天津泰達生物醫學工程股份有限公司

Tianjin TEDA Biomedical Engineering Company Limited

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8189)

ANNUAL REPORT

2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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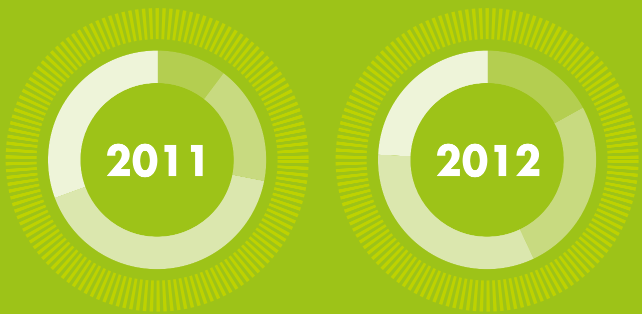
The information set out in this report, for which the directors of Tianjin TEDA Biomedical Engineering Company Limited collectively and individually accept full responsibility, is given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Tianjin TEDA Biomedical Engineering Company Limited. The directors of Tianjin TEDA Biomedical Engineering Company Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this report or any statement herein misleading.



HIGH GROWTH

+66.59%

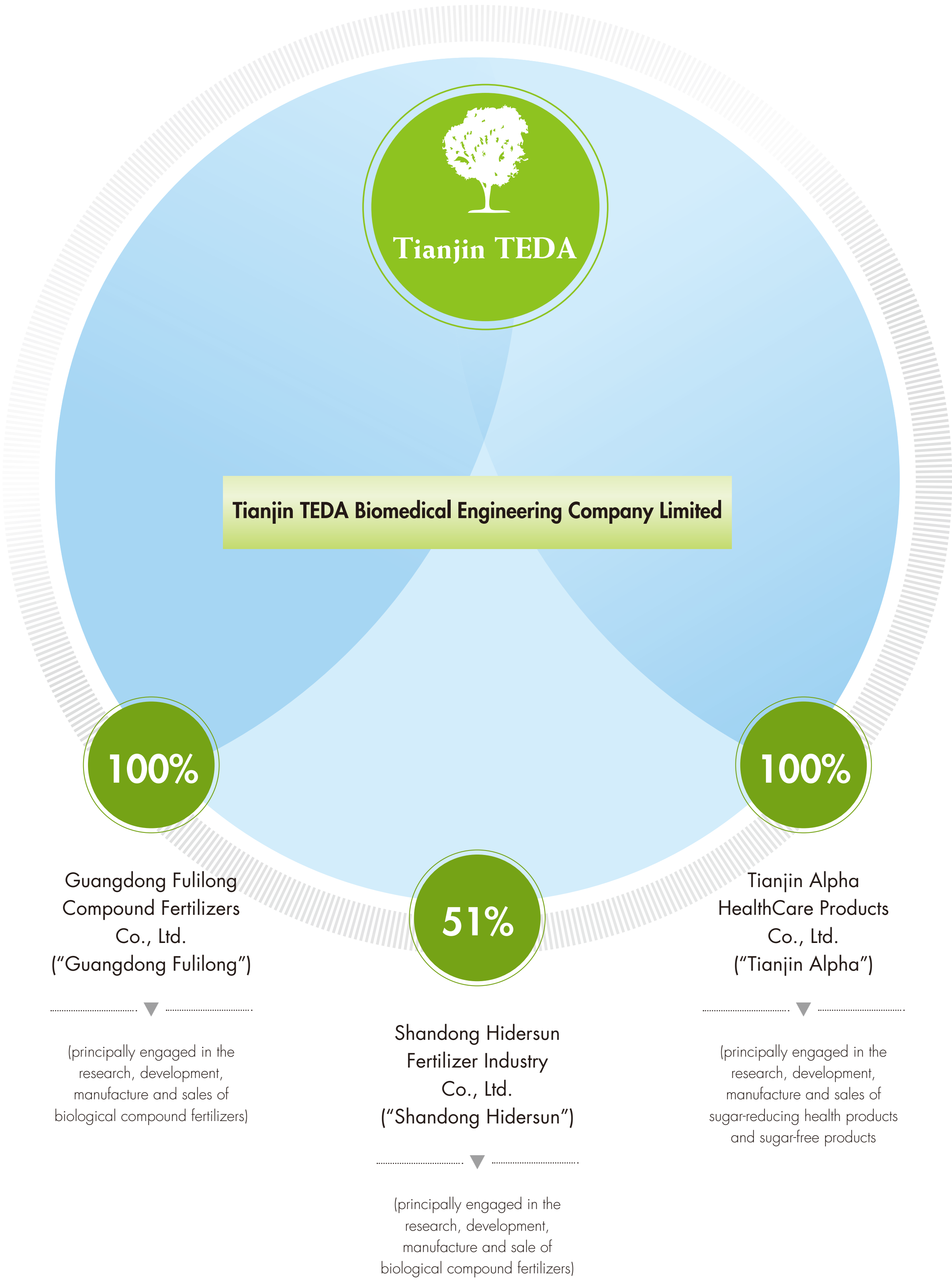
Content

Corporate Introduction

Tianjin TEDA Biomedical Engineering Company Limited ("TEDA Biomedical" or the "Company" and together with its subsidiaries, collectively the "Group") was incorporated on 8 September 2000 and listed on GEM of the Stock Exchange of Hong Kong on 18 June 2002 (Stock Code: HK08189), with a registered capital of RMB142,000,000. The Group is mainly engaged in two sectors: biological compound fertilizer products, including series of biological compound fertilizer products under the brand of "Fulilong" used for the promotion of balanced growth of grains and fruit and vegetables and health care products, including series of health care products under the brand of "Alpha", covering diabetic health care products with the function of regulating the blood sugar level and sugar-free products beneficial to the health of human body.

These two sectors that TEDA Biomedical is engaged in are the sunrise industries encouraged by the country which have a good prospect for development.

Group Structure



Corporate Information

Executive Directors
Mr. Wang Shuxin
Mr. Hao Zhihui
Mr. Zhang Chunsheng

Non-executive Directors
Mr. Feng Enqing
Mr. Xie Guangbei
Mr. Ou Linfeng

Independent non-executive Directors
Mr. Guan Tong
Mr. Wu Chen
Mr. Cao Kai (resigned on 21 March 2013)

Supervisors
Ms. Yang Chunyan
Ms. Liu Jinyu

Independent Supervisors
Mr. Gao Xianbiao
Mr. Zhao Kuiying

Company Secretary/Qualified Accountant
Mr. Ng Ka Kuen Raymond, CPA, FCIS

Compliance Officer
Mr. Wang Shuxin

Audit Committee
Mr. Guan Tong
Mr. Wu Chen
Mr. Cao Kai (resigned on 21 March 2013)

Remuneration Committee
Mr. Guan Tong
Mr. Xie Guangbei
Mr. Wu Chen

Nomination Committee
Mr. Wang Shuxin
Mr. Guan Tong
Mr. Wu Chen

Authorized Representatives
Mr. Wang Shuxin
Mr. Ng Ka Kuen Raymond

Registered Office
No. 12 Tai Hua Road, the 5th Avenue
TEDA Tianjin, PRC

Auditor
BDO Limited

Head Office and Principal Place of Business
9th Floor, Block A2
Tianda Hi-Tech Park
No. 80, the 4th Avenue
TEDA Tianjin, PRC

Hong Kong Representative Office
4/F., The Chinese Club Building,
Nos. 21–22 Connaught Road
Central, Hong Kong

Hong Kong Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Company Website
www.bioteda.com

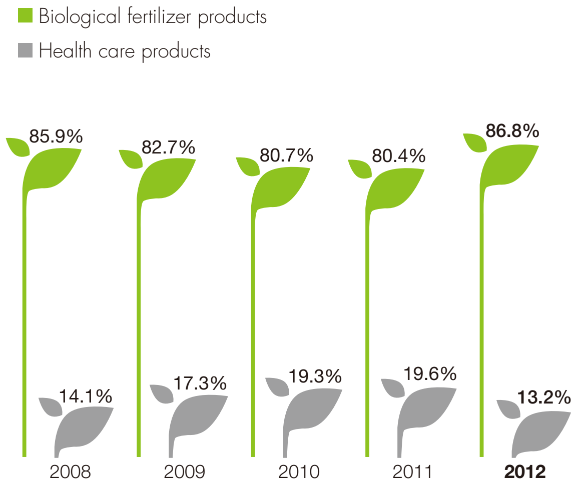
Stock Code
8189

Financial Highlights

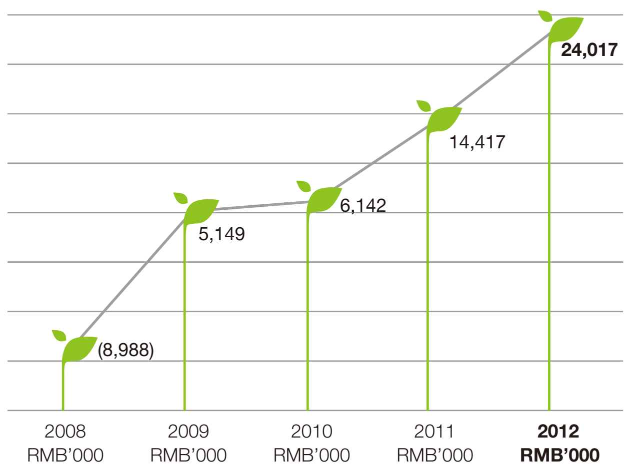
	For the year ended 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
Results					
Turnover	422,512	432,000	429,057	511,151	**677,640**
Gross profit	66,563	85,747	85,760	99,268	**136,336**
Gross margin	15.75%	19.85%	19.99%	19.42%	**20.12%**
Profit/(loss) attributable to the shareholders	(8,988)	5,149	6,142	14,417	**24,017**
Earnings/(loss) per share	(1.44) cents	0.46 cents	0.43 cents	1.02 cents	**1.69 cents**

	For the year ended 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
Assets & Liabilities					
Total assets	309,551	309,136	309,073	324,299	**421,976**
Total liabilities	224,996	150,432	142,376	145,888	**219,346**
Equity attributable to the shareholders	81,823	134,919	141,061	156,039	**180,056**

Turnover and breakdown



Profit/(loss) attributable to the Shareholders



Chairman's Statement

Dear shareholders,

TEDA Biomedical had a bumper harvest in the year of 2012. In despite of the slowdown of the economic growth and the general rise of the production and operation costs in China caused by the European debt crisis and the slowdown of the economic growth worldwide, TEDA Biomedical actively coped with the various challenges in the biological compound fertilizer industry and the health care products industry, took the initiative to solve the difficulties it encountered in the process of production and operation, and made great efforts to develop new competitive advantages, through which, it recorded a rapid growth in the operating results.

On behalf of the Board of TEDA Biomedical, I am pleased to present to you the annual report of the Company for the year ended 31 December 2012.

OPERATIONAL REVIEW

Biological compound fertilizer

During the period under review, Guangdong Fulilong, a wholly-owned subsidiary of the Group, cooperated with South China Agricultural University and successfully developed a new generation of high-end fertilizers with extremely strong competitive advantages represented by Zhilong active fertilizers, which were well received by the farmers due to their improved utilization rate and ability to protect the soil environment. Meanwhile, in terms of the marketing effort, the Group began to implement the foothold marketing model in the key regions nationwide with a view to fully exploiting the regional markets, exploring the market potentials of the sales territories and maximizing the sales volume, and achieved satisfactory results.

Health care products

With the rapid growth in the economy in China and the unceasing progress of the society, as well as the improvement of the living standards and the change of the spectrum of disease, public awareness on healthcare is gradually enhanced and their needs for health care products are constantly increased. During the period under review, Tianjin Alpha closely cooperated with Tianjin University of Science and Technology, and, by leveraging on their respective superior resources, they jointly underwent various cooperation projects and actively carried out the development of new health care products and the industrialization. The predominant product of Tianjin Alpha had been included in the "Little Giant" program carried out by Tianjin Municipal Government for the support of science and technology projects and was recognized as a "national new product" by five ministries in China.

FINANCIAL REVIEW

For the year ended 31 December 2012, the total turnover of the Group in the biological compound fertilizer segment and the health care products segment was RMB677,640,122, representing a year-on-year increase of 32.57%, and the gross profit was RMB136,336,433, representing a year-on-year increase of 37.34%. The profit attributable to the owners of the Company was RMB24,017,317, representing a year-on-year increase of 66.59%. During the period under review, the Group strengthened its budget management, and, through actively promoting the new generation of active fertilizers with a higher profit margin in the market, the overall profitability of the Company was remarkably improved.

OUTLOOK

TEDA Biomedical has always adhered to the rationale of development that is centered on green, ecology and energy conservation with its market-oriented approach, while persistently developing and providing products and services which are contributed to the improvement of the health of mankind and ecological agriculture, and striving to develop into a specialized and large-scale enterprise with a leading position in China.

The No.1 Document promulgated in 2013 showed the emphasis put by the central government on the issues of "peasants, rural villages and agricultural industry" over ten consecutive years. One of the highlights of the No.1 Document in this year was the innovation in the production and operation systems of the agricultural industry. According to the document, the government encouraged the development of the major players, family-owned farms and agricultural cooperatives and proposed to put more efforts to build a new operation system with the combined features of intensity, specialization, systematism and socialization for the agricultural industry. Such policies promulgated by the central government with a view to helping, benefiting and enriching the farmers, have significantly aroused the enthusiasm of the farmers for growing grains, thus offering great opportunities for development of the fertilizer market. Besides, according to the Twelfth Five-year Plan for the Food Industry, the health care products industry in China will enter into a golden period for development in the next ten years, therefore, the health care products segment that the Group is engaged in is also faced with more favourable opportunities. Benefited from the series of favourable policies promulgated by the government, the health care products industry will show a great vitality and development potential.

In view of the severe market competition in the future, we realize that we have to struggle for survival. We will exploit our edges to the full, and keep on growing through constant innovation and improvement in spite of the severe competition. By virtue of the close cooperation between the Group and certain outstanding scientists and scientific research institutes, we have equipped ourselves with unique edges to cope with the current competitive environment and the sustainable development in the future. The Company will adhere to the principle of being scientific, moderate and prudent, and strive to capture every opportunity that is possible to drive the development of the Company through maintaining and leveraging on this edge.

The directors and management of the Company will make their best endeavour to help the Group maximize returns for the shareholders.

