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

2013

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 (the "Company") collectively and individually accept full responsibility, is given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange for the purpose of giving information with regard to the Company. The directors of the Company, 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.

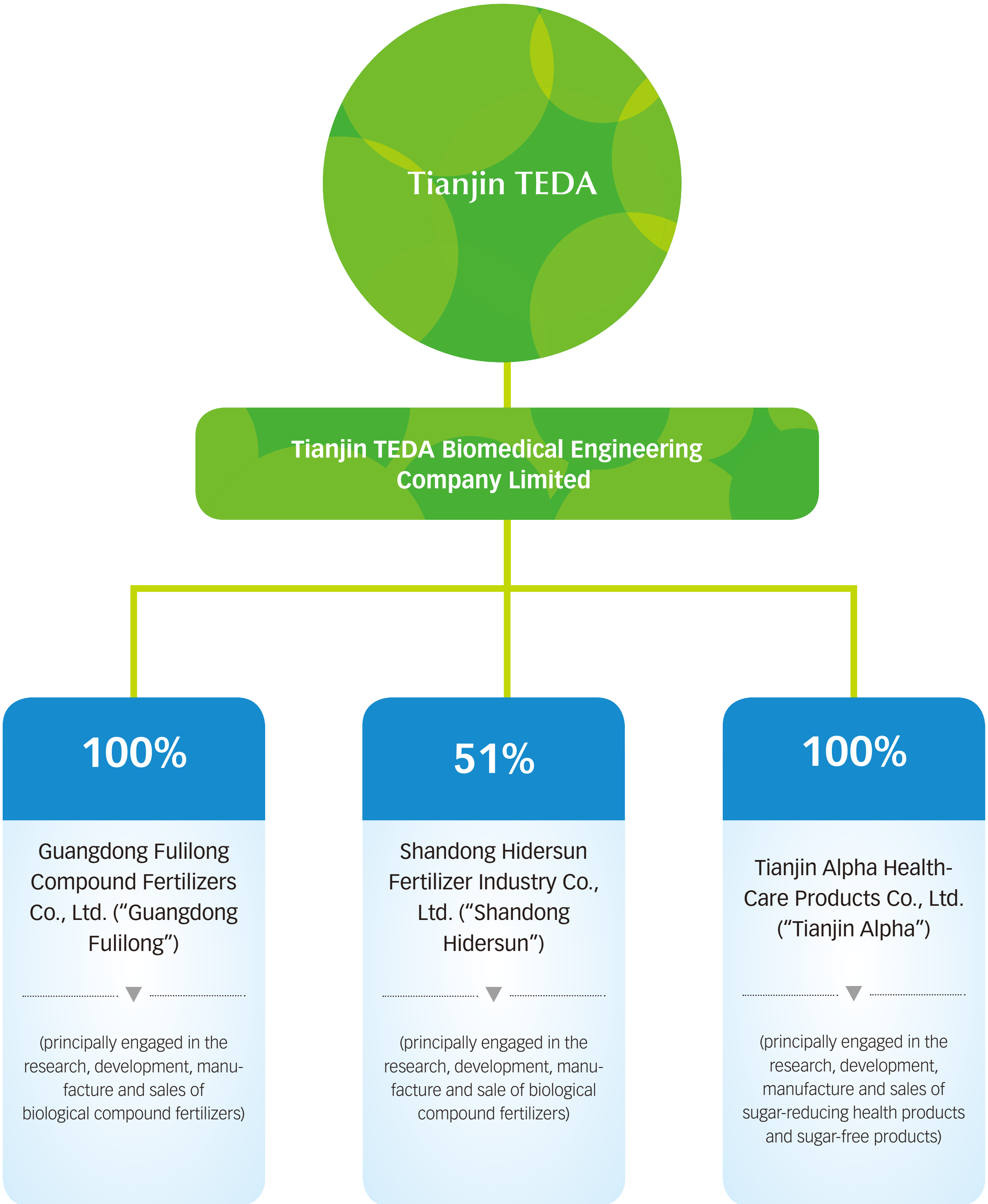
Content

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 currently 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 (resigned on 3 July 2013)

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)
Mr. Chan Kin Sang (appointed on 14 May 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)
Mr. Chan Kin Sang (appointed on 14 May 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

