall financial risk management strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

The consolidated entity's risk management framework is supported by the Board and management. The Board is responsible for approving and reviewing the consolidated entity's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. Management is also responsible for identifying, monitoring and managing significant business risks faced by the consolidated entity and considering the effectiveness of its internal control system. Management reports to the Board.

### *Interest risk*
The consolidated entity is not exposed to any significant interest risk, since all borrowings held as at 31 December 2014 and 31 December 2013 were at fixed interest rate and loan due from shareholders and other external parties are interest free.

### *Credit risk*
Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| **Carrying value of financial assets** | | |
| Cash and cash equivalents | 35,724 | 1,163 |
| Trade and other receivables | 2,613,954 | 1,269,542 |
| | 2,649,678 | 1,270,705 |

Trade receivables are managed closely to ensure exposure to bad debts is minimised. The credit period is generally one to three months after the issuance of invoice. The receivables relate to a number of independent customers with no recent history of default.

### *Liquidity risk*
Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the management of the consolidated entity's short, medium and long-term funding and liquidity management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities. There were no changes in the consolidated entity's liquidity risk management policies from previous years.

**Note 22. Financial instruments (continued)**

*Remaining contractual maturities*
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities.

| **Consolidated - 2014** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| Trade and other payables | - | 7,424,484 | - | - | - | - |
| Interest-bearing loan | 10.20% | 695,370 | - | - | - | - |
| | | 8,119,854 | - | - | - | - |

| **Consolidated - 2013** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| Trade and other payables | - | 8,164,917 | - | - | - | - |
| Interest-bearing loan | 10.20% | 550,166 | - | - | - | - |
| | | 8,715,083 | - | - | - | - |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 23. Key management personnel disclosures

*Directors*
The following persons were key management personnel of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd. during the financial year:

| | |
|---|---|
| Qingkai Li | Director and Chief Executive Officer ("CEO") |
| Xiaozeng Zhou | Director |
| Da Li | Director |
| Lan Liu | Director and Chief Finance Officer ("CFO") |
| Fei Tian | Director and General Manager ("GM") |
| Huazhi Liu | Director |
| Meiqing Yuan | Director |
| Jing Yang | Director |

*Compensation*
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Short-term employee benefits | 47,420 | 30,552 |
| Post-employment benefits | 992 | 1,834 |
| | 48,412 | 32,386 |

## Note 24. Contingent liabilities

The consolidated entity has no contingent liabilities as at 31 December 2014 (2013: nil).

## Note 25. Related party transactions

*Parent entity*
Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 26.

*Associates*
Interests in an associate are set out in note 14.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 23.

*Transactions with related parties*
The following transactions occurred with related parties:

| | **Consolidated $ 2014** | **Consolidated $ 2013** |
|---|---|---|
| Payment for the use of trademark owned by an associate | 1,803 | 1,668 |
| Prepayments to acquire the additional interest in an associate | 3,488,772 | - |

## Note 25. Related party transactions (continued)

*Amount due to related parties*

| | Consolidated $ 2014 | Consolidated $ 2013 |
|---|---|---|
| Loans due to Mr. Qingkai Li (CEO) | 5,359,358 | 6,667,779 |
| Payables due to associate entity | 3,974 | 1,834 |

*Terms and conditions*
Loans from shareholders are unsecured, non-interest bearing and payable on call.

## Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 2:

| | | Ownership interest | |
|---|---|---|---|
| | Principal place of business / | 2014 | 2013 |
| **Name** | **Country of incorporation** | **%** | **%** |
| Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd. | People's Republic of China | 100 | - |
| Qingzhou Huifeng Green House Material Co., Ltd. | People's Republic of China | 100 | - |
| Qingzhou JiaJiaFu Agriculture Supermarket Co., Ltd. | People's Republic of China | 100 | - |

Qingzhou Huifeng Green House Material Co., Ltd. was acquired in August 2014. Please refer to note 27 for more information. Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd. and Qingzhou JiaJiaFu Agriculture Supermarket Co., Ltd. were newly set up in April 2014.

## Note 27. Business combination

On 1 August 2014 Qingzhou Jiajiafu Modern Agriculture Group Co., Ltd. acquired 100% of the issued capital of Qingzhou Huifeng Green House Material Co., Ltd. ("Hui Feng"), which provides construction services relating to agricultural green houses, for a total consideration of RMB 100,000 (equalling to $18,031). The acquisition of Hui Feng was part of a strategy to expand the customer base of the consolidated entity's into the agricultural green houses construction business.

Details of the net assets acquired, goodwill and purchase consideration are as follows:

| | Fair value $ |
|---|---|
| Cash and cash equivalents | 1,277 |
| Inventories | 2,429 |
| Property, plant and equipment | 12,162 |
| Net assets acquired | 15,868 |
| Goodwill | 2,384 |
| Exchange difference | (221) |
| Acquisition-date fair value of the total consideration transferred | 18,031 |
| Representing: | |
| Cash paid or payable to vendor | 18,031 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 18,031 |
| Less: cash and cash equivalents | (1,277) |
| Net cash used | 16,754 |

## Note 28. Reconciliation of profit after income tax to net cash (used in)/from operating activities

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| Profit after income tax expense for the year | 1,246,397 | 1,426,522 |
| Adjustments for: | | |
| Amortisation of assets-related government grants | (11,599) | - |
| Depreciation and amortisation | 846,368 | 499,676 |
| Share-based payments | 118,124 | - |
| Share of profit from associate | (44,422) | - |
| Change in fair value of biological assets | 274 | 97,310 |
| Recognised net loss on disposal of property, plant and equipment | - | 13,230 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (1,124,034) | 415,574 |
| (Increase)/decrease in prepayments | (1,192,064) | 7,327 |
| (Increase)/decrease in biological assets | 50,283 | (61,505) |
| (Increase) in inventories | (228,528) | (115,439) |
| (Increase) in other current assets | (7,457) | - |
| Increase/(decrease) in trade and other payables | (1,487,865) | (627,212) |
| Net cash (used in)/from operating activities | (1,834,523) | 1,655,483 |

## Note 29. Share-based payments

Jiajiafu Modern Agriculture Limited, the ultimate holding company in Australia of the consolidated entity, has issued shares on 19 April 2016 to Zhang Teng Bo Run Investment Ltd and Butterfly Wings 1501 Limited, the related parties of Eagle International, for financial advisory services provided by Eagle International, for the period from October 2014 to the expected listing date in the first quarter of 2017. According to the service agreement, shares issued equal to an estimated market value of RMB 4,367,601 (or approximately $ 932,622). The fair value of the services provided is based on the value of the services negotiated between the consolidated entity and Eagle International. The net impact on the consolidated entity's net profit after tax arising from this share-based payment transaction was $118,124 for the year ended 31 December 2014.

## Note 30. Events after the reporting period

On 1 July 2015, the Company sold its three subsidiaries, Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd., Qingzhou Huifeng Green House Material Co., Ltd. and Qingzhou JiaJiaFu Agriculture Supermarket Co., Ltd., to an external party for RMB 21,061,500 (equivalent to $ 4,444,892) which was due in September 2016. All cash consideration has been collected as at the date of this report.