Wang Shuxin
Chairman

21 March 2013

Management
Discussion and Analysis

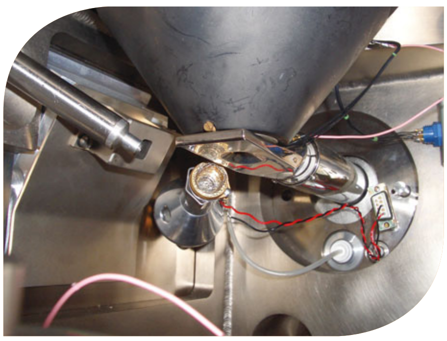
BUSINESS REVIEW

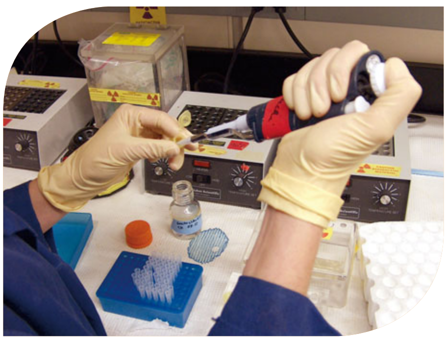
Biological compound fertilizer

Influenced by the factors such as the extraordinary weather at the beginning of 2012, the compound fertilizer market generally experienced a continued downturn from the end of last year. However, as the fertilization period began in March, the compound fertilizer market gradually recovered, the prices of all the raw materials started to rebound in late April, and, accordingly, the prices of compound fertilizers also started to rise. Nevertheless, such trend did not continue in the second half of the year. The prices of the raw materials kept declining, as a result of which, even the sale of the compound fertilizers during the sowing period in autumn was adversely affected. As winter set in, the prices of the compound fertilizers gradually became stable, but the trading volume remained unsatisfactory. On 17 December 2012, the Implementation Measures of the Customs Tariff in 2013 (《二零一三年關稅實施方案》) was promulgated, and was generally considered by the players within the industry to be beneficial to the export of the fertilizers and, at the same time, greatly stimulative to the sales of the fertilizers for storage in winter in 2012. By the end of 2012, the demand for compound fertilizers had rebounded with the gradual increase in the prices of the raw materials. During the period under review, Guangdong Fulilong, a wholly-owned subsidiary of the Group, cooperated with South China Agricultural University to focus on the commercialization of a series of technologies in relation to active fertilizers, including fertilizer synergists and the fertilizer activation technology, and successfully developed a new generation of high-end fertilizers represented by Zhilong active fertilizers, which had strong competitive edge in the market because they promoted the modification and effectiveness of traditional fertilizers, improved the utilization rate and efficiency of the fertilizers without increasing the consumption of the fertilizers, and protected the soil environment. Meanwhile, in terms of the marketing effort, the Group began to implement the foothold marketing model in the key regions nationwide with a view to fully exploiting the regional markets, exploring the market potentials of the sales territories and maximizing the sales volume. Through dispatching marketing teams to the local markets to carry out various in-depth and detailed operations for a long term, including brand promotion, product distribution and pre-sale, in-sale and after-sale services, the Company has been continuously consolidating and expanding its market share and has achieved satisfactory results.

Health care products

With the rapid growth in the economy in China and the unceasing progress of the society, as well as the improvement of the living standards and the change of the spectrum of disease, public awareness on healthcare is gradually enhanced, their needs for health care products are constantly increased, and they will gradually realize the economic meaning and sociological value of the development of the health care products industry. In daily life, people gradually begin to place emphasis on the cultivation of a good and health lifestyle through various methods and means, among which, health care products is a kind of product indispensable for the people to achieve holistic health. Health care products is gradually becoming a fast-selling product for the residents in China to maintain balanced diet, prevent diseases and improve their health. Statistics show that, the GDP per capita in China is growing from US$4,000 to US$8,000, and health care products has





changed from an optional product into one of the necessities in life. In addition, under the background of the increased consumption level and the aging of the population in China, the development of the health care products industry in China will be further accelerated. In recent years, there are over 10,000 kinds of heath care products permitted for sale in China, and there are approximately 1,700 health care products manufacturers with an annual sales amount of more than RMB100 billion. Tianjin Alpha, a wholly-owned subsidiary of the Group, is the first-ever company specialized in the development of diabetic health care products in China, and also the only one that owns a total of 6 series of diabetic health care products approved by the Ministry of Health in China. In addition to the possession of certain series of health products for the diabetics to regulate blood sugar, Tianjin Alpha has successfully developed and launched into the market various series of sugar-free products that are beneficial to the health of human body, including beverages, cookies, cereal and mooncakes. During the period under review, Tianjin Alpha closely cooperated with Tianjin University of Science and Technology, and, by leveraging on their respective superior resources, they jointly underwent various cooperation projects and actively carried out the development of new health care products and the commercialization, and achieved satisfactory results. Some of such new products had been successively launched into the market. The predominant product of Tianjin Alpha had been included in the "Little Giant" program carried out by Tianjin Municipal Government for the support of science and technology projects and was recognized as a "national new product" by five ministries in China.

FINANCIAL REVIEW

Turnover, gross profit and gross margin

For the year ended 31 December 2012, the major businesses of the Group were biological compound fertilizer products and medical and health products, which in aggregate achieved annual sales of RMB677,640,122, representing an increase of 32.57% as compared to last year (31 December 2011: RMB511,150,674). In particular, the Group recorded an annual sales of RMB588,289,787 for compound fertilizer products, representing an increase of 43.14% as compared to last year (31 December 2011: RMB411,002,282); the Group recorded an annual sales of RMB89,350,335 for health care products, representing a decrease of 10.78% as compared to last year (31 December 2011: RMB100,148,392).

For the year ended 31 December 2012, the overall gross profit of the Group's two businesses was RMB136,336,433, representing an increase of 37.34% as compared to last year (31 December 2011: RMB99,268,305); the overall gross margin of the Group was 20.12%, representing an slight increase compared to last year (31 December 2011: the overall gross margin was 19.42%), mainly due to the contribution from the new generation of active fertilizers with higher profit margin that were successfully developed and launched into the market by the Group.

Other income and net losses

For the year ended 31 December 2012, other income and net losses of the Group was RMB198,365 (31 December 2011: Other income and net gains RMB5,071,404). The details are set out in Note 8 to the accounts.

Selling and distribution costs

For the year ended 31 December 2012, selling and distribution costs of the Group was RMB43,897,995, on the premise of an substantial increase of 32.57% in total turnover, representing only an increase of 10.18% as compared to last year (31 December 2011: RMB39,841,448); during the review period, selling and distribution costs accounted for 6.48% of the total turnover, representing a slight decrease as compared to last year (31 December 2011: selling and distribution costs accounted for 7.79% of the total turnover). The main reason is that the Group has taken a series of measures to control the selling expense, including forecasting the sales trend, formulating a complete budget plan, coordinating the use of resources on a centralized basis and minimizing the unnecessary expenses, in order to ensure the overall return of its investment.

Administrative expenses

For the year ended 31 December 2012, administrative expenses of the Group were RMB36,204,066 (31 December 2011: RMB27,014,853), accounting for 5.34% of the total turnover, representing an increase as compared to last year (31 December 2011: administrative expenses accounted for 5.28% of the total turnover). Against the backdrop of substantial increase of the total turnover, the increase of the Group's administrative expenses was mainly due to the increase in the labor cost, the rental of premises and the provision for the doubtful trade receivables.

Research and development expenses

For the year ended 31 December 2012, research and development expenses of the Group were RMB17,961,329, representing an increase of 48.85% as compared to last year (31 December 2011: RMB12,066,344). During the year, the research and development expenses of the Group was mainly related to Zhilong active fertilizers and new health products.

Finance costs

For the year ended 31 December 2012, finance costs of the Group were RMB7,146,800, representing an increase of 11.40% as compared to last year (31 December 2011: RMB6,415,263), mainly due to the fact that additional bank loans were required for the Group's operations and the interest on loans floated. The details are set in Note 9 to the accounts.

Profit for the year

For the year ended 31 December 2012, the profit attributable to the owner of the Company was RMB24,017,317, representing an increase of 66.59% as compared to last year (31 December 2011: RMB14,417,026), accounting for 3.54% of the total turnover (31 December 2011: the profit attributable to the owner of the Company accounted for 2.82% of the total sales); earnings per share of the Company were RMB1.69 cents compared to RMB1.02 cents of the same period of last year. During the year, the Group strengthened its budget control over expenses, and, through the active promotion of the new generation of active fertilizers with a higher profit margin in the market, the overall profitability of the Company was remarkably improved.

SEGMENTAL INFORMATION

The Group principally operates in two business segments: (1) compound fertilizers products; and (2) health care products.

The results of the Group by segments for the year ended 31 December 2012 and the year ended 31 December 2011 are disclosed in Note 6 to the accounts.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During 2012, the Group financed its operations mainly by internally generated cash and banking facilities.

As at 31 December 2012, the Group's current assets and net current assets were RMB319,925,313 (31 December 2011: RMB220,902,956) and RMB100,579,152 (31 December 2011: RMB75,015,433) respectively. The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was 1.46 (31 December 2011: 1.51). The Group's current assets as at 31 December 2012 comprised mainly cash and bank balances of RMB23,345,651 (31 December 2011: RMB32,336,570), trade and bills receivables of RMB123,621,119 (31 December 2011: RMB56,081,170) and inventories of RMB98,208,640 (31 December 2011: RMB75,798,020).

As at 31 December 2012, the total bank borrowings of the Group amounted to RMB83,300,000 (31 December 2011: RMB93,500,000), and the total bills payable amounted to RMB32,000,000 (31 December 2011: RMB Nil). The bank borrowings are denominated in Renminbi and provided by various licensed banks in China with fixed and variable interest rates ranging from 6.6% to 7.8% (31 December 2011: fixed rate 5.6% to 8.2%) per annum. Of the bank borrowings, a total amount of RMB32,500,000 will mature in the first half of 2013, a total amount of RMB50,800,000 will mature in the second half of 2013. The total bills payable RMB32,000,000 will mature in the first half of 2013.

As at 31 December 2012, the Group's consolidated total assets and net consolidated assets were about RMB421,975,521 (31 December 2011: RMB324,298,632) and RMB202,629,360 (31 December 2011: RMB178,411,109) respectively. The Group's consolidated gearing ratio, defined as the ratio of total liabilities to total assets, was 0.52 (31 December 2011: 0.45). As at 31 December 2012, the Group's gearing ratio, defined as the ratio of total bank borrowings to total assets, was 0.20 (31 December 2011: 0.29).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had 631 employees (2011: 715 employees). Remunerations of the Group's employees are determined in accordance with the terms of government policies and by reference to market level and the performance, qualifications and experience of employees. Discretionary bonuses are paid to few employees as recognition of and reward for their contribution to the corporate development. Other benefits include contributions to retirement schemes, medical schemes, unemployment insurance schemes and housing allowances.

EXPOSURE TO FOREIGN CURRENCY RISK

The Group has a relatively low foreign currency risk since all the sales of the Group are domestic sales in China denominated in Renminbi and all payables to suppliers are also denominated in Renminbi.

TREASURY POLICY

The Group's bank borrowings are denominated in Renminbi and are usually renewed for one year upon maturity. Any surplus cash will be placed as deposits with licensed banks in China.

FUTURE OUTLOOK

TEDA Biomedical has always adhered to the rationale of development that is centered on green, ecology and energy conservation with its market-oriented approach, while persistently developing and providing products and services which are contributed to the improvement of the health of mankind and ecological agriculture, and striving to develop into a specialized and large-scale enterprise with a leading position in China. Although the international economic situation is complicated and full of uncertainties and a slowdown of the global economic growth is expected, the economy in China, influenced by the measures already promulgated by the government to stabilize the economic growth, is expected to record a stable and moderate growth this year.

The No.1 Document promulgated in 2013 showed the emphasis put by the central government on the issues of "peasants, rural villages and agricultural industry" over ten consecutive years. One of the highlights of the No.1 Document in this year was the innovation in the production and operation systems of the agricultural industry. According to the document, the government encouraged the development of the major players, family-owned farms and agricultural cooperatives and proposed to put more efforts to build a new operation system with the combined features of intensity, specialization, regimentation and socialization for the agricultural industry, so as to accelerate the development of modern agriculture. The central government will continue to implement and improve the policies promulgated with a view to helping, benefiting and enriching the farmers, make constant and large investment in agricultural infrastructure, and arouse the enthusiasm of the farmers for growing grains, which will offer great opportunities for development of the fertilizer market. In 2013, Guangdong Fulilong has engaged Yuan Longping, a member of the Chinese Academy of

Engineering and known as the "father of hybrid rice", as the chief scientist, and has also engaged Qing Xianguo, a researcher that enjoys the special allowance granted by the State Council and a renowned expert in rice cultivation in China, as the expert, to jointly accelerate the cultivation of superior technical talents and make greater efforts on the development of new types of fertilizers. In this brand new year, the Group will further enrich and optimize the foothold marketing system that involves technical communication, propaganda on agricultural industry, activity promotion and product distribution, make great efforts on the promotion of the new generation of superior fertilizer products represented by Zhilong active fertilizers, strive to establish itself as the best supplier of active fertilizers in China, and continuously improve the brand competitiveness in the agricultural market.

In its report titled "Encountering the Challenges in the 21st Century", the World Health Organisation stated that medical science in the 21st century should no longer treat diseases as its major field for research and set human health as its future direction instead. At present, the medical model is undergoing some tremendous changes, transferring itself from the sheer disease treatment to a model that combines disease prevention, health care, disease treatment and recovery. In recent years, people's health and quality of life have been threatened severely by various kinds of so-called "over-nutrition diseases" like obesity, diabetes and hypertension together with the prevalent sub-health phenomenon in modern society. Under such circumstances, health care products have become an important way for people to prevent diseases and to stay healthy. As China is a country with a long history of health care and maintenance, the demand of consumers for health care products has shown a continuous increase over the years. According to the "Twelfth Five-year Development Plan for the Food Industry" issued by China, by 2015, the output value of nutrition and health care products in the country will reach RMB1 trillion with year-on-year increase of 20%, and by then, there will be more than 10 enterprises with a revenue of over RMB10 billion derived from the sales of related products. Driven by the favorable policy initiatives, the health care products industry presents an immensely vigorous market as well as the boundless space for growth. In 2013, Tianjin Alpha, the controlling company of the Company, will cooperate closely with Tianjin University of Science & Technology and continue to develop new health care products that keep in line with the market. For the coming year, Tianjin Alpha will take advantage of the preferences for its products in the market to further strengthen and expand its health care products-related market network and channels; meanwhile, with the substantial support from the Management Committee for the Tianjin Economic and Technological Development District, the Group intends to take necessary measures to cope with the problems imposed by the limited production capacity of health care products.