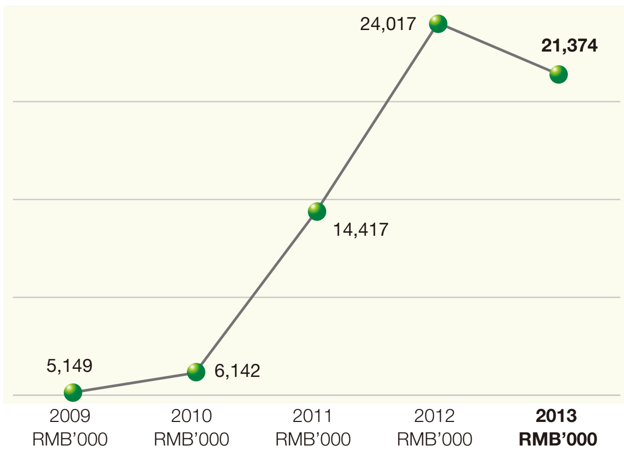
Financial Highlights

	For the year ended 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013 RMB'000**
Results					
Turnover	432,000	429,057	511,151	677,640	**583,112**
Gross profit	85,747	85,760	99,268	136,336	**130,585**
Gross margin	19.85%	19.99%	19.42%	20.12%	**22.39%**
Profit attributable to the shareholders	5,149	6,142	14,417	24,017	**21,374**
Earnings per share	0.46 cents	0.43 cents	1.02 cents	1.69 cents	**1.51 cents**

	For the year ended 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013 RMB'000**
Assets & Liabilities					
Total assets	309,136	309,073	324,299	421,976	**412,864**
Total liabilities	150,432	142,376	145,888	219,346	**188,093**
Equity attributable to the shareholders	134,919	141,061	156,039	180,056	**201,429**

Turnover growth and breakdown

Profit attributable to the Shareholders



Chairman's Statement

Dear shareholders,

In the past year, the recovery of the world economy was slow and treacherous. Since our country's economic development is tangled up with the conflicts and problems which remains unsolved for quite a mid-long period, enterprises have encountered all kinds of difficulties in their operations. They mainly include the weak and insufficient domestic and foreign demand; the problem of excessive production capacity remains acute; and the cost of enterprise operation is rapidly growing. Facing these complex and harsh economic and market conditions, our group, on the whole, has maintained stable growth through the adoption of these measures-dynamic adjustment of the operational strategies, increase of the standard of the operation and management control capability, and strict cost control.

Chairman's Statement

OPERATIONAL REVIEW

Our group currently is focusing our business on two main areas, i.e. biological compound fertilizer and health foods. These two business areas are emerging industries strongly supported by our government.

The compound fertilizer industry is closely related to agricultural production, and thus it is related to the livelihood of the general public. For a prolonged period of time, the product structure of our country's fertilizers is twisted, the use of technology involved in fertilizer products is relatively minimal, the amount of the fertilizers applied is excessive, and their utility rate is relatively low. Consequently, farm lands become hardened and contaminated. Therefore, the eco-agricultural development trend mainly is to promote the use of highly efficient fertilizers and reduce the excessive use of elementary fertilizers. These will benefit the growth of the compound fertilizer industry. During the review period, a wholly-owned subsidiary of our company, Guangdong Fulilong, was approved to set up Guangdong Compound Fertilizer Technology Research Center. The center mainly focuses on developing active fertilizer applied technology. The mission of the center is to meet the needs in the production of major agricultural products and to help to regenerate the agricultural ecosystem. Our group's Zhilong active fertilizers are very popular with farmers.

As our dietary habits and living styles change, China has become a high risk country in getting chronic metabolic diseases like diabetes. According to a research, China currently has 92 million of people with diabetes and 148 million of pre-diasbetes patients, surpassing India to become the country with the highest number of diabetes patients around the world. The morbidity rate of rural residents with diabetes (8.2%) is very close with that of the urban residents (11.4%) and is growing at an accelerated pace. Among them, people over aged 40 with hyperuricemia, hypertension and hyperlipidemia accounted for 18.1%, 20% and 24% of the total number of the affected people respectively, and it is becoming more apparent that incidence of these diseases are found at a younger age. During the review period, a wholly-owned subsidiary of the Company, Tianjin Alpha, pays special attention to the technological cooperation with Tianjin University of Science and Technology, continuously improves the level of nutrition of our health foods and drinks, and strengthens the promotion of the idea of 'health' in the products sold. All these measures will help consolidate Alpha's brand name and its competitiveness in the retail health foods industry.