No other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Note 31. Commitments

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 688,850 | 635,842 |
| One to five years | 3,444,252 | 3,179,211 |
| Over five years | 6,314,462 | 6,464,396 |
| | 10,447,564 | 10,279,449 |

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
***Directors' Declaration***
**For the year ended 31 December 2014 and 31 December 2013**

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Australian Accounting Standards and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- The attached financial statements and notes thereto, present fairly the consolidated entity's financial position as at 31 December 2014 and 31 December 2013, and its performance for the years then ended; and
- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors

Director
Qingkai Li
29 November 2016

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Australia

# INDEPENDENT AUDITOR'S REPORT

To the Directors of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.

## Report on the Financial Report

We have audited the accompanying financial report of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd, which comprises the statement of financial position as at 31 December 2014 and 31 December 2013, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the years then ended, notes comprising a summary of significant accounting policies and other explanatory information, and directors' declaration of the consolidated entity comprising the entity and the entities it controlled at the year's end or from time to time during the financial years.

### Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements 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 Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

### Basis for Qualified Opinion

The consolidated entity's inventories carried in the statement of financial position at 31 December 2013 and 31 December 2014 were $219,619 and $492,420 respectively. We were appointed as auditors of the company after the year ended 31 December 2014 and thus did not observe the counting of the physical inventories as at 31 December 2013 and 31 December 2014. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 31 December 2013 or 31 December 2014. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories. Since opening and closing inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the results for the year reported in the statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the statement of cash flows for the financial years ended 31 December 2013 and 31 December 2014.

**Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph:

(a) the financial report presents fairly, in all material respects, of the financial position of the consolidated entity as at 31 December 2014 and 31 December 2013, and its financial performance and its cash flows for the years then ended in accordance with Australian Accounting Standards; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

**Emphasis of Matter**

We draw attention to Note 3 and Note 12 to the financial statements, which describe the circumstances to support the consolidated entity's recognition of property, plant and equipment where legal title is pending. Our opinion is not modified in respect of this matter.

**Restriction on Distribution and Use**

The financial report is prepared for use by the directors of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd in connection with the disclosure of its financial information in a prospectus to be issued by Jiajiafu Modern Agriculture Limited. Jiajiafu Modern Agriculture Limited is the ultimate holding entity of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the directors of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd and should not be distributed to or used by parties other than Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd or its directors.

BDO East Coast Partnership

BDO

Wai AW
Partner

Melbourne, 29 November 2016

# Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.

## Financial Report

## Year ended 31 December 2015

## Contents

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Statement of profit or loss and other comprehensive income**
**For the Year ended 31 December 2015**

| | Note | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | 28,100,019 | 22,352,765 |
| Share of profits from interests in associate accounted for using the equity method | 14 | 65,254 | 44,422 |
| **Expenses** | | | |
| Costs of sales | | (25,020,223) | (20,497,323) |
| Administration expenses | | (1,426,516) | (358,732) |
| Sales expenses | | (547,640) | (313,932) |
| Other expenses | | (4,016) | (79) |
| Interest expenses | | (72,599) | (60,716) |
| **Profit before income tax expense** | | 1,094,279 | 1,166,405 |
| Income tax expense | 6 | - | - |
| **Profit for the year from continuing operations** | | 1,094,279 | 1,166,405 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 27 | 759,026 | 79,992 |
| **Profit for the year** | | 1,853,305 | 1,246,397 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | 21 | 843,395 | 1,263,776 |
| Share of the associate's other comprehensive income | 21 | 18,435 | 154,801 |
| Reclassified to profit for the year | 21 | (627,097) | - |
| Other comprehensive income for the year, net of tax | | 234,733 | 1,418,577 |
| **Total comprehensive income for the year** | | 2,088,038 | 2,664,974 |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Statement of financial position**
**As at 31 December 2015**

| | Note | Consolidated 31 December 2015 $ | Consolidated 31 December 2014 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 16,663 | 35,724 |
| Trade and other receivables | 8 | 8,189,405 | 2,613,954 |
| Prepayments | 9 | 384,433 | 4,809,047 |
| Inventories | 10 | 3,920 | 492,420 |
| Biological assets | 11 | 2,840,012 | 2,290,550 |
| Other current assets | | - | 8,217 |
| Total current assets | | 11,434,433 | 10,249,912 |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 11,767,878 | 10,559,625 |
| Prepaid lease assets | 13 | 465,493 | 717,848 |
| Investment accounted for using the equity method | 14 | 4,280,556 | 1,991,843 |
| Intangible assets | 15 | 55,642 | 2,384 |
| Total non-current assets | | 16,569,569 | 13,271,700 |
| **Total assets** | | 28,004,002 | 23,521,612 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 3,367,172 | 7,474,433 |
| Borrowings | 17 | 704,885 | 695,370 |
| Total current liabilities | | 4,072,057 | 8,169,803 |
| **Non-current Liabilities** | | | |
| Other payables | 18 | 419,933 | - |
| Deferred revenue | 19 | 277,030 | 279,969 |
| Total non-current liabilities | | 696,963 | 279,969 |
| **Total liabilities** | | 4,769,020 | 8,449,772 |
| **Net assets** | | 23,234,982 | 15,071,840 |
| **Equity** | | | |
| Contributed equity | 20 | 14,185,874 | 8,670,344 |
| Foreign currency translation reserve | 21 | 2,486,042 | 2,251,309 |
| Share-based payment reserve | 21 | 677,698 | 118,124 |
| Retained earnings | | 5,885,368 | 4,032,063 |
| **Total equity** | | 23,234,982 | 15,071,840 |

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Statement of changes in equity**
**For the Year ended 31 December 2015**

| **Consolidated** | **Contributed Equity $** | **Foreign Currency translation reserve $** | **Share-based payment reserve $** | **Retained earnings $** | **Total Equity $** |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | 8,670,344 | 2,251,309 | 118,124 | 4,032,063 | 15,071,840 |
| Profit for the year | - | - | - | 1,853,305 | 1,853,305 |
| Other comprehensive income for the year | - | 234,733 | - | - | 234,733 |
| Total comprehensive income for the year | - | 234,733 | - | 1,853,305 | 2,088,038 |
| Transactions with owners in their capacity as owners: | | | | | |
| *Capital contribution (note 20)* | 5,515,530 | - | - | - | 5,515,530 |
| Share-based payments (note 21,30) | - | - | 559,574 | - | 559,574 |
| Balance at 31 December 2015 | 14,185,874 | 2,486,042 | 677,698 | 5,885,368 | 23,234,982 |

| **Consolidated** | **Contributed Equity $** | **Foreign Currency translation reserve $** | **Share-based payment reserves $** | **Retained earnings $** | **Total Equity $** |
|---|---|---|---|---|---|
| Balance at 1 January 2014 | 3,261,225 | 832,732 | - | 2,785,666 | 6,879,623 |
| Profit for the year | - | - | - | 1,246,397 | 1,246,397 |
| Other comprehensive income for the year | - | 1,418,577 | - | - | 1,418,577 |
| Total comprehensive income for the year | - | 1,418,577 | - | 1,246,397 | 2,664,974 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Capital contribution (note 20) | 5,409,119 | - | - | - | 5,409,119 |
| Share-based payments (note 21,30) | - | - | 118,124 | - | 118,124 |
| Balance at 31 December 2014 | 8,670,344 | 2,251,309 | 118,124 | 4,032,063 | 15,071,840 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Statement of cash flows**
**For the Year ended 31 December 2015**