There will always be fresh hopes in the new year. The Company's Board and Management believe that through the collaborated efforts of the Group's staff and by making continuous innovations and improvements, we will be able to make outstanding achievements in the fierce market.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Wang Shuxin ("Mr. Wang"), aged 48, is the Chairman of the Board of Directors of the Company and is responsible for the Company's strategic planning and business development. Mr. Wang was instrumental in the establishment of Tianjin TEDA International Incubator (天津泰達國際創業中心) ("TTII") in April 1996 and has been the legal representative of Tianjin TEDA Institute of Biomaterials and Medical Engineering (天津開發區泰達生物材料與醫學工程研究所) ("IBME") since January 1998. He was appointed as Chairman of the Board of Directors of the Company in September 2000. Mr. Wang graduated from Tianjin University (天津大學) in 1988 with a master's degree in Organic Chemical Engineering (有機化工專業). In February 1999, he obtained a postgraduate qualification in accounting from Tianjin University of Finance and Economics (天津財經學院). In 1997, Mr. Wang participated in the commercialization of the technology relating to clinical catheters. He subsequently became involved in the establishment of IBME in January 1998 and received one of the Ten Outstanding Youth awards (十大傑出青年) in 1998.

Mr. Hao Zhihui ("Mr. Hao"), aged 51, graduated from Tianjin Medical University in August 1984 with a bachelor's degree in medicine and thereafter taught in the university. He also completed his master's degree in Medicine offered by the same university in August 1992. From May 1995 to August 1997, he was in charge of production and technology in DPC (Tianjin) Co., Ltd (天津德普生物技術和醫學產品有限公司). From September 1997 to September 2000, he worked in Tianjin TEDA International Incubator and was the chief of the Medicine Industry Department (醫藥產業部部長). In March 2004, he graduated from the School of Continuing Education of Tsinghua University, Business Administration Major. From September 2000 to August 2006, he has assumed the posts of chief investment officer, chairman of the Supervisory Committee and executive vice president (常務副總裁) in the Company. He has been the President of the Company from August 2006 to April 2011. Mr. Hao has been appointed as an executive director of the Company since May 2009 and the vice chairman of the Board of Directors of the Company since April 2011.

Mr. Zhang Chunsheng ("Mr. Zhang"), aged 46, graduated in 1989 with a bachelor degree. After graduation from university, Mr. Zhang had worked in various bureaus of People's Government of Guangdong Province as officer, senior officer, principal officer, deputy division director, division director and deputy director-general. During 2005 to 2009, Mr. Zhang worked in the Hong Kong Representative Office of the Central Government, and in 2010, he was appointed as the chairman of Pleasant Culture Media Co., Limited (大自在文化傳播公司) and has been appointed as the chairman of Shenzhen Xiangyong Investment Company Limited ("Xiangyong Investment") since 2010 and holds all of its shares. Xiangyong Investment is a substantial shareholder of the Company, holding 180,000,000 common shares of the Company, representing approximately 12.68% of the issued share capital of the Company. Mr. Zhang has been appointed as the Chief Executive Officer of the Company since April 2011, and has been appointed as the executive director of the Company since August 2011.

Non-executive Directors

Mr. Feng Enqing ("Mr. Feng"), aged 54, graduated from Tianjin Industrial University (天津工業大學) in 1982 with a degree in textile chemical engineering (紡織化學工程) and joined TTII as the project manager in 1996. He was previously the supervisor and chief engineer of Tianjin Xinggang Textile Manufacture (天津新港紡織廠). Mr. Feng is a supervisor of Alpha and the chief engineer of TTII and has been the assistant director of Tianjin TEDA International Incubator since 2009. He was appointed as deputy director of the Industrialization Promotion Center (Tianjin Binhai) under National 863 Plan in 2011. He joined the Company in September 2000 and was appointed as a non-executive director.

Mr. Xie Guangbei ("Mr. Xie"), aged 58, graduated from Nankai University in 1993 with a master's degree in Economics. In 1998, he was granted a MBA degree from Rensselaer Polytechnic Institute in Troy, New York, the US. He is the investment and financial consultant of the Office of Residential Property Commercialization headed by the Ministry of Construction of the PRC. He is also the vice chairman and president of Tianjin Securities Investment Consulting Company Limited (天津證券投資諮詢有限公司). He was an engineer of the Business Department of China Shizheng Huabei College of Design (中國市政華北設計院計劃經營處), director and deputy general manager and senior engineer of Tianjin Eastern International Engineering Consultancy (天津東方國際工程諮詢). He joined the Company as an independent supervisor in November 2000 and has been appointed as a non-executive director since November 2003.

Mr. Ou Linfeng ("Mr. Ou"), aged 42, graduated with professional business accounting qualification from Guangdong Chaoyang TV University (廣東潮陽廣播電視大學) in 1997. Between August 1994 and December 1998, Mr. Ou was the head of accounting department of the Chaoyang Branch of China Construction Bank and from January 1999 to November 2001, Mr. Ou was appointed a sales manager of Taiyuan Lingyunda Trade Company (太原淩雲達貿易公司). He was appointed by our Group in December 2001 as a sales manager of Guangdong Fulilong, a wholly owned subsidiary of the Company. Since May 2011, Mr. Ou has been promoted to the deputy general manager of Guangdong Fulilong. Mr. Ou was appointed as a non-executive director of the Company in August 2011.

Independent Non-executive Directors

Mr. Guan Tong, aged 44, graduated from the Enterprise Management Faculty (企業管理系) of Nankai University of China in 1993. He was appointed as an accountant of Tianjin Zhonghuan Industrial and Development Company (天津中環實業開發公司) from 1991 to 1997 and as a financial manager of Tianjin LG Electronic Company Limited (天津LG電子有限公司) from 1997 to 1999. Mr. Guan became a qualified PRC Certified Public Accountant in July 2001 and a PRC qualified valuer in October 2003. During the period from 1999 to 2004, Mr. Guan worked with Tianjin Tiandi Certified Public Accountants (天津天地會計師事務所) involving in the audit work of various types of domestic and foreign investment enterprises and in asset valuation. He also participated in the auditing work of a private enterprise in Tianjin which was applying for its shares to be listed on the Singapore Exchange Securities Trading Limited in Singapore. From September 2004, Mr. Guan works with Tianjin Start Point Certified Public Accountants (天津起點會計師事務所) as audit manager.

Mr. Wu Chen, aged 68, graduated from the Chemical Engineering Department of Tianjin College of Engineering in 1970. He was awarded the second prize of excellent scientific and technological achievements – N.P. compound fertilizer project in 1982. In April 1990 and December 1991, Mr. Wu was respectively awarded the second and the third prizes by Tianjin Nanjiao District People's Government and Validation Committee of National Spark Award (國家星火獎評審委員會) for his contributions in the transformation of compound fertilizer production line and the development of series of compound fertilizer products. In addition, he was recognized as a senior engineer by the Tianjin Engineering, Technological and Chemical Professional Senior Qualification Review Committee (天津市工程技術化工專業高級資格評審委員會) and awarded a certificate by Tianjin Municipal Personnel Bureau (天津人事局) in April 1996.

Mr. Cao Kai, aged 56, graduated from Northwest College of Agronomy with a bachelor's degree in 1985. He is a high-end fertilizer formulator and a council member of the China Agro-technological Extension Association (中國農業技術推廣協會), an expert of the Annual Conference for Chinese Experts on Fertilizer Industry (中國肥料業專家年會). In April 2005, he also assumed the position of agricultural extension researcher (推廣研究員). On 15 January 2006, he joined the Shandong Technology Development Center (山東省技術開發服務中心) as the deputy director of Shandong Xinghuo Science and Technology Service Center (山東星火科技服務中心). In January 2006, he became a member of the "Science and Technology 110" Professional Service Group (科技"110"專家服務團). In March 2009, he won the China Fertilizer Industry Innovator Award (中國肥料業創新人物獎). He resigned as an independent non-executive director of the Company on 21 March 2013.

SUPERVISORS

Ms. Yang Chunyan ("Ms. Yang"), aged 36, graduated from Tianjin University (天津大學) in 2005 with a bachelor's degree in financial management. She acquired the title of intermediate-level accountant in 2008. She worked at the Finance Department of TTII from June 1996 to August 2000 and has been working with the Financial Management Department of the Company since September 2000, and was appointed as Chairman of the Trade Union of the Group since 28 June 2007 and a supervisor of the Company in January 2010.

Ms. Liu Jinyu ("Ms. Liu"), aged 40, graduated with a degree in Corporate Management and Human Resources Management from Tianjin Nankai University (天津南開大學). Between 1997 and 2001, she acted as the chief officer of the human resources department of Tianjin New World Department Store Co., Ltd. (天津新世界百貨有限公司). Then she was engaged as the manager of the general department of Tianjin Zhongying Food Co., Ltd (天津中迎食品有限公司) from 2001 to 2003 and the human resources manager of Tianjin Auchan Hypermarkets Co., Ltd (天津歐尚超市有限公司) from 2003 to 2007. Ms. Liu joined the Company as human resources manager in 2007 and has been appointed as deputy officer of the President's office of the Company since April 2011. Ms. Liu was appointed as a supervisor of the Company in August 2011.

INDEPENDENT SUPERVISORS

Mr. Gao Xianbiao, aged 51, graduated from the Agricultural Soil Department (土壤農化系) of Shandong Agricultural Industry University (山東農業大學) in 1982. He has got a technical post of researcher since December 1999. He was the deputy chief and the chief of Soil and Fertilizer Research Institute of Shandong Academy of Agricultural Science (山東省農業科學院土壤肥料研究所) during the periods from October 1997 to October 1999 and from October 1999 to December 2004 respectively. Since December 2004, he has been the chief of Tianjin Soil and Fertilizer Research Institute (天津市土壤肥料研究所) (now known as Tianjin Agricultural Resource and Environmental Research Institute (天津市農業資源和環境研究所). During the period from December 1995 to October 2000, Mr. Gao was granted with a number of the Science and Technology Progress Awards (科學技術進步獎) in Shandong Province.

Mr. Zhao Kuiying, aged 44, is an economist. He graduated from Nankai University with a bachelor degree in Finance in 1990 and subsequently obtained a master's degree in Economics from Tianjin University of Finance and Economics (天津財經大學). He specializes in financial management and analysis. He held various posts in branches of the Agricultural Bank of China from 1990 to 2000 and China CITIC Bank since 2000 and has been the head of a branch office of China CITIC Bank in Tianjin since August 2005.

SENIOR MANAGEMENT

Chief Executive Officer

Mr. Zhang Chunsheng, whose biographical details are set out in the section headed "Executive Directors".

Qualified Accountant and Company Secretary

Mr. Ng Ka Kuen, Raymond, aged 52, was an associate member of the Association of Cost and Executive Accountants in September 1985 and became a fellow member of that Association in October 1986. In November 1997, he was awarded a Graduate Diploma in Administration and a Bachelor Degree of Arts by Australian Catholic University, Australia and Ottawa University, Ottawa, Kansas State, the United States of America respectively. Mr. Ng became a member of the Institute of Certified Public Accountants in Ireland in October 2002, a fellow member of the Institute of Chartered Secretaries and Administrators in November 2003 and an associate member of the Association of International Accountants in June 2004. In April and July 2005, Mr. Ng became a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of the Taxation Institute of Hong Kong respectively. Before joining the Company, Mr. Ng has more than 10 years of audit experience.

Report of the Supervisory Committee

Dear Shareholders,

During the reporting period, all members of the Supervisory Committee (the "Supervisory Committee") of our Company have faithfully carried out their duties and obligations in accordance with the requirements of the PRC Company Law and the Association of our Company, executing the functions of monitoring the operation and management of the Company and supervising the directors and senior management officers so as to guarantee the rights and interests of the shareholders, the Company and our staff.

I. MEETING OF THE SUPERVISORY COMMITTEE

During the reporting period, the Supervisory Committee has convened four meetings in total:

1. On 8 March 2012, the Supervisory Committee held the first meeting in 2012, at which the consolidated financial statements of the Group for the year 2011 audited by BDO Limited was reviewed and approved.

2. On 8 May 2012, the Supervisory Committee held the second meeting in 2012, at which the first quarterly report of the unaudited results for the three months ended 31 March 2012 was reviewed and approved;

3. On 8 August 2012, the Supervisory Committee held the third meeting in 2012, at which the half-year report of the unaudited results of the Company for the six months ended 30 June 2012 was reviewed and approved;

4. On 8 November 2012, the Supervisory Committee held the fourth meeting in 2012, at which the third quarterly report of the unaudited results of the Company for the nine months ended 30 September 2012 was reviewed and approved.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE OPERATION OF THE COMPANY IN 2012

1. As to the compliance of the operation of the Company: the Supervisory Committee of the Company has supervised the convening procedures and the resolutions of the Company's general meetings and Board meetings, the Board's implementation of the resolutions passed at the general meetings, the performance of the senior management's duties, and the management system of the Company in accordance with relevant regulations in China and the Articles of Association, and is of the opinion that, the Board and the management of the Company have operated in compliance with the relevant laws, strictly implemented all the resolutions passed at the general meetings, adopted wise and correct operating policies, and further improved the internal control system during the current reporting period, and that none of the directors, the chief executive officer and the senior management has violated any law, regulation or the Articles of Association or caused any damage to the interest of the Company or the shareholders during the performance of their duties.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE OPERATION OF THE COMPANY IN 2012 *(continued)*

2. As to the financial review on the Company: the Supervisory Committee has carried out financial review on the Company, and is of the opinion that, the financial report of the Company is a true reflection of the Company's financial and operational results, and that the audit report is true and reasonable without any false record, misleading statement or any omission of important facts, and is favorable for the shareholders to truly understand the financial and operational status of the Company.

The Supervisory Committee is highly confident of the future prospects of the Company, and will continue to perform its duties assiduously to strive to protect the interests of all the shareholders in 2013.

By order of the Supervisory Committee
Tianjin TEDA Biomedical Engineering Company Limited
Yang Chunyan
Chairman of the Supervisory Committee

21 March 2013

Directors' Report

The Directors submit their report together with the audited financial statements of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are research and development and commercialization of biological compound fertilizer products and health care products.