Chairman's Statement

FINANCIAL REVIEW

In the year ended 31 December 2013, the two business areas in our group have recorded a total sales of RMB583,111,851, a drop of 13.95% from that of a year earlier. As the gross profit margin of 22.39% shows an increase when compared with last year, the gross profit of RMB130,584,662 only decreases by 4.22% compared to the same period in 2012. During the review period, profit attributable to shareholders totals RMB21,373,605, representing a decrease of 11.01% compared to the same corresponding period last year. Earning per share of the Company is RMB1.51 cent. During the review period, our group tries to mitigate the impact of unfavourable market conditions on our profits. We have adopted various measures including increase of operation and management control capability and strict control of cost expenses.

FUTURE PROSPECTS

Looking ahead to 2014, we expect the global economy will gradually stabilize as a whole but domestic demand will continue to decrease. Our group will continue to make progress with caution and with a mindset of building a strong foundation. We will try our endeavours to reduce expenses to maintain a healthy and stable development of the company.

This year, document No. 1 from our government clearly mandates an efficient and perfect national food safety protection system. The central government proposes that the food safety strategy to be elevated to the national security level. We cannot eliminate the importance of fertilizers on food safety. Compound fertilizers have high content nutrients, less side effects and good physical states. It has a great impact on balanced fertilizing, increase of utilization rate and promotion of high and stable production of crops. The new eco-compound fertilizers enjoy a bright future. A wholly-owned subsidiary of our company, Guangdong Fulilong, together with the Agricultural Resources and Agricultural District Planning Research Center of the Chinese Academy of Agricultural Science, have jointly set up a fertilizer technology Center in the Chinese Academy of Agricultural Science whose name is "Fulilong active Fertilizer Laboratory". The joint venture will strive to conduct research on the active fertilizer in China, and lead the continuous research of Chinese active fertilizers in the areas of systemic development, low cost, high efficiency and environmental protection. The successful development of active compound fertilizers will create more economic and social benefits to the group and society.

Chairman's Statement

As the level of living standards and pace of work are getting higher and faster, consumers have paid more attention to their health, bringing a golden business opportunity to the health food industry. The future trend and development of health foods have become the main concerns of consumers and investors. The market development of health foods will become regulated. Spending continues to increase in a rational manner. Health foods will become results-oriented and focus on market segmentation. The channel of sales will have more variety. Sales and marketing are gradually getting to be more professional and refined. A wholly-owned subsidiary of our company, Tianjin Alpha, will closely cooperate with Tianjin University of Science and Technology on the research and development of new health foods based on market needs. We will further optimize product structures and increase the production capacity. We will leverage the brand name of Alpha to further expand sales channels and networks, in order to build up the core competitiveness of the company step by step.

Lastly, I would like to take this opportunity to express my sincere gratitude to the board of directors and staff for their hard work and contribution. I also want to thank all the shareholders for their continuous support and trust throughout the years.

Wang Shuxin
Chairman

19 March 2014

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Discussion and Analysis

Management Discussion and Analysis

BUSINESS REVIEW

Biological compound fertilizer

Our nation is an agricultural country with high productivity and consumption of biological fertilizer. Since the industry is lowly-consolidated, the development of the industry is unbalanced and technical level is highly variable at this moment, the capability of providing professional services needs to be improved. Moreover, as the abusive application of fertilizers has worsened problems like soil compaction and environmental pollution, people placed more stringent requirements on the ecologically environmental aspect of compound fertilizer. The overall characteristics of our compound fertilizer market in 2013 are excessive over-capacity, downward prices, weak demand, keen competition and sluggish export. Since the prices of raw materials continued to decrease, the pressure on inventory levels of a number of enterprises was higher. In addition, the market demand decreased since natural disasters like floodings, droughts and pests impacted a number of regions around the nation in different extents. In face of the unfavorable market situation, during the period of review, Guangdong Fulilong, a wholly-owned subsidiary of the Company, adopted necessary contingency measures to cope with the challenges. First, to quickly respond to the calling of applying fertilizer in soil testing formula promoted by the Ministry of Agriculture of our nation. In order to accelerate the development of our nation's new type fertilizers towards the directions of high efficiency with low consumption, energy-saving and environmentally friendly, Guangdong Fulilong and Chinese Academy of Agricultural Sciences established 'Fulilong Working Station of Chinese Academy of Agricultural Sciences' Central Laboratory of Land-testing Formula Fertilizer' in collaboration with China Land Specialist Hospital to provide effective guarantee for smooth promotion of fertilizer in land-testing formula in Southern China. Second, to actively strengthen internal corporate management and control the production cost as well as different items of expenses, so as to guarantee that the impact on the group's profits is minimized if the sales volume of compound fertilizer decreases. Third, to continue the integration of sales channels and further improve the efficiency of those sales channels, so as to guarantee that the aforementioned sales channels are able to maintain their competitive advantages, whereas actively adjust the product structure and emphasizes on promoting Zhilong active fertilizers with higher gross profits.