| | Note | Consolidated 2015 $ | 2014 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of sales taxes) | | 29,936,967 | 22,809,720 |
| Payments to suppliers (inclusive of input taxes) | | (31,759,715) | (24,579,200) |
| Interest paid | | (54,498) | (60,716) |
| Income tax paid | | - | (4,327) |
| Net cash used in operating activities | 29 | (1,877,246) | (1,834,523) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (3,375,838) | (208,559) |
| Prepayments for leased assets | | - | (242,020) |
| Net cash paid on a business combination | | - | (16,754) |
| Loans to associate entity | | (181,716) | - |
| Payments for intangibles | | (59,789) | - |
| Payments for equity accounted investments | | - | (3,166,137) |
| Cash disposed due to the sales of subsidiaries | 28 | (8,216) | - |
| Net cash used in investing activities | | (3,625,559) | (3,633,470) |
| **Cash flows from financing activities** | | | |
| Proceeds from capital contribution | | 5,515,530 | 5,409,119 |
| Proceeds from borrowings | | 713,197 | 631,063 |
| Repayments of borrowings | | (747,362) | (540,912) |
| Net cash generated from financing activities | | 5,481,365 | 5,499,270 |
| Net (decrease)/increase in cash and cash equivalents | | (21,440) | 31,277 |
| Cash and cash equivalents at the beginning of the financial year | | 35,724 | 1,163 |
| Effects of exchange rate changes on cash and cash equivalents | | 2,379 | 3,284 |
| Cash and cash equivalents at the end of the financial year | 7 | 16,663 | 35,724 |

*The above statement of financial position should be read in conjunction with the accompanying notes*

## Note 1. Corporate information

The consolidated financial statements of Qingzhou JiaJiaFu Modern Agriculture Group Co. Ltd ("the Company") and its subsidiaries for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors as at the date of this report. The subsidiaries are Qingzhou JiaJiaFu Outsourcing Services Co., Ltd. until 31 December 2015 and Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd., Qingzhou Huifeng Green House Material Co., Ltd. and Qingzhou JiaJiaFu Agriculture Supermarket Co., Ltd until 1 July 2015, the date on which the Company lost control of these three subsidiaries. The Company and its subsidiaries together are referred to in these financial statements as the consolidated entity. All entities within the consolidated entity were incorporated in the People's Republic of China.

The principal activity of the consolidated entity during the year include:
-growing and sales of agricultural produce (i.e. vegetables);
-sourcing of agriculture products; and
-provision of construction of greenhouses services

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**New, revised or amending Accounting Standards and Interpretations adopted**
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**Basis of preparation**
This financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'). These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The consolidated entity is a for-profit entity.

*Historical cost convention*
The financial statements have been prepared under the historical cost convention, except for biological assets, which are measured at fair value at each balance date.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

**Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2015 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Foreign currency translation**
The financial statements are presented in Australian dollars. The functional currency of the consolidated entity is Chinese Yuan Renminbi ("RMB").

*Foreign currency transactions*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**Revenue recognition**
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Sale of goods*
Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

**Revenue recognition (continued)**

*Rendering of services*

Rendering of services revenue from construction of greenhouses is recognised by reference to the stage of completion of the contracts.

*Interest*

Interest is recognised as revenue using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

**Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables.

Other receivables are recognised at amortised cost, less any provision for impairment.

### Biological assets

Biological assets comprise vegetables that are to be harvested. The biological assets start with preparation of land for planting seedlings and end with the harvesting of crops in the form of mature vegetables. Thereafter, mature vegetables are directly sold to the market located nearby. Consistent with this process, the fair value of vegetables is determined using the market approach by reference to the active market price, estimated agriculture produce and reasonable costs to sell. The active market price is based on the average historical selling price. The estimated agriculture produce used to derive the fair value is derived by the yield subsequent to the balance date. And the costs to sell include the incremental selling costs, mainly including sales rebates and other promotion expenses.

Changes in fair value of vegetables are recognised in cost of sales. Farming costs, such as farmland rental, labour costs fertilisers and pesticides, and appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity are capitalised as part of biological assets.

### Inventories

Raw materials are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs.

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

### Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

| | |
|---|---|
| Buildings and plant facilities | 5-50 years |
| Green house | 5-20 years |
| Leasehold improvement | Over the lease term |
| Office and other equipment | 3-10 years |
| Motor vehicles | 8-10 years |

**Property, plant and equipment (continued)**

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**Intangible assets**
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The method and useful lives of finite life intangible assets are reviewed annually.

*Goodwill*
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

*Intellectual property*
Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being the remaining term of the licence.

**Prepaid lease assets**
*Prepaid rental of buildings*
The consolidated entity prepaid rental to lease a building located in Heguan Town, a village in China. The prepaid rental are amortised using the straight-line method over the lease term, which is 50 years according to the lease contract.

**Impairment of non-financial assets**
Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Trade and other payables**
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

**Finance costs**
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

**Employee benefits**

*Short-term employee benefits*
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

**Employee benefits (continued)**

*Defined contribution superannuation expense*
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**Government grant**
Grants from the government are recognised at fair value where there is a reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

**Fair value measurement**
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**Share-based payments**
The consolidated entity receives services from external parties for considerations that are paid for by equity instruments issued by the consolidated entity.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair value of service received is recognised as an expense when incurred, with a corresponding credit to share-based payment reserve in the consolidated entity's accounts.

**Capital equity**
Contributed equity relates to capital contribution from investors.

**Operating leases**
The consolidated entity leases farmland to plant and cultivate vegetables. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are capitalised as the historical cost of biological assets 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 lease term.

Capitalised rental expenses on operating leases for the year ended 31 December 2015 and 31 December 2014 are $ 735,086 and $ 625,147 respectively.

**Chinese Value Added Tax ("VAT") and Business Tax (“BT”)**
According to Chinese tax regulations, agriculture products are exempted from VAT. Since all goods sold by the consolidated entity are agriculture products, the sales of goods of the consolidated entity are not subject to VAT.

Construction service revenue is subject to BT. Revenues are recognised including the amount of BT and BT is recognised as expense. The amount of BT incurred is not recoverable from the local tax office. In these circumstances, BT is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the financial year ended 31 December 2015. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 15 Revenue from Contracts with Customers*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 16 Leases*
This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2019. The standard eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Estimation of useful lives of assets*
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life prepaid lease assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold are written off or written down.

*Provision for impairment of receivables*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors' financial position.

*Fair value of biological assets*
The fair value of biological assets is determined by using valuation techniques. The valuation expert employed by the consolidated entity uses management's judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The consolidated entity has used market approach and adjusted cash flow analysis for immature vegetable.