The activities of the subsidiaries are set out in Note 17 to the accounts.

An analysis of the Group's performance for the year by the Group's reportable segments is set out in Note 6 to the accounts.

CHANGE OF SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 29 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 37 of this annual report.

The Directors do not recommend the payment of any dividend during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company at 31 December 2012 calculated under the Company's bye-laws amounted approximately to RMBNil (2011: RMBNil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statements of changes in equity on page 41 of this annual report and Note 30 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 15 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such a right under the laws of the People's Republic of China (the "PRC").

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the last five financial years ended 31 December 2012 is set out on page 5 of this annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2012, the Group and the Company had contingent liabilities amounting to RMB65,000,000 (31 December 2011: RMB43,000,000) and RMB25,000,000 (31 December 2011: RMB33,000,000) in connection with the provision of guarantee as security for bank loans granted to its subsidiaries.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– The largest supplier	14.64%
– Five largest suppliers combined	34.74%
Sales	
– The largest customer	2.84%
– Five largest customers combined	12.80%

None of the directors, any of their associates or any shareholder that, as far as the directors are aware, holds more than 5% of the Company's shares, are interested in such major suppliers and customers.

DIRECTORS AND SUPERVISORS

The directors and supervisors during the year were:

Executive Directors

Mr. Wang Shuxin
Mr. Hao Zhihui
Mr. Zhang Chunsheng

Non-executive Directors

Mr. Feng Enqing
Mr. Xie Guangbei
Mr. Ou Linfeng

Independent Non-executive Directors

Mr. Guan Tong
Mr. Wu Chen
Mr. Cao Kai (resigned on 21 March 2013)

Supervisors

Ms. Yang Chunyan
Ms. Liu Jinyu

Independent Supervisors

Mr. Gao Xianbiao
Mr. Zhao Kuiying

The number of executive directors, non-executive directors and independent non-executive directors of the Company remained at three respectively. The number of supervisors of the Company remained at four, including two independent supervisors.

According to the requirements of the Association of the Company, all the directors and supervisors of the Company are appointed for a term of three years and are eligible for re-election.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and the supervisors of the Company has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

The initial term of these contracts was three years commencing on 1 January 2011. The service contracts of the Company's directors and supervisors (except Mr. Zhang Chunsheng, Mr. Ou Linfeng and Ms. Liu Jinyu whose service contracts have become effective since 8 August 2011 and will expire on 31 December 2013) were renewed for three years commencing from 1 January 2011 as approved at the general meeting unless terminated by either party giving not less than one month's prior written notice to the other.

None of the directors has entered into a service contract with the Company, which cannot be terminated by the Company within one year without payment of compensation, other than statutory compensation.

As to the remunerations of the directors and supervisors of the Company, the Board of Directors of the Company has been authorized to determine the remunerations of the directors and supervisors on the basis of the prevailing market rate and after receiving recommendation from the remuneration committee of the Company.

CONTRACTS OF SIGNIFICANCE

Save for the directors' and supervisors' service contracts disclosed in this annual report, no contracts of significance (including providing relevant services) in relation to the Group's business to which the Company or its subsidiaries was a party and in which any of the directors, the supervisors of the Company or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REMUNERATION AND TOP FIVE REMUNERATION PERSONS

Details of directors' remuneration and the top five remuneration persons are set out respectively in Note 14 to the accounts.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors, namely Mr. Guan Tong, Mr. Wu Chen and Mr. Cao Kai, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") and the Company still considers the independent non-executive directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE OFFICER, COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Brief biographical details of the directors, the supervisors, Chief Executive Officer, the company secretary and qualified accountant of the Company are set out on pages 14 to 17 of this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests of the directors and supervisors of the Company and their respective associates in the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) were as follows:

Long position in ordinary shares of RMB0.1 each in the Company:

Directors/Supervisors/ Executive Officers	Number of shares held and nature of interests					Percentage of the issued share capital
	Personal	Family	Corporate	Other	Total	
Mr. Zhang Chunsheng	–	2,415,000 (Note 1)	180,000,000 (Note 2)	–	182,415,000	12.85%

Note1: Mr. Zhang Chunsheng is deemed to be interested in 2,415,000 H shares due to his wife's, Jin Ling, personal interest in such H shares.

Note2: Such shares are held by Shenzhen Xiangyong Investment Company Limited ("Xiangyong Investment"), and Mr. Zhang Chunsheng is the beneficial owner of 100% interest in Xiangyong Investment. All the shares represent domestic shares.

Save as disclosed in this paragraph, as at 31 December 2012, none of the Directors or the Supervisors of the Company had interest in any securities and underlying shares and debentures of the Company or any of its associated corporations, which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and the supervisors of the Company or their respective spouses or children under 18 years of age, to have the rights to subscribe for the Company's securities or to exercise any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons (other than the Directors and the Supervisors of the Company) had interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Long position in ordinary shares of RMB0.1 each in the Company:

Name of shareholders	Capacity	Number of ordinary shares	Percentage of the issued share capital
Tianjin TEDA International Incubator ("Incubator")	Beneficial owner	200,000,000 (Note)	14.08%
Shenzhen Xiangyong Investment Company Limited ("Xiangyong Investment")	Beneficial owner	180,000,000 (Note)	12.68%
Shandong Zhinong Fertilizers Company Limited ("Zhinong Fertilizers")	Beneficial owner	170,000,000 (Note)	11.97%
Dongguan Lvye Fertilizers Company Limited ("Lvye Fertilizers")	Beneficial owner	120,000,000 (Note)	8.45%

Note: All of the shares represent domestic shares.

Save as disclosed above, as at 31 December 2012, the Directors of the Company were not aware of any other person (other than the Directors and the Supervisors of the Company) who had an interest and short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

PLACING

Reference is made to the announcement issued by the Company on 17 February 2012 as well as the notice of extraordinary general meeting ("EGM") and the circular (the "Circular") of the Company dated 24 May 2012 in relation to the proposed placing of new Placing H Shares, the proposed granting of a specific mandate and the proposed amendments of articles of association of the Company. According to the poll results of the EGM, the above resolutions were duly passed, details of which are set out in the announcement of the results of EGM and class meetings of the Company dated 10 July 2012. Pursuant to the above, Guosen Securities (HK) Capital Co. Ltd, the placing agent, conditionally agreed to place, on a best efforts basis, not more than 192,500,000 H shares at the placing price.

Reference is also made to the announcement of the Company dated 15 February 2013. As certain conditions precedent to the placing agreement had not been fulfilled, the placing agreement had expired and terminated on 17 February 2013. The directors are of the view that, the lapse of the placing agreement had no material adverse impact on the business operation and financial position of the Group as a whole.

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered or existed during the year.

COMPETING INTERESTS

During the year ended 31 December 2012, none of the Directors, the Supervisors, or the management shareholders and their respective associates (as defined in the GEM Listing Rules of the Company competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group required to be disclosed pursuant to the GEM Listing Rules.

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme (the "Scheme") conditionally approved by a resolution of the shareholders of the Company dated 25 May 2002, the Company may grant options to the key full-time employees of the Group to subscribe H Shares in the Company subject to the terms and conditions stipulated therein. The Scheme remained in force for ten years and expired on 24 May 2012.

During the year ended 31 December 2012, none of the directors or supervisors or employees of the Company or other participants of the share option scheme of the Company were granted any option to subscribe for the H shares of the Company in the remaining period of validity of the scheme.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules and by reference to the "Guidelines for The Establishment of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the Group's audit. The primary duties of the committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of the external audit, internal controls and risk evaluation. The audit committee of the Company comprises three independent non-executive directors, namely Mr. Guan Tong, Mr. Wu Chen and Mr. Cao Kai, among whom, Mr. Guan Tong has been appointed as the chairman of the committee due to his professional qualifications in accounting and auditing experience.

The audit committee had held four meetings during the current financial year, and it has also reviewed the audited annual results of the Group for the year ended 31 December 2012.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 27 to 34 of this annual report.

SUFFICIENCY OF THE PUBLIC FLOAT

On the date of this report, according to the information published by the Company and to the best knowledge of the directors, the Company has maintained the public float as prescribed in the GEM Listing Rules.

AUDITOR

On 8 May 2012, BDO Limited ("BDO") was re-appointed, which appointment will continue to be effective until the conclusion of the forthcoming annual general meeting of the Company.

The financial statements of the Group for the year ended 31 December 2012 have been audited by BDO. A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO as the auditor of the Company.

On behalf of the Board
Wang Shuxin
Chairman

Tianjin, China, 21 March 2013

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has endeavored to apply the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited to the internal operations of the Group. The Directors are of the view that, the Company had complied with the provisions of the Code prior to revision as well as the revised provisions of the Code effective from 1 April 2012 during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

For the year ended 31 December 2012, the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors of the Company have complied with such code of conduct and the required standard of dealings.

BOARD OF DIRECTORS AND BOARD MEETING

Board Composition and Board Practices

The Board comprises nine Directors of the Company including three executive Directors, three non-executive Directors and three independent non-executive Directors. All executive Directors have given tremendous efforts, time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position. There is no financial, business, family or other material/relevant relationship amongst the Directors. The Directors' biographical information is set out on page 14 under the section headed "Directors, Supervisors and Senior Management" of this annual report.

The Board, headed by the Chairman, Mr. Wang Shuxin (王書新), is responsible for corporate strategy, annual and interim results, implementation of corporate plans, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. The Chairman of the Board shall ensure the effective operation of the Board, and encourage all the Directors to devote themselves to the affairs of the Board, perform their own duties and discuss all the important issues in a timely manner. The Chairman also makes sure that the Company has established good corporate governance practices and procedures. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. Pursuant to the requirements set out in Code, the management shall provide updated information to all the members of the Board on a monthly basis, which shall contain the latest operational developments, important financial data, major events and, if any, the background information of the issues to be discussed at the Board meeting. The Chairman of the Board shall take appropriate measures to keep in touch with the shareholders and make sure that the opinions of the shareholders can be heard by the Board; it shall also encourage and help the non-executive Directors to make contributions to the Board and ensure that the executive Directors maintain a constructive relationship with the non-executive Directors.

The Board members for the year ended 31 December 2012 were:

Executive Directors

Mr. Wang Shuxin
Mr. Hao Zhihui
Mr. Zhang Chunsheng

Non-executive Directors

Mr. Feng Enqing
Mr. Xie Guangbei
Mr. Ou Linfeng

Independent Non-executive Directors

Mr. Guan Tong
Mr. Wu Chen
Mr. Cao Kai

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Board Composition and Board Practices *(continued)*

The Chairman of the Board and the Chief Executive Officer are held separately by two individuals to ensure their respective independence and accountability. The Chairman is responsible for chairing and convening the general meetings, chairing the board meetings, examining the implementation of the resolutions of the Board and formulating overall strategies and policies of the Company. The Chief Executive Officer is responsible for managing the Group's business and overall operations. The day-to-day running of the Company is delegated to the management with divisional heads responsible for different aspects of the business. During the period under review, the Company has complied with the requirement to separate the roles of Chairman and Chief Executive Officer. The Board has appointed Mr. Zhang Chunsheng to act as the Chief Executive Officer of the Company. The roles of Chairman and Chief Executive Officer are separated and are not concurrently assumed by the same person so as to increase the transparency and independence of corporate governance.

Executive directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Non-executive directors (including independent non-executive directors) serve the important function of advising the management on strategy development and ensure that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding interests of shareholders and the Company as a whole.

The Board complies with the minimum requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors and each of its independent non-executive Directors has made an annual confirmation of his independence pursuant to the GEM Listing Rules. The Company believes, all of the independent non-executive directors are in compliance with the guidelines of independence set out in the GEM Listing Rules and are therefore all independent persons as defined therein. And one of them has the appropriate professional qualifications required under the GEM Listing Rules.

Throughout the year, the Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. The Board of Directors holds at least four meetings per year (one official Board meeting for each quarter at least). During 2012, the Board held 7 meetings for the discussion and approval of important matters such as the approval of quarterly results, interim results and annual results, dividends, the Group's annual budget, business and investments etc. In addition, the Group's management also met with certain non-executive Directors to seek their views on certain business or operational matters. Apart from the regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's Articles of Association. Notice of at least 15 days is given of a regular board meeting to enable the Directors to make informed decisions on matters to be raised at the board meetings. Independent non-executive Directors and other non-executive Directors shall be treated the same as other members of the Board, and shall attend the board meetings and the committee meetings where they serve as a member to actively participate in the discussion of the issues proposed at the meetings and advice on the developing strategy of the Company based on their own professional background, skills and qualifications. They should also attend general meetings and develop a balanced understanding of the views of shareholders. Besides, pursuant to the requirements of the Code, all directors have received continuous professional development training. During the period under review, the Company arranged a special training in relation to the GEM Listing Rules for the Directors, Supervisors and the senior management, which covered the respective duties of committees under the Board, and the revised provisions of the GEM Listing Rules.

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Board Composition and Board Practices *(continued)*

The attendance records of the Board members at the board meetings, general meetings and the training course are as follows:

Name of Directors	Attendance/ Number of Board Meetings	Attendance/ Number of General Meetings	Attendance/ Number of the Training Course
Executive Directors			
Mr. Wang Shuxin	7/7	2/2	1/1
Mr. Hao Zhihui	7/7	2/2	1/1
Mr. Zhang Chunsheng	6/7	2/2	1/1
Non-executive Directors			
Mr. Feng Enqing	5/7	2/2	1/1
Mr. Xie Guangbei	5/7	0/2	1/1
Mr. Ou Linfeng	5/7	0/2	0/1
Independent Non-executive Directors			
Mr. Guan Tong	7/7	2/2	1/1
Mr. Wu Chen	6/7	2/2	1/1
Mr. Cao Kai	5/7	2/2	1/1

To the knowledge of the Directors, there is no financial, business, family or other material relationships amongst the members of the Board. The Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meetings. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable notice by any Director.

AUDIT COMMITTEE

The Group had established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises three independent non-executive Directors, among whom, Mr. Guan Tong (關彤) was appointed as the chairman of the committee by virtue of the appropriate professional qualifications and auditing experience as required under the GEM Listing Rules.