Health care products

Nutrition and health care products are regarded as important components of the health industry. It is a livelihood industry and a genuine sunrise industry which economically advanced countries around the world generally placed emphasis on its development. In the "Twelfth Five-year Development Plan for the Food Industry" in our country, nutrition and health care products are regarded as a key developing item in the food production industry with a goal of expanding the market size with RMB1 trillion by the end of 2015. In 2013, nutrition and health care products of China has entered into an extremely typical development stage. On one hand, the regulation and supervision of the governmental regulatory departments was unprecedentedly strict; on the other hand, people's willingness on making consumption was unprecedentedly high and the pursuit of capital investment increased day by day. It is a fact that the rise of the health care product market in China is mainly contributed by the increasing health care awareness and the concern towards food safety among domestic consumers. During the period under review, Tianjin Alpha, a wholly-owned subsidiary of the Group, has leveraged on the advantages of its own brand in the PRC, put greater effort on improving the level of nutrition of its own health care products and beverages and focused on the idea of "health" in its promotion strategy. It has further enhanced the competitiveness in this industry of its sugar-free products, including low-glucose cookies, cereal for diabetes and calcium-rich milk powder as well as sugar-free beverages and sugar-free mooncakes.

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover, gross profit and gross margin

For the year ended 31 December 2013, the major businesses of the Group were biological compound fertilizer products and medical and health products, which in aggregate achieved annual sales of RMB583,111,851, representing a decrease of 13.95% as compared to last year (31 December 2012: RMB677,640,122). In particular, the Group recorded an annual sales of RMB487,506,072 for compound fertilizer products, representing a decrease of 17.13% as compared to last year (31 December 2012: RMB588,289,787); the Group recorded an annual sales of RMB95,605,779 for health care products, representing an increase of 7.00% as compared to last year (31 December 2012: RMB89,350,335).

For the year ended 31 December 2013, the overall gross profit of the Group's two businesses was RMB130,584,662, representing a decrease of 4.22% as compared to last year (31 December 2012: RMB136,336,433); the overall gross margin of the Group was 22.39%, representing an increase compared to last year (31 December 2012: the overall gross margin was 20.12%). During the review period, the two Group's two businesses adopted the strategies of tightening production cost control and adjusting the prices of products in a timely manner according to the market changes and to further promote products with higher gross profit, as a result of which there was a significant improvement in the Group's overall gross margin.

Other income and net gains

For the year ended 31 December 2013, other income and net gains of the Group was RMB1,936,533 (31 December 2012: RMB198,365). The details are set out in Note 8 to the accounts.

Selling and distribution costs

For the year ended 31 December 2013, selling and distribution costs of the Group was RMB46,337,136, representing an increase of 5.56% as compared to last year (31 December 2012: RMB43,897,995); during the review period, under the complex market environment, the Group adopted comprehensive measures to significantly expand and to reasonably develop the sales channels while strengthening brand promotion and the marketing campaigns of new products at the same time, as a result of which there was an increase in selling and distribution costs as compared to last year.

Administrative expenses

For the year ended 31 December 2013, administrative expenses of the Group were RMB28,995,919 (31 December 2012: RMB36,204,066), representing a decrease of 19.91% as compared to last year. During the review period, the Group adopted various measures to efficiently control the administrative expenses, including the implementation of flat management system, reasonable adjustment of the managements' duties and efficient enhancement of human resources.

Research and development expenses

For the year ended 31 December 2013, research and development expenses of the Group were RMB20,961,537, representing an increase of 16.70% as compared to last year (31 December 2012: RMB17,961,329). During the review period, the research and development of the Group mainly focused on Zhilong active fertilizers and new health care products as well as technology improvement.

Finance costs

For the year ended 31 December 2013, finance costs of the Group were RMB7,606,131, representing an increase of 6.43% as compared to last year (31 December 2012: RMB7,146,800), mainly due to the fact that additional bank loans were required for the Group's operations. The details are set out in Note 9 to the accounts.