*Recognition of buildings with pending legal title ownership*
The consolidated entity has recognised buildings with pending legal title ownership as property, plant and equipment. The recognition is on the basis that the consolidated entity has entered into legally binding sales and purchase contracts for these buildings thus having the rights to the use of these assets as well as the consolidated entity's current use of these assets to generate future economic benefits, and the expectation of the consolidated entity receiving the legal title ownership from the relevant authority within a 6 to 12 month period from the date of this financial report.

## Note 4. Revenue

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| *Sales revenue* | | |
| Sales of goods | 28,047,383 | 22,245,063 |
| | 28,047,383 | 22,245,063 |
| *Other revenue* | | |
| Government grants | 52,636 | 107,702 |
| | 52,636 | 107,702 |
| Total revenue | 28,100,019 | 22,352,765 |

## Note 5. Expenses

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Profit before income tax includes the following specific expenses: | | |
| Depreciation and amortisation | 71,678 | 37,629 |
| Employee benefits expense | 578,517 | 357,807 |
| Interest expenses | 72,599 | 60,716 |
| Audit fee | 100,627 | - |
| Travelling expenses | 83,599 | 43,102 |
| Professional service fee in relation to potential IPO (inclusive of share-based payments) | 995,024 | 155,235 |
| Promotion expenses | 45,151 | 14,382 |

## Note 6. Income tax expense

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| *Income tax expense* | | |
| Current tax | - | - |
| Aggregate income tax expense | - | - |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense from continuing operation | 1,094,279 | 1,166,405 |
| Less: Tax-free income (ii) | (3,015,569) | (1,942,468) |
| Tax loss at the statutory tax rate of 25% (2014: 25%) (i) | (480,322) | (194,016) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible entertainment expenses | - | 747 |
| Non-deductable accrued expenses | 124,651 | 5,746 |
| Capitalised government grant | - | 130,883 |
| Amortisation of capitalised government grant | (19,390) | (2,900) |
| Unrecognised deductible temporary differences (iii) | 375,061 | 59,540 |
| Income tax expense | - | - |

(i) The tax rate used for the 2015 and 2014 reconciliations above is the corporate tax rate of 25% payable by Chinese corporate entities on taxable profits under Chinese tax law and regulations.

(ii) According to Chinese tax regulations, the sales of vegetables and agriculture products are exempted from income tax. The Company has obtained the tax exemption certificate for the sales of agriculture products and vegetables for year 2015 and year 2014.

(iii) Based on the available objective evidence, including the consolidated entity's history of taxable losses from tax exemption, management believes it is more likely than not that the net deferred tax assets position of the consolidated entity will not be realisable in the future. Accordingly, the consolidated entity did not recognise any deferred tax assets as at 31 December 2015 and 31 December 2014.

## Note 7. Current assets - cash and cash equivalents

| | Consolidated 2015 $ | 2014 $ |
|---|---|---|
| Cash on hand | 15,873 | 24,457 |
| Cash at bank | 790 | 11,267 |
| | 16,663 | 35,724 |

## Note 8. Current assets - trade and other receivables

| | Consolidated 2015 $ | 2014 $ |
|---|---|---|
| Trade receivables | 1,331,493 | 2,579,559 |
| Other receivables | | |
| Deposits (i) | 2,185,145 | 993 |
| Loan due from shareholders | - | 33,402 |
| Receivables from disposal of subsidiaries (note 27, 28) | 4,444,892 | - |
| Loan due from associate entity (note 25) | 179,598 | - |
| Others | 48,277 | - |
| | 6,857,912 | 34,395 |
| | 8,189,405 | 2,613,954 |

(i) In 2015, the consolidated entity paid RMB 10,354,000 (equivalent to $2,185,145) as deposits to acquire land use rights and buildings located in Donggao Town Qingzhou, China. However, in June 2016, due to ownership issues, the consolidated entity cancelled the contract with its vendor. As at the date of this report, the consolidated entity has collected all deposits made.

*Past due but not impaired*

As at 31 December 2015, no amounts (2014: nil) were overdue nor impaired. The ageing analysis of trade and other receivables is as follows:

| | Consolidated 2015 $ | 2014 $ |
|---|---|---|
| 0 - 3 months | 3,744,513 | 2,613,954 |
| 3 - 6 months | 4,444,892 | - |
| | 8,189,405 | 2,613,954 |

## Note 9. Current assets - Prepayments

| | Consolidated 2015 $ | 2014 $ |
|---|---|---|
| Purchase of goods | - | 1,141,622 |
| Prepaid transaction costs in relation to potential IPO | 187,869 | 26,350 |
| Prepaid financial advisory service fee | 180,014 | 131,435 |
| Deposits for equity investment | - | 3,488,772 |
| Others | 16,550 | 20,868 |

| | | |
|---|---|---|
| | 384,433 | 4,809,047 |

## Note 10. Current assets – inventories

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Raw materials - at cost | 3,920 | 492,420 |
| | 3,920 | 492,420 |

## Note 11. Current assets - biological assets

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Agricultural produce (Vegetables) – at fair value | 2,840,012 | 2,290,550 |
| | 2,840,012 | 2,290,550 |

(a) Reconciliation of changes in carrying amount of biological assets

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Opening balance at 1 January | 2,290,550 | 2,165,710 |
| Change in fair value | 253,627 | (274) |
| Increase due to purchases | 24,058,109 | 20,250,235 |
| Decrease due to harvests | (23,332,841) | (20,300,518) |
| Net exchange difference | (429,433) | 175,397 |
| Closing balance at 31 December | 2,840,012 | 2,290,550 |

(b) Measurement of Fair values

Fair value hierarchy
The fair value measurements for the consolidated entity's biological assets have been categorised as Level 2 fair value based on the inputs to the valuation technique used, which are directly or indirectly observable, since the consolidated entity uses market selling prices and observable cost data to develop their estimation of fair value.

.
(c) Risk management strategy related to biological activities

Regulatory and environmental risks
The consolidated entity is subject to law and regulations in the various locations in which it operates. The consolidated entity has established environmental policies and procedures aimed at compliance with local environmental and other relevant law.

Supply and demand risk
The consolidated entity is exposed to risks arising from fluctuations in the price and sales volume of all its vegetables. Management performs regular industry trend analyses to project harvest volumes and pricing. Where possible, the consolidated entity manages this risk by aligning its harvest volume to market supply and demand.

Climate and other risks
The consolidated entity's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The consolidated entity has extensive processes in place aimed at monitoring and mitigating these risks, including protected cropping techniques across most crops.