During the year, the audit committee performed its duties and held four committee meetings to review and discuss the final, quarterly and interim results and the financial statements. In addition, the Audit Committee was also engaged in, among other things, (i) reviewing the implementation of the internal control system of the Group; (ii) reviewing and supervising the financial reporting process; (iii) reviewing the risk management systems of the Group; and (iv) reviewing and monitoring the terms of engagement, independence, effectiveness of the external auditor and providing advice thereon to the Board for improvement. Additional meetings may also be held by the audit committee from time to time to discuss special projects or other issues that the audit committee considers necessary. The external auditor of the Group may request a meeting if they consider necessary.

The audit committee has reviewed and discussed the results of the Group for the year ended 31 December 2012 and the 2012 annual report.

AUDIT COMMITTEE *(continued)*

The attendance record of the audit committee meetings is as follows:

Name of directors	Attendance/ Number of Meetings held
Mr. Guan Tong	4/4
Mr. Wu Chen	4/4
Mr. Cao Kai	3/4

AUDITOR'S REMUNERATION

The audit committee of the Company is responsible for considering the remuneration of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company.

EXTERNAL AUDITOR

BDO Limited ("BDO", Certified Public Accountant), had been recommended by the audit committee and appointed by the shareholders as the external auditor of the Company and its subsidiaries with effect from 8 May 2012 until the conclusion of the forthcoming annual general meeting of the Company.

The annual financial statements for the financial year ended 31 December 2012 have been audited by BDO.

The audit committee reviews each year a letter from the external auditor confirming their independence and objectivity and holds meetings with the external auditor to discuss the scope of their audit.

The Group's external auditor is BDO for the year ended 31 December 2012 (for the year ended 31 December 2011: BDO).

During the year, BDO has not provided significant non-audit services to the Group. Set out below are the services fees payable to BDO and other statutory auditor:

	Fee Charged	
Types of Services	**for the year ended 31 December 2012 RMB'000**	for the year ended 31 December 2011 RMB'000
Audit for the Group	**880**	727

NOMINATION COMMITTEE

The Company has established the nomination committee in accordance with the Code. The nomination committee is comprised of three members (each a "Member"), the majority of whom are independent non-executive Directors. The nomination committee consists of the chairman Mr. Wang Shuxin, who is also the Chairman of the Board, and two independent non-executive directors as the Members, namely Mr. Guan Tong and Mr. Wu Chen.

The primary duties of the Nomination Committee cover the reviewing of the structure, size, diversity and composition of the Board, identifying and nominating potential candidates for directorship, reviewing the nomination of Directors and making recommendations to the Board on appointment and re-appointment of Directors.

The attendance record of the nomination committee meetings is as follows:

Name of Members	Attendance/ Number of Meetings held
Mr. Wang Shuxin	1/1
Mr. Guan Tong	1/1
Mr. Wu Chen	1/1

During the year under review, the nomination committee conscientiously performed its duties, reviewed the structure, size and composition of the Board and assessed the independence of the independent non-executive Directors and the performance of the members of the Board including the members of the senior management of the Company.

REMUNERATION COMMITTEE

The Company has established the remuneration committee in accordance with the Code. The remuneration committee is comprised of three members (each a "Member"), the majority of whom are independent non-executive Directors. The remuneration committee consists of the chairman Mr. Guan Tong, an independent non-executive Director, and two members, namely Mr. Wu Chen, an independent non-executive director and Mr. Xie Guangbei, a non-executive director.

The principal duties of the Remuneration Committee include, among other things, formulating, reviewing and making recommendations to the Board on the remuneration policy and structure of the Group, determining the remuneration packages of individual executive Directors and members of senior management and making recommendations to the Board of the remuneration of non-executive Directors.

The attendance record of the remuneration committee meetings is as follows:

Name of Members	Attendance/ Number of Meetings held
Mr. Guan Tong	1/1
Mr. Xie Guangbei	1/1
Mr. Wu Chen	1/1

REMUNERATION COMMITTEE *(continued)*

During the year under review, the remuneration committee performed its duties conscientiously. It reviewed the remuneration policy and structure of the Group, determined the remuneration packages of the Directors and members of the senior management, assessed the performance of all Directors and senior management, reviewed and approved the performance-linked remuneration by reference to the operation goals of the Company passed by the Board and made recommendations to the Board. The remuneration committee of the Company has considered and reviewed the service contracts of the Directors and is of the view that the existing terms of the service contracts are fair and reasonable.

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

		2012 (RMB)			2011 (RMB)	
Name of Directors	**Salaries, allowances and benefit in kind**	**Retirement benefits scheme contributions**	**Total**	Salaries, allowances and benefit in kind	Retirement benefits scheme contributions	Total
Executive Directors						
Mr. Wang Shuxin	**389,690**	**79,537**	**469,227**	355,884	71,662	427,546
Mr. Hao Zhihui	**353,172**	**77,100**	**430,272**	310,199	68,178	378,377
Mr. Zhang Chunsheng	**385,874**	**–**	**385,874**	191,667	–	191,667
Non-executive Directors						
Mr. Feng Enqing	**41,355**	**–**	**41,355**	38,374	–	38,374
Mr. Xie Guangbei	**41,355**	**–**	**41,355**	38,374	–	38,374
Mr. Ou Linfeng	**131,072**	**–**	**131,072**	131,072	–	131,072
Independent Non-executive Directors						
Mr. Guan Tong	**41,355**	**–**	**41,355**	38,374	–	38,374
Mr. Wu Chen	**41,355**	**–**	**41,355**	38,374	–	38,374
Mr. Cao Kai	**41,355**	**–**	**41,355**	34,731	–	34,731

		2012 (RMB)			2011 (RMB)	
Name of Members of Senior Management	**Salaries, allowances and benefit in kind**	**Retirement benefits scheme contributions**	**Total**	Salaries, allowances and benefit in kind	Retirement benefits scheme contributions	Total
Chief Executive Officer						
Mr. Zhang Chunsheng	**385,874**	**–**	**385,874**	191,667	–	191,667
Qualified Accountant/Company Secretary						
Mr. Ng Ka Kuen Raymond	**150,000**	**–**	**150,000**	150,000	–	150,000

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards.

The Directors also ensure the timely publication of the financial statements of the Group. The statements of the external auditor of the Company, BDO Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Auditor's Report on pages 35 to 88 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast a significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure that it has adopted an effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control measures. The Audit Committee also reviews the internal control systems and evaluates their adequacy, effectiveness and compliance on a regular basis.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting by Shareholders

Pursuant to articles 62(3) and 83 of the Articles of Association of the Company, extraordinary general meeting ("EGM") may be convened by the Board on written requisition of any two or more shareholders of the Company ("Shareholders") holding not less than one-tenth of the issued shares of the Company having the right to vote (the "Requisitionist"). Such written requisition must specify the objects of the EGM and may be deposited at the head office or Hong Kong Share Registrar and Transfer Office of the Company. The Board upon receipt of the written requisition must convene an EGM as soon as practicable.

If the Board does not within 30 days from the date of receipt of the requisition proceed duly to convene an EGM, the Requisitionist may convene an EGM provided that any meeting so convened shall not be held after the expiration of four months from the date of receipt of the requisition by the Board.

Procedure for putting forward proposals at Shareholders' meetings

Pursuant to article 64 of the Articles of Association of the Company, any Shareholder holding not less than 5% of the issued shares of the Company having the right to vote may by written requisition propose new resolutions to be discussed at a scheduled annual general meeting. Provided that any proposed resolution is within the scope of duties to be discussed at an annual general meeting, the Company shall put it in the agenda of the annual general meeting.

Accordingly Shareholders who wish to propose a new resolution to be passed at any annual general meeting shall file a notice in writing to the head office or Hong Kong Share Registrar and Transfer Office of the Company for the attention of the company secretary.

SHAREHOLDERS' RIGHTS *(continued)*

Procedure in respect of the nomination of director candidates by Shareholders

Pursuant to Article 99 of the Company's Articles of Associations, if a Shareholder would like to recommend a person other than retiring Directors or candidates recommended by the Directors to be elected as a Director in a general meeting, the Shareholder who is qualified to attend and vote in the general meeting shall sign a notice of nomination (the "notice of nomination") in writing and the nominated person shall sign a notice indicting his willingness to stand for the election (collectively the "notices") and send the notices to the head office or Hong Kong Share Registrar and Transfer Office of the Company.

The notice of nomination shall state the full name of the nominating Shareholder, his/her shareholding in the shares of the Company, and the full name and details of the curriculum vitae of the nominated person, including the relevant qualification and experience, required under Rule 17.50(2) of the GEM Listing Rules.

The notices must be submitted from the following day of dispatching the notice of the general meeting on election of Directors to 7 days prior to such general meeting; with a minimum period of 7 days. The Company shall propose a motion to the general meeting for considering the proposed election of the nominated person(s).

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the registered office, head office, principal place of business, Hong Kong Representative Office or Hong Kong Share Registrar and Transfer Office of the Company and for the attention of the company secretary.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its Shareholders. The Company uses its best endeavor to maintain regular communication with the Shareholders through a number of formal communication channels. In addition, the Company encourages all Shareholders to attend general meetings, which provide opportunities for direct dialogue between the Company and the Shareholders, and for Shareholders to stay informed of the Group's strategy and goals.

At the Company's annual general meeting held on 8 May 2012 and the extra-ordinary general meeting held on 10 July 2012, all executive and independent non-executive Directors of the Company, were present to attend to questions from Shareholders.

The Company updates its Shareholders on its key information, latest business developments and financial performance through its notices, announcements and circulars, as well as quarterly, interim and annual reports. The corporate website maintained by the Company at ***www.bioteda.com*** provides an effective communication platform to the public and the Shareholders.

During the year ended 31 December 2012, there has been no change in the Company's constitutional documents.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF
TIANJIN TEDA BIOMEDICAL ENGINEERING COMPANY LIMITED
(天津泰達生物醫學工程股份有限公司)
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 88, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Lam Pik Wah
Practising Certificate Number P05325

Hong Kong, 21 March 2013

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2012

	Notes	2012 RMB	2011 RMB
Turnover	7	**677,640,122**	511,150,674
Cost of sales		**(541,303,689)**	(411,882,369)
Gross profit		**136,336,433**	99,268,305
Other income and net (losses)/gains	8	**(198,365)**	5,071,404
Selling and distribution costs		**(43,897,995)**	(39,841,448)
Administrative expenses		**(36,204,066)**	(27,014,853)
Research and development expenses		**(17,961,329)**	(12,066,344)
Finance costs	9	**(7,146,800)**	(6,415,263)
Profit before income tax expenses	9	**30,927,878**	19,001,801
Income tax expenses	10	**(6,709,627)**	(2,688,300)
Profit and total comprehensive income for the year		**24,218,251**	16,313,501
Attributable to:			
Owners of the Company		**24,017,317**	14,417,026
Non-controlling interests		**200,934**	1,896,475
		24,218,251	16,313,501
Earnings per share – Basic and diluted (RMB)	13	**1.69 cents**	1.02 cents

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB	2011 RMB
Non-current assets			
Property, plant and equipment	15	**81,863,801**	80,077,920
Goodwill	16	**3,133,932**	3,133,932
Available-for-sale financial assets	18	**–**	3,000,000
Prepaid land lease payments	19	**16,676,746**	17,183,824
Prepayment and other receivables	22	**375,729**	–
Total non-current assets		**102,050,208**	103,395,676
Current assets			
Inventories	20	**98,208,640**	75,798,020
Trade and bills receivables	21	**123,621,119**	56,081,170
Prepayments and other receivables	22	**55,037,803**	56,687,196
Restricted bank deposits	24	**16,712,100**	–
Bank balances and cash	24	**23,345,651**	32,336,570
		316,925,313	220,902,956
Assets classified as held for sale	25	**3,000,000**	–
Total current assets		**319,925,313**	220,902,956
Total assets		**421,975,521**	324,298,632
Current liabilities			
Trade and bills payables	26	**67,495,807**	13,086,695
Other payables and accruals	27	**60,879,122**	37,157,536
Tax payable		**7,671,232**	2,143,292
Bank borrowings	28	**83,300,000**	93,500,000
Total current liabilities		**219,346,161**	145,887,523
Net current assets		**100,579,152**	75,015,433
Total assets less current liabilities		**202,629,360**	178,411,109
NET ASSETS		**202,629,360**	178,411,109

For the Year Ended 31 December 2012

	Notes	2012 RMB	2011 RMB
Capital and reserves attributable to owners of the Company			
Share capital	29	**142,000,000**	142,000,000
Reserves		**38,055,863**	14,038,546
Equity attributable to owners of the Company		**180,055,863**	156,038,546
Non-controlling interests		**22,573,497**	22,372,563
TOTAL EQUITY		**202,629,360**	178,411,109

On behalf of the Board

Wang Shuxin
Director

Zhang Chunsheng
Director

Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB	2011 RMB
Non-current assets			
Property, plant and equipment	15	**257,752**	276,332
Investments in subsidiaries	17	**106,781,397**	106,781,397
Available-for-sale financial assets	18	**–**	3,000,000
Total non-current assets		**107,039,149**	110,057,729
Current assets			
Prepayments and other receivables	22	**419,250**	1,977,620
Amount due from subsidiaries	23	**52,095,433**	48,122,406
Bank balances and cash	24	**351,737**	1,197,992
		52,866,420	51,298,018
Assets classified as held for sale	25	**3,000,000**	–
Total current assets		**55,866,420**	51,298,018
Total assets		**162,905,569**	161,355,747
Current liabilities			
Trade and bills payables	26	**26,918**	26,918
Amount due to a subsidiary	23	**20,769,961**	10,178,961
Other payables and accruals	27	**3,943,059**	4,340,251
Bank borrowings	28	**–**	10,000,000
Total current liabilities		**24,739,938**	24,546,130
Net current assets		**31,126,482**	26,751,888
NET ASSETS		**138,165,631**	136,809,617
Capital and reserves			
Share capital	29	**142,000,000**	142,000,000
Reserves	30	**(3,834,369)**	(5,190,383)
TOTAL EQUITY		**138,165,631**	136,809,617