## Note 12. Non-current assets - property, plant and equipment

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Plant and equipment - at cost | 14,906,465 | 12,564,986 |
| Less: Accumulated depreciation | (3,138,587) | (2,005,361) |
| | 11,767,878 | 10,559,625 |

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | Buildings & Plant facilities $ | Green House $ | Office and Other Equipment $ | Leasehold improvement $ | Motor Vehicles $ | Construction in Progress $ | Total $ |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | 2,515,769 | 7,020,791 | 66,252 | - | 26,177 | 221,283 | 9,850,272 |
| Transfers | 271,652 | - | - | - | - | (271,652) | - |
| Additions | 181,593 | 401,248 | 26,253 | 66,712 | - | 54,091 | 729,897 |
| Depreciation expense | (407,526) | (401,138) | (13,071) | (6,678) | (2,977) | - | (831,390) |
| Exchange differences | 214,390 | 585,313 | 6,867 | 6,119 | 1,879 | (3,722) | 810,846 |
| Balance at 31 December 2014 | 2,775,878 | 7,606,214 | 86,301 | 66,153 | 25,079 | - | 10,559,625 |
| Additions | 1,336,431 | - | 75,938 | 42,706 | 284,341 | - | 1,739,416 |
| Disposals | (7,192) | - | (26,876) | (105,189) | - | - | (139,257) |
| Depreciation expense | (515,100) | (481,645) | (18,390) | (8,616) | (18,923) | - | (1,042,674) |
| Exchange differences | 163,292 | 479,047 | 5,015 | 4,946 | (1,532) | - | 650,768 |
| Balance at 31 December 2015 | 3,753,309 | 7,603,616 | 121,988 | - | 288,965 | - | 11,767,878 |

Included in Buildings & Plant Facilities are buildings with a net carrying value of $1,734,203 as at 31 December 2015 and $249,141 as at 31 December 2014 with pending legal title ownership to the consolidated entity. Refer note 3 for details on the basis of recognition.

### Note 13. Non-current assets – prepaid lease assets

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Prepaid lease of buildings and fixtures in Heguan Town - at cost | 506,919 | 743,898 |
| Less: accumulated amortisation | (41,426) | (26,050) |
| | 465,493 | 717,848 |

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | **2015** $ | **2014** $ |
|---|---|---|
| Balance at 1 January | 717,848 | 431,682 |
| Additions | - | 242,020 |
| Disposal | (281,845) | - |
| Amortisation expense | (18,694) | (14,978) |
| Exchange differences | 48,184 | 59,124 |
| Balance at 31 December | 465,493 | 717,848 |

### Note 14. Non-Current assets – Investments accounted for using the equity method

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Investments – at cost | 3,990,831 | 1,792,620 |
| Share of the associate's comprehensive income | | |
| - Share of profit after income tax | 116,489 | 44,422 |
| - Share of other comprehensive income | 173,236 | 154,801 |
| | 4,280,556 | 1,991,843 |

## Note 14. Non-Current assets – Investments accounted for using the equity method (continued)

*Reconciliations*
Reconciliations of the carrying values of the investment at the beginning and end of the current and previous financial year are set out below:

| | 2015 $ | 2014 $ |
|---|---|---|
| Balance at 1 January | 1,991,843 | 1,650,498 |
| Investment made during the year | 3,749,621 | - |
| Investment disposed during the year | (1,633,519) | - |
| Share of profit after income tax | 65,254 | 44,422 |
| Share of other comprehensive income | 18,435 | 154,801 |
| Exchange differences | 88,922 | 142,122 |
| Balance at 31 December | 4,280,556 | 1,991,843 |

Information relating to the associate entity is set out below.

| Name of Company | Country of incorporation | Nature of relationship | Measurement method | Ownership interest (i) | |
|---|---|---|---|---|---|
| | | | | 2015 | 2014 |
| Qingzhou Jiajiafu Fruits and Vegetables Professional Cooperative ("The Cooperative") | People's Republic of China | Associate | Equity method | 11.33% | 24.96% |

(i) Three subsidiaries classified as discontinued operations obtained interest of 4.58% into the Cooperative in late May 2015. Their interests into the Cooperative were transferred to the acquirer of these subsidiaries on 1 July 2015 as part of the sales of the discontinued operations. Refer to note 27 for the disclosures on discontinued operations.

The Cooperative serves as a distribution channel, organising the sales of fruits and vegetables among their members. This investment is a strategic plan for the sales of vegetables produced by the consolidated entity. The senior management, including Mr. Li, CEO of the consolidated entity, play a managerial role in the Cooperative. The senior management of the consolidated entity was nominated by the board of the Cooperative for the managerial role for the period of 3 years. Thus, the consolidated entity has a significant influence over the Cooperative but not control.

## Note 14. Non-Current assets – Investments accounted for using the equity method (continued)

Summarised financial information

| | The Cooperative | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| *Summarised statement of financial position* | | |
| Current assets | 11,939,891 | 8,669,399 |
| Non-current assets | 25,979,200 | 3,976,461 |
| Total assets | 37,919,091 | 12,645,860 |
| Current liabilities | 1,142,284 | 4,669,573 |
| Total liabilities | 1,142,284 | 4,669,573 |
| Net assets | 36,776,807 | 7,976,287 |

| | The Cooperative | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Summarised statement of profit or loss and other comprehensive income | | |
| Revenue | 9,599,178 | 4,952,918 |
| Expenses | (8,906,100) | (4,578,357) |
| Profit before income tax | 693,078 | 374,561 |
| Profit after income tax | 693,078 | 374,561 |
| Other comprehensive income | 162,729 | 620,197 |
| Total comprehensive income | 855,807 | 994,758 |

According to the constitution of the Cooperative, its retained earnings shall be appropriated to its statutory reserve of up to 20% of the net profit for the year. 65% of the remaining unappropriated profit will be returned to the members of The Cooperative in proportion to the transaction amount between The Cooperative and its members during the year. The remaining 35% of the unappropriated profits can be distributed to The Cooperative's investors based on their interest into The Cooperative. In this case, the consolidated entity can share 5.44% of the Cooperative's net profit for the year 2015 (i.e. 11.98% for the year 2014). The Cooperative has not declared any profit distribution during the year ended 31 December 2015 and 31 December 2014.

## Note 15. Non-current assets – intangibles

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Goodwill – at cost | - | 2,384 |
| Intellectual property - at cost (i) | 59,092 | - |
| Less: Accumulated amortisation | (3,450) | - |
| | 55,642 | - |
| | 55,642 | 2,384 |

(i) The intellectual property relates to a technology know-how purchased from an external party. The consolidated entity has obtained the relevant licence which expires in October 2026.

## Note 15. Non-current assets – intangibles (continued)

*Reconciliations*
Reconciliations of the written down value at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | Goodwill $ | Intellectual property $ | Total $ |
|---|---|---|---|
| Balance at 1 January 2014 | - | - | - |
| Additions through business acquisition | 2,164 | - | 2,164 |
| Exchange differences | 220 | - | 220 |
| Balance at 31 December 2014 | 2,384 | - | 2,384 |
| Additions | - | 59,789 | 59,789 |
| Amortisation expense | | (3,491) | (3,491) |
| Disposal | (2,533) | - | (2,533) |
| Exchange differences | 149 | (656) | (507) |
| Balance at 31 December 2015 | - | 55,642 | 55,642 |

## Note 16. Current liabilities - trade and other payables

| | **Consolidated** | |
|---|---|---|
| | **2015 $** | **2014 $** |
| Trade payables | 380,478 | 1,099,266 |
| Deferred revenue (i) | 20,366 | 19,172 |
| Other payables (ii) | 2,966,328 | 6,355,995 |
| | 3,367,172 | 7,474,433 |

(i) This is in relation to the portion of asset-related government grants that are to be recognised in the statement of profit or loss over the next twelve months.

(ii) Information relating to other payables is set out below.

| | | **Consolidated** | |
|---|---|---|---|
| | | **2015 $** | **2014 $** |
| Loan from external party | | - | 102,180 |
| Loan from shareholders | (a) | 1,974,260 | 5,546,114 |
| Loan from individuals | (d) | - | 353,248 |
| Accrued expenses | (b) | 399,821 | 30,777 |
| Acquisition of long-term assets | (c) | 430,398 | 249,141 |
| Accrued payroll | | 8,836 | 11,338 |
| Others | | 153,013 | 63,197 |
| Total | | 2,966,328 | 6,355,995 |

(a) Loan from shareholders as at 31 December 2015 related to loans provided by the CEO of the consolidated entity. The loans are interest free, unsecured and at call. Refer to note 25 for details.
(b) Mainly related to accrued professional service fee as part of initial public offering (“IPO”).
(c) Relate to amounts owing to a third party for acquisition of buildings during the period. The amounts are due in September 2016 and have been paid as at the date of this report.
(d) Relate to loan provided by employees and other individuals. The loans are interest free, unsecured and at call. The loans have been fully repaid in year 2015.

Refer to note 23 for further information on financial instruments.

## Note 17. Current liabilities - borrowings

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Bank of Weifang (i) | 422,087 | 695,370 |
| BOC Fudeng Village Bank (ii) | 282,798 | - |
| | 704,885 | 695,370 |

Refer to Note 23 for further information on financial instruments.

(i) The unsecured loan from Bank of Weifang of RMB 2 million (equivalent to $422,087) matures on 19 April 2016 with a fixed interest rate of 9% per annum. This loan has been fully repaid as at the date of this report.

(ii) Bank facilities from BOC Fudeng Village Bank of RMB 1.34 million (equivalent to $282,798) matures on 15 July 2016 with a fixed interest rate of 9% per annum. Seven individuals comprising four owners and three external individuals provided a loan guarantee to the consolidated entity. In addition, two other owners, Mr. Li, CEO and Director, and his wife, and two external individuals pledged their personal assets for this loan. The loan has been fully repaid subsequently by the date of this report.

## Note 18. Non-current liabilities – other payables

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Instalments for the purchase of office buildings (i) | 419,933 | - |

Refer to Note 23 for further information on financial instruments.

(i) The consolidated entity purchased during the period its current office building located in Fortune Plaza of Qingzhou, China. According to the purchase agreement, all purchase costs are to be settled in three instalments, which are due annually each September starting from September 2015. Subsequent to 31 December 2015, the consolidated entity has paid off all of these other payables as at the date of this report.

## Note 19. Non-current liabilities – deferred revenue

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Assets-related government grant | 277,030 | 279,969 |

(i) Relates to amounts received from the local government for the construction of farming facilities and greenhouses. The construction was completed and the relevant farming facilities and greenhouses were capitalised as property, plant and equipment during the year 2014.

## Note 20. Contributed equity – capital contribution

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Capital contribution – authorised and fully paid | 14,185,874 | 8,670,344 |

*Capital contribution*
Capital contribution entitles the investors to participate in dividends and the proceeds on the winding up of the Company in proportion to amounts paid by the investors.

**Note 20. Contributed equity – capital contribution (continued)**

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each dollar of investment shall have one vote.

*Reconciliation of movements in capital contribution*

| **Details** | **Date** | **$** |
|---|---|---|
| Balance | 1 January 2014 | 3,261,225 |
| Capital injection | | 5,409,119 |
| Balance | 31 December 2014 | 8,670,344 |
| Capital injection | | 5,515,530 |
| Balance | 31 December 2015 | 14,185,874 |

*Capital management*
Management controls the capital of the consolidated entity in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the consolidated entity can fund its operations and continue as a going concern.

The consolidated entity's debt and capital include capital contribution and financial liabilities, supported by financial assets.

The consolidated entity is not subject to any externally imposed capital requirements.

Management effectively manages the consolidated entity's capital by assessing the consolidated entity'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 owners and share or other equity instrument issues.

There have been no changes in the strategy adopted by management to control the capital of the consolidated entity since its establishment. This strategy is to ensure that the consolidated entity's gearing ratio remains lower than 20%. The gearing ratios for the years ended 31 December 2015 and 31 December 2014 are as follows:

| | | **Consolidated** | |
|---|---|---|---|
| | **Note** | **2014** | **2013** |
| | | **$** | **$** |
| Total borrowings | **17** | 704,885 | 695,370 |
| Less: cash and cash equivalent | **7** | 16,663 | 35,724 |
| Net debt | | 688,222 | 659,646 |
| Total equity | | 23,234,982 | 15,071,840 |
| Total capital | | 23,923,204 | 15,731,486 |
| Gearing ratio | | 3% | 5% |

## Note 21. Equity - reserves

*Movements in Reserve*
Movements in each class of reserve during the current and previous financial year are set out below:

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| **Foreign currency translation reserve** | | |
| Balance at 1 January | 2,251,309 | 832,732 |
| Foreign currency translation | 843,395 | 1,263,776 |
| Share of the associate's foreign currency translation reserve | 18,435 | 154,801 |
| Reclassified to profit or loss (note 28) | (627,097) | - |
| Balance at 31 December | 2,486,042 | 2,251,309 |
| **Share-based payment reserve** | | |
| Balance at 1 January | 118,124 | - |
| Share-based payments (note 30) | 559,574 | 118,124 |
| Balance at 31 December 2015 | 677,698 | 118,124 |

*Foreign currency translation reserve*
The reserve is used to recognise exchange difference arising from translation of the financial statements of foreign operations to Australian dollars.

*Share-based payment reserve*
The share-based payment reserve relates to a share-based payment transaction which involved the ultimate holding company of the consolidated entity issuing its shares in compensation for financial advisory service provided by an external party to the consolidated entity.

## Note 22. Equity – dividends

No dividend was declared or paid in the year ended 31 December 2015 (2014: nil).

## Note 23. Financial instruments

### *Financial risk management objectives*

The consolidated entity’s principal financial instruments comprise trade and other receivables, trade and other payables, borrowings and cash and cash equivalents. The consolidated entity's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The overall financial risk management strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

The consolidated entity’s risk management framework is supported by the Board and management. The Board is responsible for approving and reviewing the consolidated entity’s risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. Management is also responsible for identifying, monitoring and managing significant business risks faced by the consolidated entity and considering the effectiveness of its internal control system. Management reports to the Board.

### *Interest risk*

The consolidated entity is not exposed to any significant interest risk, since all borrowings held as at 31 December 2015 and 31 December 2014 were at fixed interest rate and loan due from shareholders and other external parties are interest free.

### *Credit risk*

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| **Carrying value of financial assets** | | |
| Cash and cash equivalents | 16,663 | 35,724 |
| Trade and other receivables | 8,189,405 | 2,613,954 |
| | 8,206,068 | 2,649,678 |

Trade receivables are managed closely to ensure exposure to bad debts is minimised. The credit period is generally one to three months after the issuance of invoice. The receivables relate to a number of independent customers with no recent history of default.