On behalf of the Board

Wang Shuxin
Director

Zhang Chunsheng
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2012

	Share capital Note 29 RMB	Share premium Note 30(i) RMB	Surplus reserve Note 30(ii) RMB	Capital reserve Note 30(iii) RMB	Accumulated losses RMB	Attributable to owners of the Company RMB	Non-controlling interests RMB	Total RMB
Balance as at 1 January 2011	142,000,000	75,816,410	1,515,000	2,541,404	(80,812,243)	141,060,571	25,637,037	166,697,608
Acquisition of non-controlling interests	–	–	–	–	560,949	560,949	(5,160,949)	(4,600,000)
Profit and total comprehensive income for the year	–	–	–	–	14,417,026	14,417,026	1,896,475	16,313,501
Transfer to reserve	–	–	870,483	–	(870,483)	–	–	–
Balance as at 31 December 2011	142,000,000	75,816,410	2,385,483	2,541,404	(66,704,751)	156,038,546	22,372,563	178,411,109
Profit and total comprehensive income for the year	–	–	–	–	24,017,317	24,017,317	200,934	24,218,251
Transfer to reserve	–	–	2,219,164	–	(2,219,164)	–	–	–
Balance as at 31 December 2012	142,000,000	75,816,410	4,604,647	2,541,404	(44,906,598)	180,055,863	22,573,497	202,629,360

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2012

	Notes	2012 RMB	2011 RMB
Cash flows from operating activities			
Profit before income tax expenses		**30,927,878**	19,001,801
Amortisation of prepaid land lease payments		**405,588**	304,101
Depreciation		**8,664,403**	9,957,652
Interest expense		**7,146,800**	6,415,263
Interest income		**(290,001)**	(198,383)
Provision for bad debt of trade and other receivables		**3,847,920**	1,603,602
Provision/(reversal of provision) for obsolete stock, net		**393,267**	(112,419)
Loss/(gain) on disposal of property, plant and equipment		**1,957**	(4,671,584)
Operating cash flows before working capital changes		**51,097,812**	32,300,033
Increase in inventories		**(22,803,887)**	(5,700,700)
Increase in trade and bills receivables		**(71,300,580)**	(6,815,549)
Decrease/(increase) in prepayments and other receivables		**1,287,865**	(39,471,782)
Decrease in amount due from ultimate holding company		**–**	18,261
Increase/(decrease) in trade and bills payables		**54,409,112**	(22,717,949)
Increase in other payables and accruals		**23,721,586**	13,156,790
Cash generated from/(used in) operations		**36,411,908**	(29,230,896)
Income tax paid		**(1,181,687)**	(615,268)
Interest paid		**(7,146,800)**	(6,415,263)
Net cash generated from/(used in) operating activities		**28,083,421**	(36,261,427)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	**(10,678,595)**	(3,084,167)
Proceeds from disposal of property, plant and equipment		**226,354**	19,418,248
Acquisition of prepaid land lease prepayments		**–**	(6,279,900)
(Increase)/decrease in restricted bank deposits		**(16,712,100)**	4,953,000
Interest received		**290,001**	198,383
Net cash (used in)/generated from investing activities		**(26,874,340)**	15,205,564
Cash flows from financing activities			
Acquisition of non-controlling interest		**–**	(4,600,000)
New bank borrowings		**83,300,000**	88,500,000
Repayment of bank borrowings		**(93,500,000)**	(77,500,000)
Net cash (used in)/generated from financing activities		**(10,200,000)**	6,400,000
Net decrease in cash and cash equivalents		**(8,990,919)**	(14,655,863)
Cash and cash equivalents at beginning of year		**32,336,570**	46,992,433
Cash and cash equivalents at end of year		**23,345,651**	32,336,570
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**23,345,651**	32,336,570

Notes to the Financial Statements

31 December 2012

1. CORPORATE INFORMATION

Tianjin TEDA Biomedical Engineering Company Limited (the "Company") is a joint stock company established on 8 September 2000 in the People's Republic of China ("PRC") with limited liability and its H shares were listed on the Hong Kong Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM") on 18 June 2002.

The Company and its subsidiaries (hereafter referred to as the "Group") principally engages in research and development and commercialisation of biological compound fertiliser products and health care products. The principal activities and other particulars of the subsidiaries are set out in Note 17 to the consolidated financial statements. The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

As at 31 December 2012, Tianjin TEDA International Incubator (the "TTII"), a state-owned enterprise established in the PRC and solely owned by TEDA State-owned Asset Administration Operation Company, is the major single largest shareholder of the Company.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – Effective 1 January 2012

Amendments to HKFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKAS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

Other than explained below, the adoption of these new and revised standards and interpretations has no significant impact on the Group's financial statements.

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.

Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property which is stated at fair value under HKAS 40 "Investment Property" is recovered entirely through sale. The measurement of the deferred tax liability or deferred tax asset reflects the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

If this presumption is rebutted, the amount of deferred tax is measured based on the expected manner in which the carrying amount of the investment property would be recovered, using the appropriate tax rates enacted or substantially enacted at the reporting date.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new and revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interest in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

HKFRSs (Amendments) – Annual Improvements to HKFRSs 2009-2011 Cycle

The improvements made amendments to following standards.

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41–44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

HKFRSs (Amendments) – Annual Improvements to HKFRSs 2009-2011 Cycle (continued)

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34 Interim Financial Reporting

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as 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 (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listings Rules").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of consideration given in exchange of goods.

(c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and each of the group entities.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Business combination and basis of consolidation *(continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2011 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Business combination and basis of consolidation *(continued)*

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(d) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the year in which it is incurred. In situations where it is probable that future economic benefits associated with the subsequent expenditure will flow to the Group and the cost can be measured reliably, the expenditure is capitalised as an additional cost of the asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings	5% – 20%
Plant and machinery	5% – 20%
Motor vehicles	12.5% – 20%
Other structures and improvements	5% – 20%
Furniture, fixtures and equipment	8% – 20%

Renovations and improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at cost less any impairment losses. Cost comprises direct costs of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are completed. Construction in progress is transferred to appropriate class of property, plant and equipment when it is completed and ready for its intended use.

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

(e) Prepaid land lease payments

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land lease payments" in the statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

(g) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, prepaid land lease payments and the Company's investment in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have reduced. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of purchase of materials computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale. Provision is made for obsolete, slow moving or defective items where appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Inventories *(continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

(i) Financial instruments

(i) Financial assets

The Group classifies its financial assets into loans and receivables and available-for-sale financial assets based on the purpose for which the assets were acquired. Financial assets are initially recognised at fair value plus any directly attributable transaction costs.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(ii) Impairment loss on financial assets (continued)

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

An impairment loss is reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

For unquoted equity investments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities include trade and other payables and borrowings; and are initially measured at fair value, net of directly attributable costs incurred. Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

(j) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups are classified as held for sale when:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Income tax

Income taxes for the period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(p) Foreign currencies

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes.

(i) Revenue from the sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

(ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding at the applicable interest rate.

(r) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses and paid annual leaves are accrued in the year in which the associated services are rendered by employees. Where payments or settlements are deferred and the effect would be material, these amounts are stated at their present value.

(ii) Pension obligations

The Group pays contributions to defined contribution plans, being publicly administered pension insurance plans on mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

(s) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Related parties *(continued)*

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the Company's and the Group's assets and liabilities within the next financial year are discussed below.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/written back in the period in which the estimate has been changed.

Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade debtors and other receivables. The identification of doubtful debts requires management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade debtors and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed.

Taxation

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

No deferred tax asset in relation to unused tax losses and deductible temporary differences has been recognised in the Consolidated statement of financial position. In case where taxable future profits are generated, an understatement of current year accounting profit due to the unrecognised deferred tax asset may arise, which deferred tax asset would be recognised in the statement of comprehensive income for the period in which such event takes place.

6. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting, in accordance with the Group's internal organisation and reporting structure, provided to the chief operating decision-maker to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing and sale of health care products
- Distribution of biological compound fertiliser products

(a) Segment revenue and results

For the year ended 31 December 2012

	Health care products RMB	**Fertiliser products RMB**	**Elimination RMB**	**Total RMB**
Revenue to external customers	**89,350,335**	**588,289,787**	**–**	**677,640,122**
Segment profit before income tax expenses	**8,265,940**	**22,661,938**	**–**	**30,927,878**

For the year ended 31 December 2011

	Health care products RMB	Fertiliser products RMB	Elimination RMB	Total RMB
Revenue to external customers	100,148,392	411,002,282	–	511,150,674
Segment profit before income tax expenses	6,549,185	12,452,616	–	19,001,801

6. SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2012 RMB	2011 RMB
Segment assets		
Health care products	**88,860,092**	66,509,565
Fertiliser products	**333,025,184**	257,789,067
Segment assets	**421,885,276**	324,298,632
Unallocated	**90,245**	–
Consolidated total assets	**421,975,521**	324,298,632

The unallocated assets represented the corporate assets of the Company.

	2012 RMB	2011 RMB
Segment liabilities		
Health care products	**74,158,297**	52,817,155
Fertiliser products	**141,707,995**	88,882,095
Segment liabilities	**215,866,292**	141,699,250
Unallocated	**3,479,869**	4,188,273
Consolidated total liabilities	**219,346,161**	145,887,523

The unallocated liabilities represent the corporate payables of the Company.

6. SEGMENT INFORMATION *(continued)*

(c) Other segment information included in segment profit or segment assets

For the year ended 31 December 2012

	Health care products RMB	Fertiliser products RMB	Total RMB
Interest income	**170,240**	**119,761**	**290,001**
Finance costs	**3,928,763**	**3,218,037**	**7,146,800**
Amortisation of prepaid land lease payments	**–**	**405,588**	**405,588**
Depreciation	**836,205**	**7,828,198**	**8,664,403**
Additions to non-current assets	**800,775**	**14,000,637**	**14,801,412**
Loss/(gain) on property, plant and equipment	**37,432**	**(35,475)**	**1,957**

For the year ended 31 December 2011

	Health care products RMB	Fertiliser products RMB	Total RMB
Interest income	25,936	172,447	198,383
Finance costs	2,547,628	3,867,635	6,415,263
Amortisation of prepaid land lease payments	–	304,101	304,101
Depreciation	786,041	9,171,611	9,957,652
Additions to non-current assets	1,067,259	8,296,808	9,364,067
Loss/(gain) on property, plant and equipment	6,990	(4,678,574)	(4,671,584)

(d) Geographical information and major customers

The Group's revenue from external customers is derived solely from its operations in the PRC, where all its non-current assets are located. In 2012 and 2011, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

7. TURNOVER

Turnover, which is also the Group's revenue, represents the invoiced value of goods sold to customers after any allowance and discounts and is analysed as follows:

	2012 RMB	2011 RMB
Fertiliser products	**588,289,787**	411,002,282
Health care products	**89,350,335**	100,148,392
	677,640,122	511,150,674

8. OTHER INCOME AND NET (LOSSES)/GAINS

	2012 RMB	2011 RMB
(Loss)/gain on disposal of property, plant and equipment	**(1,957)**	4,671,584
Government grants (Note)	**43,791**	610,400
Interest income	**290,001**	198,383
Others	**18,177**	251,037
	350,012	5,731,404
Less: Business tax	**(548,377)**	(660,000)
	(198,365)	5,071,404

Note: Government grants mainly represent subsidies granted by the PRC Government to subsidiaries of the Group on the research and development of compound fertilisers. The subsidies were recognised in profit or loss only when the research and development has been completed and fulfilled the criteria set by the PRC Government.

9. PROFIT BEFORE INCOME TAX EXPENSES

	Note	2012 RMB	2011 RMB
Profit before income tax expenses is arrived after charging/ (crediting):			
Finance costs			
Interest expense on bank borrowings wholly repayable within five years		**7,146,800**	6,415,263
Auditor's remuneration		**880,000**	813,262
Cost of inventories recognised as expense		**541,303,689**	411,882,369
Depreciation on property, plant and equipment	15	**8,664,403**	9,957,652
Amortisation of prepaid land lease payments	19	**405,588**	304,101
Allowance for impairment losses on:			
– Trade receivables	21(b)	**3,760,631**	920,686
– Other receivables	22(a)	**87,289**	682,916
Write-down of inventories		**393,267**	396,212
Loss/(gain) on disposal of property, plant and equipment, net		**1,957**	(4,671,584)
Operating lease rentals – land and buildings		**3,620,144**	2,880,968
Staff costs (including emoluments of directors and supervisors – Note 14):			
– Salaries and allowances		**45,361,927**	32,585,101
– Pension fund contribution		**3,063,616**	2,243,672
		48,425,543	34,828,773

10. INCOME TAX EXPENSES

(a) Enterprise income tax ("EIT")

In accordance with the PRC Enterprise Income Tax Law which became effective from 1 January 2008, a unified enterprise income tax rate of 25% is applied to both domestic-invested enterprises and foreign-invested enterprises. Enterprises established prior to 16 March 2007 eligible for preferential tax treatment in accordance with the currently prevailing tax laws and administrative regulations shall, under the regulations of the State Council, gradually be subject to the new tax rate over a five-year transitional period until 2011. Accordingly, the Company can continue to enjoy the preferential tax rates during the transitional period and is subject to EIT rate of 25% for the year (2011: 24%).

Shandong Hidersun Fertiliser Industry Co., Ltd., a foreign invested enterprise, was granted the 5-year tax holiday with full exemption for the first two years, followed by 50% tax exemption for the consecutive three years. The tax holiday started in year ended 31 December 2006 and expired the year ended 31 December 2010. Shandong Hidersun was therefore entitled to unified enterprise income tax rate of 25% during year ended 31 December 2012 (2011: 25%).

10. INCOME TAX EXPENSES *(continued)*

(a) Enterprise income tax ("EIT") *(continued)*

On 27 February 2012, Guangdong Fulilong Compound Fertilisers Co., Ltd. was approved to renew as a new and high technology enterprise and was therefore entitled to a preferential tax rate of 15% (2011: 15%).

On 8 June 2010, Tianjin Alpha Health Care Products Co. Ltd. was approved as a new and high technology enterprise and was therefore entitled to a preferential tax rate of 15% for the period from 8 June 2010 to 7 June 2012. The application of new and high technology enterprise was expired since then the applicable tax rate increased to 25%.

The income tax expenses for the year can be reconciled to the Group's profit before income tax expenses as follows:

	2012 **RMB**	2011 RMB
Profit before income tax expenses	**30,927,878**	19,001,801
Calculated at statutory rate of 25% (2011: 25%)	**7,731,970**	4,750,450
Tax effect of non-taxable items	**(21,118)**	(229,146)
Tax effect of expenses not deductible for taxation purposes	**1,318,408**	1,144,915
Utilisation of tax losses previously not recognised	**(570,729)**	(1,922,923)
Tax rate differential	**(2,019,639)**	(1,214,282)
Under provision in prior years	**270,735**	159,286
Income tax expenses	**6,709,627**	2,688,300

(b) Deferred taxation

At 31 December 2012, the Group and the Company have unused tax losses of RMB1,539,000 and RMB1,539,000 respectively (2011: RMB3,822,000 and RMB3,822,000) available for offset against future profits which would expire within five years since the respective years in which the tax losses were incurred. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of a loss of RMB7,643,986 (2011: RMB7,435,559).