### *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the management of the consolidated entity’s short, medium and long-term funding and liquidity management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities. There were no changes in the consolidated entity’s liquidity risk management policies from previous years.

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities.

**Note 23. Financial instruments (continued)**

| **Consolidated – 31 December 2015** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| Trade and other payables | - | 2,946,985 | - | - | - | - |
| Interest-bearing loan | 9.00 | 704,885 | - | - | - | - |
| Other payables (non-current) | - | - | 419,933 | - | - | - |
| | | 3,651,870 | 419,933 | - | - | - |

| **Consolidated – 31 December 2014** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| Trade and other payables | - | 7,424,484 | - | - | - | - |
| Interest-bearing loan | 10.20 | 695,370 | - | - | - | - |
| | | 8,119,854 | - | - | - | - |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**Note 24. Key management personnel disclosures**

*Directors*
The following persons were key management personnel of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd. during the financial year:

| | |
|---|---|
| Qingkai Li | Director and Chief Executive Officer (“CEO”) |
| Xiaozeng Zhou | Director |
| Da Li | Director |
| Lan Liu | Director and Chief Finance Officer (“CFO”) |
| Fei Tian | Director and General Manager (“GM”) |
| Huazhi Liu | Director |
| Meiqing Yuan | Director |
| Jing Yang | Director |

*Compensation*
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | **Consolidated** | |
|---|---|---|
| | **2015 $** | **2014 $** |
| Short-term employee benefits | 60,985 | 47,420 |
| Post-employment benefits | 5,931 | 992 |
| | 66,916 | 48,412 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

## Note 25. Related party transactions

*Parent entity*
Qingzhou JiaJiaFu Modern Agriculture Group Co. Ltd is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 26.

*Associates*
Interests in an associate are set out in note 14.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 24.

*Other related party*
Ms. Zhihong Gao is the CEO's wife.

*Transactions with related parties*
The following transactions occurred with related parties:

| | Consolidated $ 2015 | Consolidated $ 2014 |
|---|---|---|
| Payment for the use of trademark owned by the associate | 2,135 | 1,803 |
| Prepayments to acquire the additional interest in the associate | - | 3,488,772 |

Mr. Qingkai Li, CEO and Director, and his wife, Ms. Zhihong Gao, pledged their own assets and provided a loan guarantee to BOC Fudeng Village Bank for loan facilities of RMB 1.34 million (equivalent to $282,798).

Ms. Zhihong Gao owns 35% interest of Qingzhou JiaJiaFu Outsourcing Service Co., Ltd., a new subsidiary of the Company.

In April 2016, the consolidated entity lent RMB 7,334,759 equivalent to $1,529,429 to the Cooperative, its associate. The loan matures on 31 December 2016 with a flat annual interest rate of 7.2%.

On 31 March 2016 and 30 April 2016, the consolidated entity lent RMB 8 million equivalent to $1,621,271 to Mr. Qingkai Li, CEO and director, which has been refunded on 1 April 2016 and 1 May 2016 respectively. The loan was interest-bearing with an annual interest rate of 6.6%.

*Amount due from/to related parties*
The following balances are outstanding loans provided by related parties at the reporting date:

| | Consolidated $ 31 December 2015 | Consolidated $ 31 December 2014 |
|---|---|---|
| Loans due to Mr. Qingkai Li ("CEO") (note 16) (ii) | 1,974,260 | 5,359,358 |
| Loans due from associate entity (i) (note 8) | 179,598 | - |
| Payables due to associate entity(ii) | 6,331 | 3,974 |

(i) Loans due from the associate entity as at 31 December 2015 have been fully collected from the associate in April 2016. They are unsecured, non-interest bearing and payable on call.

(ii) Loans and payables due to related parties as at 31 December 2015 and 31 December 2014 are unsecured, non-interest bearing and payable on call.

## Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 2:

| | | Ownership interest | |
|---|---|---|---|
| | **Principal place of business /** | **2015** | **2014** |
| **Name** | **Country of incorporation** | **%** | % |
| Qingzhou JiaJiaFu Outsourcing Service Co., Ltd. (i) | People's Republic of China | 65 | - |
| Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd.(ii) | People's Republic of China | - | 100 |
| Qingzhou Huifeng Green House Material Co., Ltd. (ii) | People's Republic of China | - | 100 |
| Qingzhou JiaJiaFu Agriculture Supermarket Co., Ltd. (ii) | People's Republic of China | - | 100 |

(i) The subsidiary was incorporated in the People's Republic of China in May 2015 which has no operations as at 31 December 2015.
(ii) These subsidiaries were disposed of during the year ended 31 December 2015. The details of these disposed operations are disclosed in note 27.

## Note 27. Discontinued operations

Description
On 1 July 2015 the consolidated entity sold Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd., Qingzhou Huifeng Green House Material Co. Ltd. and Qingzhou JiaJiaFu Agriculture Supermarket Co. Ltd., subsidiaries of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd., for cash consideration of RMB 21,061,500 equivalent to $ 4,444,892 resulting in a gain of disposal before income tax of $ 644,737.

The disposal of these three subsidiaries is a part of the consolidated entity's restructuring plan in order to optimise its current business process and to focus on its activities in production and wholesales of agriculture products. After selling the supermarkets, the consolidated entity still sells vegetables, fertilisers and pesticides, while lowering its inventory level.

The disposals were completed on 1 July 2015, on which date control of these three subsidiaries was passed to the acquirer. The cash consideration was due in September 2016. As at the date of this report, all cash consideration has been received by the consolidated entity.

The combined results of the discontinued operations (i.e. three subsidiaries) included in the profit for the year are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

Financial performance information

| | Consolidated | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Revenue | 1,795,115 | 1,677,257 |
| Cost of sales | (1,603,948) | (1,542,466) |
| Expenses | (61,303) | (50,472) |
| Profit before tax | 129,864 | 84,319 |
| Attributable income tax expense | (15,575) | (4,327) |
| Profit after income tax expense | 114,289 | 79,992 |
| Gain on disposal of operations including a cumulative exchange gain of $627,097 reclassified from foreign currency translation reserve to profit or loss (see note 28) | 644,737 | - |
| Attributable income tax expense | - | - |
| Gains on disposal after income tax expense | 644,737 | - |
| Profit after income tax expense from discontinued operations | 759,026 | 79,992 |

## Note 27. Discontinued operations (continued)

Cash flow information

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Net cash generated from/(used in) operating activities | 39,038 | (1,869,602) |
| Net cash used in investing activities | (42,707) | (1,726,359) |
| Net decrease in cash and cash equivalents from discontinued operations | (3,669) | (3,595,961) |

## Note 28. Disposal of subsidiaries

On 1 July 2015, the consolidated entity disposed of Qingzhou JiaJiaFu Fruit & Vegetable Supermarket Co., Ltd., Qingzhou Huifeng Green House Material Co. Ltd. and Qingzhou JiaJiaFu Agriculture Supermarket Co. Ltd.