12. DIVIDEND

No dividend has been paid or declared by the Company during the year (2011: Nil).

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to owners of the Company of RMB24,017,317 (2011: RMB14,417,026), divided by the weighted average number of shares of 1,420,000,000 (2011: 1,420,000,000).

Diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares outstanding during the years of 2012 and 2011.

14. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2012 RMB	2011 RMB
Fees	**390,557**	240,889
Salaries, housing and other bonus and allowances	**1,292,988**	1,537,680
Retirement benefits scheme contributions	**203,755**	277,751
	1,887,300	2,056,320

Details of emoluments of individual directors and supervisors are set out below.

Executive directors:

The emoluments paid to executive directors during the year are as follows:

	Fees emoluments RMB	Salaries, allowances and benefits in kind RMB	Retirement benefits scheme contributions RMB	Total RMB
2012				
Mr Wang Shuxin	**–**	**389,690**	**79,537**	**469,227**
Mr Zhang Chunsheng	**–**	**385,874**	**–**	**385,874**
Mr Hao Zhihui	**–**	**353,172**	**77,100**	**430,272**
	–	**1,128,736**	**156,637**	**1,285,373**
2011				
Mr Wang Shuxin	–	355,884	71,662	427,546
Mr Xie Kehua				
(resigned on 10 Jun 2011)	–	242,992	37,199	280,191
Mr Zhang Chunsheng				
(appointed on 8 Aug 2011)	–	191,667	–	191,667
Mr Hao Zhihui	–	310,199	68,178	378,377
	–	1,100,742	177,039	1,277,781

14. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(continued)*

(a) Directors' and supervisors' emoluments *(continued)*

Non-executive directors:

The fees paid to non-executive directors during the year are as follows:

	2012 RMB	2011 RMB
Mr Feng Enqing	**41,355**	38,374
Mr Xie Guangbei	**41,355**	38,374
Mr Wei Jingquan (appointed on 1 Jan and resigned on 10 Jun 2011)	**–**	69,490
Mr Ou Linfeng	**131,072**	131,072
	213,782	277,310

Independent non-executive directors:

The fees paid to independent non-executive directors during the year are as follows:

	2012 RMB	2011 RMB
Mr Guan Tong	**41,355**	38,374
Mr Cao Kai (resigned on 21 March 2013)	**41,355**	34,731
Mr Wu Chen	**41,355**	38,374
	124,065	111,479

Supervisors:

The emoluments paid to supervisors during the year are as follows:

	Salaries, allowances and benefits in kind RMB	Retirement benefits scheme contributions RMB	Total RMB
2012			
Ms Yang Chunyan	**70,384**	**23,526**	**93,910**
Ms Liu Jinyu	**93,868**	**23,592**	**117,460**
	164,252	**47,118**	**211,370**
2011			
Mr Zhao Tingying (resigned on 10 Jun 2011)	138,383	50,987	189,370
Ms Yang Chunyan (appointed on 1 Jan 2011)	64,238	19,061	83,299
Ms Liu Jinyu (appointed on 8 Aug 2011)	42,831	21,590	64,421
	245,452	91,638	337,090

14. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(continued)*

(a) Directors' and supervisors' emoluments *(continued)*

Independent supervisors:

The fees paid to independent supervisors during the year are as follows:

	2012 RMB	2011 RMB
Mr Gao Xianbiao	**26,355**	26,330
Mr Zhao Kuiying	**26,355**	26,330
	52,710	52,660

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2011: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2011: one) individuals during the year are as follows:

	2012 RMB	2011 RMB
Salaries, housing and other allowances	**164,775**	138,382
Retirement benefits scheme contributions	**–**	50,987
Salaries, housing and other allowances	**164,775**	189,369

The emoluments fell within the following bands:

	Number of individuals	
	2012 RMB	2011 RMB
Nil – RMB802,182 (2011: RMB830,231) (equivalent to Nil – HK$1,000,000)	**1**	1

(c) During the year, no emoluments were paid by the Group to the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

None of the directors and supervisors waived any emoluments during the year (2011: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB	Other structures and improvements RMB	Plant and machinery RMB	Motor vehicles RMB	Furniture, fixtures and equipment RMB	Construction in progress RMB	Total RMB
Cost							
At 1 January 2011	51,327,184	–	81,176,164	9,143,147	5,328,105	3,862,337	150,836,937
Additions	346,999	–	849,187	1,181,154	706,827	–	3,084,167
Disposals	(3,507,000)	–	(29,312,539)	(718,924)	(96,139)	–	(33,634,602)
At 31 December 2011	48,167,183	–	52,712,812	9,605,377	5,938,793	3,862,337	120,286,502
Additions	–	6,180,696	941,808	2,143,350	620,558	792,183	10,678,595
Disposals	–	–	–	(1,474,795)	(24,407)	–	(1,499,202)
At 31 December 2012	48,167,183	6,180,696	53,654,620	10,273,932	6,534,944	4,654,520	129,465,895
Accumulated depreciation							
At 1 January 2011	9,874,978	–	31,293,822	5,604,375	2,952,442	–	49,725,617
Charge for the year	1,452,353	–	6,795,531	1,160,130	549,638	–	9,957,652
Written back on disposals	(2,582,528)	–	(16,230,658)	(570,171)	(91,330)	–	(19,474,687)
At 31 December 2011	8,744,803	–	21,858,695	6,194,334	3,410,750	–	40,208,582
Charge for the year (Note 9)	1,301,441	777,095	4,719,258	1,255,252	611,357	–	8,664,403
Written back on disposals	–	–	–	(1,251,753)	(19,138)	–	(1,270,891)
At 31 December 2012	10,046,244	777,095	26,577,953	6,197,833	4,002,969	–	47,602,094
Carrying amount							
At 31 December 2012	38,120,939	5,403,601	27,076,667	4,076,099	2,531,975	4,654,520	81,863,801
At 31 December 2011	39,422,380	–	30,854,117	3,411,043	2,528,043	3,862,337	80,077,920

Notes:

(1) The Group's buildings are held in the PRC under medium-term leases.

(2) At 31 December 2012, the carrying amount of property, plant and equipment pledged as security for certain of the Group's banking facilities amounted to RMB38 million (2011: RMB67 million) (Note 28).

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Plant and machinery RMB	Motor vehicles RMB	Furniture, fixtures and equipment RMB	Total RMB
Cost				
At 1 January 2011	1,113,790	1,219,886	331,563	2,665,239
Additions	–	–	153,458	153,458
Disposals	–	–	(96,137)	(96,137)
At 31 December 2011	1,113,790	1,219,886	388,884	2,722,560
Additions	–	–	15,000	15,000
At 31 December 2012	1,113,790	1,219,886	403,884	2,737,560
Accumulated depreciation				
At 1 January 2011	1,113,790	1,158,892	242,063	2,514,745
Charge for the year	–	–	22,813	22,813
Written back on disposals	–	–	(91,330)	(91,330)
At 31 December 2011	1,113,790	1,158,892	173,546	2,446,228
Charge for the year	–	–	33,580	33,580
At 31 December 2012	1,113,790	1,158,892	207,126	2,479,808
Carrying amount				
At 31 December 2012	–	60,994	196,758	257,752
At 31 December 2011	–	60,994	215,338	276,332

16. GOODWILL

	Group	
	2012	2011
	RMB	RMB
At 31 December	**3,133,932**	3,133,932

Impairment of goodwill

The recoverable amount of the goodwill is determined based on the cash generating unit ("CGU") of the Group's manufacture and distribution of health care food and related products to which the goodwill belongs on the value-in-use basis. The calculation is based on the most recent financial budgets for the next five years approved by management of the Group. The following key assumptions have been made for the purpose of analysis:

1 Gross margin ratio of 46% (2011: 48%)
2 Pre-tax discount rate of 16% (2011: 14%) per year
3 Average growth rate of 7% (2011: 7%)

Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development. The cash flow beyond the five-period period are extrapolated using average growth rate, which does not exceed the average growth rate of the past industry growth rate. The discount rate is determined based on the PRC risk-free interest rate adjusted by the specific risk associated with the CGU.

The recoverable amount of the goodwill determined in the above manner suggested that there was no impairment in the value of goodwill as at 31 December 2012.

The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB	RMB
Unlisted equity investments, at cost	**106,781,397**	106,781,397

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Group's subsidiaries as at 31 December 2012, which are all incorporated and operating in the PRC, are as follows:

	Date of incorporation and legal entity status	Registered capital (RMB'000)	Attributable equity interest held by the Group	Principal activities
Tianjin Alpha HealthCare Products Co. Ltd. 天津阿爾發保健品有限公司	15 August 1994, limited liability company	3,600	100%	Manufacture and distribution of diabetic health food and related products
Shandong Hidersun Fertiliser Industry Co., Ltd. 山東海得斯肥業有限公司	18 September 2005, joint-venture enterprise	62,792	51%	Engaging in the research and development, production and sale of biological fertilisers, combined fertilisers, mixed fertilisers and plant fertilisers including the application of related technology
Guangdong Fulilong Compound Fertiliser Co., Ltd. 廣東福利龍複合肥有限公司	20 August 1996, limited liability company	20,000	100%	Manufacture and sale of compound fertilisers

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group and Company	
	2012	2011
	RMB	RMB
Unlisted equity investment, at cost	**–**	3,000,000

The Company holds 10% of the registered capital of 深圳市諾高生物工程有限公司 ("深圳市諾高"), a private company incorporated in the PRC and is principally engaged in sales and production of medical equipment. The investment is measured at cost less impairment at the end of reporting period because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

In May 2012, the Group decided to dispose of the available-for-sale investment in the forthcoming year and was reclassified to assets classified as held for sale at the end of the reporting period (Note 25).

19. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	RMB	RMB
Cost		
At 1 January	**18,865,324**	13,402,224
Additions	**–**	6,279,900
Disposals	**–**	(816,800)
At 31 December	**18,865,324**	18,865,324
Accumulated amortisation		
At 1 January	**1,377,401**	1,303,351
Charge for the year (Note 9)	**405,588**	304,101
Written back on disposals	**–**	(230,051)
At 31 December	**1,782,989**	1,377,401
Carrying amount		
At 31 December	**17,082,335**	17,487,923
Portion classified as current assets (included in prepayments and other receivables)	**405,589**	304,099
Non-current assets	**16,676,746**	17,183,824
	17,082,335	17,487,923

19. PREPAID LAND LEASE PAYMENTS *(continued)*

The Group's prepaid land lease payments comprise medium term leases of land in the PRC. The Group is in a process of applying for the certificates of certain prepaid land lease payments. At 31 December 2012, prepaid land lease payments pledged as security for certain of the Group's banking facilities approximately RMB3 million (2011: RMBNil) (Note 28).

20. INVENTORIES

	2012		2011	
	Group	Company	Group	Company
	RMB	RMB	RMB	RMB
Raw materials	**51,456,353**	**336,542**	35,655,643	336,542
Work-in-progress	**759,996**	**–**	804,265	–
Finished goods	**36,879,727**	**–**	30,618,882	–
Packaging materials	**10,459,154**	**–**	9,672,553	–
	99,555,230	**336,542**	76,751,343	336,542
Less: Provision for inventory obsolescence	**(1,346,590)**	**(336,542)**	(953,323)	(336,542)
	98,208,640	**–**	75,798,020	–

At 31 December 2012, inventories pledged as security for certain of the Group's banking facilities amounted to RMB71 million (2011: RMB39 million) (Note 28).

At 31 December 2012, no provision made in prior years against the carrying value of finished goods has been reversed (2011: RMB508,631). The reversal of 2011 arose due to increase in the estimated net realisable value of certain fertiliser products with the subsequent sales of those inventories previously reserved for.

21. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB	RMB
Trade receivables (note (a))	**130,105,865**	60,005,285
Less: Allowance for doubtful debts (note (b))	**(7,684,746)**	(3,924,115)
	122,421,119	56,081,170
Bills receivables	**1,200,000**	–
	123,621,119	56,081,170

21. TRADE AND BILLS RECEIVABLES *(continued)*

Notes:

(a) The Group generally grants credit terms of 120 days to major customers and 90 days to others trade customers. As at 31 December 2012, included in trade receivables was an amount of approximately RMB82 million being pledged for bank borrowing (note 28).

The following is an ageing analysis of trade receivables at the end of the reporting periods:

	Group	
	2012	2011
	RMB	RMB
Within 3 months	**89,893,483**	41,067,899
Between 3 to 6 months	**25,465,635**	11,845,354
Between 6 to 12 months	**8,587,123**	3,935,240
Over 1 year	**6,159,624**	3,156,792
	130,105,865	60,005,285

(b) The movements in allowance for doubtful debts during the year are as follows:

	Group	
	2012	2011
	RMB	RMB
At 1 January	**3,924,115**	4,842,794
Impairment loss recognised (Note 9)	**3,760,631**	920,686
Bad debt written off	**–**	(1,839,365)
At 31 December	**7,684,746**	3,924,115

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB7.7 million (2011: RMB3.9 million) with a carrying amount before provision of RMB7.7 million (2011: RMB3.9 million). The Group recognised impairment loss on individual assessment related to customers that were in financial difficulties or had prolonged delay in settlements and management of the Group assessed that the amount is expected to be irrecoverable. The Group does not hold any collateral over these balances.

(c) Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

21. TRADE AND BILLS RECEIVABLES *(continued)*

Notes: *(continued)*

(d) Trade receivables that were past due but not impaired are as follows:

	Group	
	2012	2011
	RMB	RMB
Within 3 months	**25,465,635**	10,707,207
Between 3 to 6 months	**6,470,566**	1,539,126
Between 6 to 12 months	**1,085,228**	–
	33,021,429	12,246,333

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. PREPAYMENTS AND OTHER RECEIVABLES

	2012		2011	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
NON-CURRENT				
Prepayments				
Prepaid promoting expenses	**375,729**	**–**	–	–
CURRENT				
Prepayments				
Prepaid promoting expenses	**2,225,801**	**–**	–	–
Advanced deposits to suppliers	**46,053,910**	**–**	43,905,310	–
Other prepayments	**1,240,514**	**329,005**	675,262	371,162
	49,520,225	**329,005**	44,580,572	371,162
Other receivables	**7,892,947**	**1,992,139**	14,394,704	3,008,352
Less: allowance for doubtful debts (note a)	**(2,375,369)**	**(1,901,894)**	(2,288,080)	(1,401,894)
	5,517,578	**90,245**	12,106,624	1,606,458
	55,037,803	**419,250**	56,687,196	1,977,620

22. PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(a) Allowance for doubtful debts

	2012		2011	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
At 1 January	**2,288,080**	**1,401,894**	1,918,617	1,492,004
Allowance for Impairment loss (Note 9)	**87,289**	**500,000**	682,916	–
Recovery on amounts written off	**–**	**–**	(313,453)	(90,110)
At 31 December	**2,375,369**	**1,901,894**	2,288,080	1,401,894

Other receivables are assessed to be impaired individually at each reporting date and impairment losses of the Group and the Company amounting to approximately RMB2.4 million (2011: RMB2.3 million) and RMB1.9 million (2011: RMB1.4 million) respectively have been made as at 31 December 2012. The individually impaired receivables are recognised based on the indication of financial difficulties and default in payments. Consequently, specific impairment provision was recognised. Prepayments and other receivables are non-interest bearing and the Group does not hold any collateral over these balances.

23. AMOUNT DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are interest-free, unsecured and repayable on demand except for loans of 2011 from a subsidiary totalling RMB43,461,850 that bear interest at 7.23% per annum.

24. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash earn interest at floating rates based on daily bank deposit rates. The carrying amount of the bank balances and cash approximate to their fair values.

As at 31 December 2012, cash and bank balances denominated in RMB amounted to approximately RMB23,191,842 (2011: approximately RMB31,466,740). RMB is not freely convertible into foreign currencies in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

The restricted bank deposits during year ended 31 December 2012 are denominated in RMB and pledged to secure the Group's and Company's credit facilities granted by banks.

25. ASSETS CLASSIFIED AS HELD FOR SALE

	Group and Company 2012 RMB	2011 RMB
Unlisted equity investment, at cost	**3,000,000**	–

Balance represent 10% of the registered capital of 深圳市諾高 which the Group previously held as available for sale investments (Note 18). In May 2012, the Group entered into an agreement to dispose of the investment for consideration of RMB3,000,000 to streamline the Group's investment strategy. The transaction is expected to be completed in the forthcoming year.

26. TRADE AND BILLS PAYABLES

	2012 Group RMB	2012 Company RMB	2011 Group RMB	2011 Company RMB
Trade payables	**35,495,807**	**26,918**	13,086,695	26,918
Bills payables	**32,000,000**	**–**	–	–
	67,495,807	**26,918**	13,086,695	26,918

Generally, the credit terms received from suppliers of the Group and the Company is 90 days. An ageing analysis of year-end trade and bills payables is as follows:

	2012 Group RMB	2012 Company RMB	2011 Group RMB	2011 Company RMB
Within 3 months	**59,316,245**	**–**	8,318,545	–
Between 3 and 6 months	**3,316,668**	**–**	1,989,570	–
Between 6 and 12 months	**2,499,909**	**–**	610,929	–
Over 1 year	**2,362,985**	**26,918**	2,167,651	26,918
	67,495,807	**26,918**	13,086,695	26,918

27. OTHER PAYABLES AND ACCRUALS

	2012 Group RMB	2012 Company RMB	2011 Group RMB	2011 Company RMB
Other payables	**22,189,689**	**906,335**	17,982,319	814,033
Accruals	**5,472,057**	**463,190**	3,876,052	865,883
Receipt in advance	**29,143,842**	**–**	12,638,830	–
Amount due to a shareholder (note i)	**1,500,000**	**–**	–	–
Payable to Social Security Fund (note ii)	**2,573,534**	**2,573,534**	2,660,335	2,660,335
	60,879,122	**3,943,059**	37,157,536	4,340,251

Notes:

(i) Amount due to a shareholder is unsecured, interest-free and repayable on demand.

(ii) Pursuant to the state-owned Shares Reduction Regulations, for any issue of new shares by a joint stock limited company with state-owned shares, 10% of the amount raised by the allotment of new shares shall be payable to 全國社會保障基金理事會 (National Council for the Social Security Fund).

28. BANK BORROWINGS

	2012 Group RMB	2012 Company RMB	2011 Group RMB	2011 Company RMB
Secured against property, plant and equipment, trade and bills receivables inventories and restricted bank deposits (note (i))	**83,300,000**	**–**	50,500,000	–
Unsecured	**–**	**–**	43,000,000	10,000,000
Total (note (ii))	**83,300,000**	**–**	93,500,000	10,000,000

The bank borrowings based on the agreed terms of repayment granted by banks are repayable within one year.

Notes:

(i) Secured against property, plant and equipment, prepaid land lease payment, inventories, restricted deposits and trade and bills receivables with a total carrying amount of about RMB211 million (2011: RMB106 million).

(ii) Certain bank loans were also guaranteed by the Company, a fellow subsidiary of the Group, a director of the Company and independent third parties.

(iii) The bank borrowings of the Group bear interest at fixed and floating effective interest rate ranging from 6.6% to 7.8% (2011: floating rate from 5.6% to 8.2%) per annum.

29. SHARE CAPITAL

(a) The Company's issued and fully paid up capital comprises:

	2012 Number (million)	2012 RMB (million)	2011 Number (million)	2011 RMB (million)
Ordinary shares of RMB0.1 each:				
Domestic shares				
At 1 January and 31 December	**715**	**71**	715	71
H shares				
At 1 January and 31 December	**705**	**71**	705	71
Total at 31 December	**1,420**	**142**	1,420	142

Domestic shares and H shares are both ordinary shares in the share capital of the Company. However, H shares may only be subscribed for by, and traded in Hong Kong dollars between legal and natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in RMB. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in RMB. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

(b) Movements in the Group's reserves are set out in the consolidated statement of changes in equity.

(c) No share options had been granted by the Company under its share option scheme (the "Scheme") since its adoption. At 31 December 2012, none of the directors or supervisors, employees or other participants of the Scheme had any rights to acquire the H Shares in the Company (2011: Nil).

30. RESERVES

The Company	Share premium RMB (note(i))	Capital reserve RMB (note(iii))	Accumulated losses RMB (note(iv))	Total RMB
At 1 January 2011	75,816,410	(2,312,483)	(84,458,751)	(10,954,824)
Profit and total comprehensive income for the year	–	–	5,764,441	5,764,441
At 31 December 2011	75,816,410	(2,312,483)	(78,694,310)	(5,190,383)
Profit and total comprehensive income for the year	–	–	1,356,014	1,356,014
At 31 December 2012	75,816,410	(2,312,483)	(77,338,296)	(3,834,369)

(i) Share premium

Share premium represents premium arising from the issue of shares issued at a price in excess of their par value per share.

(ii) Surplus reserve

In accordance with the PRC Companies Law, the Company and its subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable and can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(iii) Capital reserve

The capital reserve arose primarily as a result of the group reorganisation in 2002.

(iv) Accumulated losses

The accumulated losses represents the cumulative net gains and losses recognised in profit or loss.

31. COMMITMENTS

(a) Capital commitments

At the end of reporting period, the Group had the following significant capital commitments:

	Group 2012 RMB	2011 RMB
Authorised and contracted for		
– Acquisition of property, plant and machinery	**434,000**	662,596

31. COMMITMENTS *(continued)*

(b) Operating lease commitments

At the end of reporting period, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	Group	
	2012	2011
	RMB	RMB
Within one year	**699,156**	1,358,686
After one year but within five years	**959,490**	1,914,661
After five years	**3,896,334**	4,136,207
	5,554,980	7,409,554

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises and staff quarters. Leases are negotiated for terms ranged from 2 to 30 years (2011: 2 to 31 years) and rentals are fixed over the corresponding terms of the leases.

32. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Except for those transactions disclosed elsewhere in these financial statements, there are no other related parties transactions for the year ended 31 December 2012.

Members of key management personnel during the year comprised the executive and non-executive directors only whose remuneration is set out in Note 14 to the financial statements.

33. CAPITAL RISK MANAGEMENT

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debts as total debt (which includes interest-bearing loans and borrowings), less cash and cash equivalents and restricted bank deposits. Adjusted capital comprises all components of equity.

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

33. CAPITAL RISK MANAGEMENT *(continued)*

The net debt-to-adjusted capital ratio at 31 December 2012 and 2011 was as follows:

	Group	
	2012	2011
	RMB	RMB
Total debts – Bank borrowings	**83,300,000**	93,500,000
Less: Bank balances and cash and restricted bank deposits	**(40,057,751)**	(32,336,570)
Net debts	**43,242,249**	61,163,430
Total equity	**202,629,360**	178,411,109
Net debt-to-adjusted equity ratio	**21.3%**	34.3%

34. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's and Company's business.

The main risks arising from the Group's and Company's financial instruments in the normal course of the Group's and Company's business are credit risk, liquidity risk and interest rate risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's and Company's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 6% (2011: 4%) and 24% (2011: 14%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 21 and 22 respectively.

34. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay:

The Group	Carrying amount RMB	Total contractual undiscounted cash flow RMB	Within 1 year or on demand RMB
2012			
Bank borrowings	**83,300,000**	**86,120,498**	**86,120,498**
Trade and bills payables	**67,495,807**	**67,495,807**	**67,495,807**
Other payables	**31,735,280**	**31,735,280**	**31,735,280**
	182,531,087	**185,351,585**	**185,351,585**
Financial guarantees issued			
Maximum amount guaranteed	**–**	**65,000,000**	**65,000,000**
2011			
Bank borrowings	93,500,000	96,928,596	96,928,596
Trade and bills payables	13,086,695	13,086,695	13,086,695
Other payables	24,518,706	24,518,706	24,518,706
	131,105,401	134,533,997	134,533,997
Financial guarantees issued			
Maximum amount guaranteed	–	43,000,000	43,000,000

34. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

The Company	Carrying amount RMB	Total Contractual Undiscounted cash flow RMB	Within 1 year or on demand RMB
2012			
Trade and bills payables	**26,918**	**26,918**	**26,918**
Amount due to a subsidiary	**20,769,961**	**20,769,961**	**20,769,961**
Other payables	**3,943,059**	**3,943,059**	**3,943,059**
	24,739,938	**24,739,938**	**24,739,938**
Financial guarantees issued			
Maximum amount guaranteed	**–**	**25,000,000**	**25,000,000**
2011			
Bank borrowings	10,000,000	10,639,280	10,639,280
Trade and bills payables	26,918	26,918	26,918
Amount due to a subsidiary	10,178,961	10,178,961	10,178,961
Other payables	4,340,251	4,340,251	4,340,251
	24,546,130	25,185,410	25,185,410
Financial guarantees issued			
Maximum amount guaranteed	–	33,000,000	33,000,000

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Bank borrowings were issued at variable rates and at fixed rates for years ended 31 December 2012 and 2011 expose the Group to cash flow interest rate risk and fair value interest risk respectively. The Group has no significant interest bearing assets apart from cash and bank deposits. The Group's interest rate profile as monitored by management is set out below.

The Group's cash flow interest rate and fair value interest-rate risks mainly arise from bank borrowings as disclosed in Note 28. Bank borrowings were issued at fixed rates during year ended 31 December 2011 which expose the Group to fair value interest-rate risk. The Group has cash flow interest-rate risk during the year ended 31 December 2012 as there are borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

34. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's and the Company's borrowings at the end of reporting period.

	Group			
	2012		2011	
	Effective interest rate % per annum	**RMB**	Effective interest rate % per annum	RMB
Borrowings				
Fixed rate borrowings	**7.05%**	**56,000,000**	–	–
Variable rate borrowings	**7.26%**	**27,300,000**	7.21%	93,500,000
		83,300,000		93,500,000

	Company			
	2012		2011	
	Effective interest rate % per annum	**RMB**	Effective interest rate % per annum	RMB
Borrowings				
Amount due from subsidiary	**Nil**	**–**	7.23%	43,461,850
Variable rate borrowings	**Nil**	**–**	7.88%	10,000,000
		–		53,461,850

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit before taxation by approximately RMB432,000 (2011: decrease/increase the Group's profit after taxation by approximately RMB612,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2011.

(d) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in RMB.

34. FINANCIAL RISK MANAGEMENT *(continued)*

(e) Price risk

The Group is not exposed to any equity securities risk. The Group is exposed to the commodity price risk primarily through its purchase of raw materials for the production of fertilisers. The directors manage this exposure by forming a team to closely monitor the price fluctuation and will consider hedging the risk exposure should the need arise.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011, except for the amounts due from subsidiaries which are unsecured, non-interest bearing and have no fixed repayment terms and available-for-sale financial asset which is stated at cost less impairment at the end of reporting period. Given these terms it is not meaningful to disclose their fair values.

(g) Fair values estimation

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the financial assets and financial liabilities as recognised at 31 December 2012 and 2011 may be categorised as follows:

	2012		2011	
	Group RMB	**Company RMB**	Group RMB	Company RMB
Financial assets				
Loans and receivables (including bank balances and cash and restricted bank deposits)	**169,196,448**	**52,537,416**	101,199,626	50,926,856
Assets classified as held for sales	**3,000,000**	**3,000,000**	–	–
Available-for-sale financial assets	**–**	**–**	3,000,000	3,000,000
	172,196,448	**55,537,416**	104,199,626	53,926,856
Financial liabilities				
Financial liabilities measured at amortised cost	**177,062,798**	**3,506,787**	127,229,349	13,501,286

36. CONTINGENT LIABILITIES

As at 31 December 2012, banking facilities of approximately RMB100 million were granted to the Group and the Group utilised approximately RMB83 million during the year ended 31 December 2012. The Group and the Company provided guarantees of approximately RMB65 million (2011: RMB43 million) and RMB25 million (2011: RMB33 million) respectively for the utilised banking facilities.

37. SUBSEQUENT EVENT

Pursuant to announcement dated 17 February 2012, the Company for itself and on behalf of TTII and the placing agent entered into a placing agreement (the "Placing Agreement") pursuant to which the placing agent has conditionally agreed to place, on a best efforts basis, not more than 192,500,000 H shares. The Company hold Extraordinary General Meeting to obtain shareholders' approval on 10 July 2012.

On 15 February 2013, the Company made an announcement that as certain conditions precedent to the Placing Agreement have not been fulfilled and completion has not taken place one year from the date of its execution, the Placing Agreement expired and terminated on 17 February 2013. No New Placing H Shares will be issued by the Company under the Placing Agreement accordingly.

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2013.