Consideration

| | Consolidated 1 January 2015 to 30 June 2015 $ |
|---|---|
| Consideration in cash and cash equivalents | - |
| Deferred sales proceeds (note 8) | 4,444,892 |
| Total consideration | 4,444,892 |

Analysis of assets and liabilities over which control was lost

| | Consolidated 30 June 2015 $ |
|---|---|
| Cash and cash equivalent | 8,216 |
| Trade and other receivables | 2,368,162 |
| Prepayments | 473,844 |
| Inventories | 427,150 |
| Other current assets | 68 |
| Total current assets | 3,277,440 |
| Property, plant and equipment | 135,709 |
| Prepaid lease assets | 278,560 |
| Investment accounted for using the equity method | 1,614,483 |
| Intangible assets | 2,533 |
| Total non-current assets | 2,031,285 |
| Trade and other payables | 816,774 |
| Current tax payable | 64,495 |
| Total current liabilities | 881,269 |
| Net assets disposed of | 4,427,456 |

## Note 28. Disposal of subsidiaries (continued)

Gain on disposal of subsidiaries

| | Consolidated 2015 $ |
|---|---|
| Consideration receivable | 4,444,892 |
| Net assets disposed of | (4,427,456) |
| Cumulative exchange gain in respect of the net assets of the subsidiaries reclassified to gain on loss of control of subsidiaries | 627,097 |
| Exchange difference | 204 |
| Gain on disposal | 644,737 |

The gain on disposal is included in the profit for the year from discontinued operations (see note 27)

Net cash inflow/(outflow) on disposal of subsidiaries

| | Consolidated 2015 $ |
|---|---|
| Consideration received in cash and cash equivalents | - |
| Less: cash and cash equivalent balances disposed of | 8,216 |
| | (8,216) |

## Note 29. Reconciliation of profit after income tax to net cash used in operating activities

| | Consolidated | |
|---|---|---|
| | 2015 | 2014 |
| | $ | $ |
| Profit after income tax expense for the year | 1,853,305 | 1,246,397 |
| | | |
| Adjustments for: | | |
| Amortisation of assets-related government grants | (20,607) | (11,599) |
| Depreciation and amortisation | 1,066,807 | 846,368 |
| Share-based payments | 559,574 | 118,124 |
| Share of profit from associate | (65,254) | (44,422) |
| Changes in fair value of biological assets | (253,627) | 274 |
| Unwinding of discount of other non-current payables | 18,101 | - |
| Net gain on disposal of investments | (644,737) | - |
| | | |
| Change in operating assets and liabilities: | | |
| (Increase) in trade and other receivables | (982,730) | (1,124,034) |
| (Increase)/decrease in prepayments | 550,593 | (1,192,064) |
| (Increase)/decrease in biological assets | (158,063) | 50,283 |
| (Increase)/decrease in inventories | 93,084 | (228,528) |
| (Increase)/decrease in other current assets | 8,762 | (7,457) |
| (Decrease) in trade and other payables | (3,902,454) | (1,487,865) |
| | | |
| Net cash used in operating activities | (1,877,246) | (1,834,523) |

## Note 30. Share-based payments

Jiajiafu Modern Agriculture Limited, the ultimate holding company in Australia of the consolidated entity, has issued shares on 19 April 2016 to Zhang Teng Bo Run Investment Ltd and Butterfly Wings 1501 Limited, the related parties of Eagle International, for financial advisory services provided by Eagle International, for the period from October 2014 to the expected listing date in the first quarter of 2017. According to the service agreement, shares issued equal to an estimated market value of RMB 4,367,601 (or approximately $ 932,622). The fair value of the services provided is based on the value of the services negotiated between the consolidated entity and Eagle International. The net impact on the consolidated entity's net profit after tax arising from this share-based payment transaction was $559,574 for the year ended 31 December 2015.

## Note 31. Events after the reporting period

On 26 January 2016, the consolidated entity received a loan of RMB 20 million equivalent to $ 4,053,177 from Shanghai Pudong Development Bank ("SPDB") with an annual interest rate of 6.525%. The loan will mature on 26 January 2017. This loan is guaranteed by Mr. Li, the CEO and a director of the consolidated entity, personally and Qingzhou Hongyuan State-owned Assets Management Co., Ltd., a state-owned enterprise in China.

In March 2016, the consolidated entity's individual owners increased their investments and thereafter, the contributed equity increased to RMB 107,660,000 equivalent to $ 20,822,999 by the end of March 2016.

In April 2016, the consolidated entity has lent RMB 7,334,759 equivalent to $1,529,429 to the Cooperative, its associate. Please refer to note 25 for more information.

On 31 March 2016 and 30 April 2016, the consolidated entity lent RMB 8 million equivalent to $1,621,271 to Mr. Qingkai Li, CEO and Director, which has been refunded on 1 April 2016 and 1 May 2016 respectively. Please refer to note 25 for more information.

Other than the above, no other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Note 32 Contingencies

The consolidated entity has no contingent liabilities as at 31 December 2015 (2014: nil).

## Note 33. Commitments

*Lease commitments - operating*

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 2,789,401 | 688,850 |
| One to five years | 3,658,633 | 3,444,252 |
| Over five years | 5,975,767 | 6,314,462 |
| | 12,423,801 | 10,447,564 |

*Capital commitment*

On 3 February 2016, the consolidated entity entered into a contract with a vendor to purchase fertiliser of RMB 20 million equivalent to $4,220,869. Prepayment of RMB 20 million has been fully made on 27 January 2016. The fertilisers have all been consumed or sold as at the date of this report.

**Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd.**
**Directors' declaration**
**For the Year ended 31 December 2015**

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Australian Accounting Standards and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes thereto, present fairly the consolidated entity's financial position as at 31 December 2015, and its performance for the financial year then ended; and
- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors

Director
Qingkai Li
29 November 2016

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# INDEPENDENT AUDITOR'S REPORT

To the Directors of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd

## Report on the Financial Report

We have audited the accompanying financial report of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and directors' declaration of the consolidated entity comprising the entity and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements 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 Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

**Basis for Qualified Opinion**

We were appointed as auditors of the consolidated entity on 12 August 2015 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 31 December 2014. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the results for the year reported in the statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.

**Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph:

(a) the financial report presents fairly, in all material respects, the financial position of the consolidated entity as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

**Emphasis of Matter**

We draw attention to Note 3 and Note 12 to the financial statements, which describe the circumstances to support the consolidated entity’s recognition of property, plant and equipment where legal title is pending. Our opinion is not modified in respect of this matter.

**Restriction on Distribution and Use**

The financial report is prepared for use by the directors of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd in connection with the disclosure of its financial information in a prospectus to be issued by Jiajiafu Modern Agriculture Limited. Jiajiafu Modern Agriculture Limited is the ultimate holding entity of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the directors of Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd and should not be distributed to or used by parties other than Qingzhou JiaJiaFu Modern Agriculture Group Co., Ltd or its directors.

BDO East Coast Partnership

BDO

Wai AW
Partner

Melbourne, 29 November 2016