Profits for the year

For the year ended 31 December 2013, the profit attributable to the owner of the Company was RMB21,373,605, representing a decrease of 11.01% as compared to last year (31 December 2012: RMB24,017,317); earnings per share of the Company were RMB1.51 cents compared to RMB1.69 cents of the same period of last year. During the review period, the Group minimized the impacts brought by the unfavorable market environment to the Group's profitability through enhancing the operational control capability and adopting strict cost control.

STRUCTURE OF SHARE CAPITAL

As at 31 December 2013, the structure of share capital of the Company is set out in Note 28 to the accounts.

Management Discussion and Analysis

PLACING

On 3 May 2013, the Board resolved to appoint China Merchants Securities (HK) Co., Ltd., as the placing agent in relation to a placing of not more than 192,500,000 H Shares (for itself and for Tianjin TEDA International Incubator) at a discount of not more than 15% of the average closing price of H Shares during the 5 consecutive trading days immediately prior to the date on which the placing price is agreed (the "Placing"). The 192,500,000 H Shares represent approximately 13.56% and 27.30% respectively of the existing total issued share capital and the existing issued H Shares of the Company as at the date hereof. The Placing and a specific mandate to issue the placing shares were approved by the shareholders of the Company on 25 July 2013. The Placing is pending for the fulfillment of certain conditions precedent as disclosed on the circular of the Company dated 3 June 2013.

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 2013 and the year ended 31 December 2012 are disclosed in Note 6 to the accounts.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During 2013, the Group financed its operations mainly by internally generated cash and banking facilities.

As at 31 December 2013, the Group's current assets and net current assets were RMB324,462,606 (31 December 2012: RMB319,925,313) and RMB136,370,036 (31 December 2012: RMB100,579,152) respectively. The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was 1.73 (31 December 2012: 1.46). The Group's current assets as at 31 December 2013 comprised mainly cash and bank balances of RMB43,108,953 (31 December 2012: RMB23,345,651), trade and bills receivables of RMB111,878,457 (31 December 2012: RMB123,621,119) and inventories of RMB109,138,521 (31 December 2012: RMB98,208,640).

As at 31 December 2013, the total bank borrowings of the Group amounted to RMB102,300,000 (31 December 2012: RMB83,300,000), and the total bills payable amounted to RMB1,000,000 (31 December 2012: RMB32,000,000). The bank borrowings are denominated in Renminbi and provided by various licensed banks in China with fixed and variable interest rates ranging from 6.2% to 8.6% (31 December 2012: 6.6% to 7.8%) per annum. Out of all the bank borrowings, a total amount of RMB43,500,000 will mature in the first half of 2014, a total amount of RMB58,800,000 will mature in the second half of 2014.

As at 31 December 2013, the Group's consolidated total assets and net assets were about RMB412,863,536 (31 December 2012: RMB421,975,521) and RMB224,770,966 (31 December 2012: RMB202,629,360) respectively. The Group's consolidated gearing ratio, defined as the ratio of total liabilities to total assets, was 0.46 (31 December 2012: 0.52). As at 31 December 2013, the Group's gearing ratio, defined as the ratio of total bank borrowings to total assets, was 0.25 (31 December 2012: 0.20).

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2013, the Group and the Company had contingent liabilities amounting to RMB65,000,000 (31 December 2012: RMB65,000,000) and RMB45,000,000 (31 December 2012: RMB25,000,000) respectively in connection with the provision of guarantee as security for bank loans granted to its subsidiaries.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2013, the Group had 560 employees (2012: 631 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.

Management Discussion and Analysis

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 POLICIES

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

Looking forward, there will be a trend of stabilizing international economy from the macro perspective and a downward pressure for local demand in 2014. The Group will strive for a steady growth and reduce operation cost progressively in order to maintain a healthy and stable growth.

Compound fertilizers are the basis of modern agricultural industry. With limited land resources and decreasing cultivated land areas as well as an increasing population all around the world, compound fertilizers have gained prominence in agricultural industry. At a central economic work conference held on a December 2013 in Beijing, "ensure the nation's food security" has been given first priority in the nation's list of commitment for 2014. The central government put forward its strategy for enhancing food safety to national standard. Not only did the nation focus on food safety but it also proposed various sustainable development in a permanent, adaptative and environmentally-friendly manner. In view of overcapacity, serious product homogeneity, intense market competition, players in compound fertilizer industry are now competing their integrated strength including qualities, brands, capital, technologies and services. It is believed by the Company that brand promotion, system construction and product innovation are the keys to success in the market. Guangdong Fulilong Compound Fertilizers Co., Ltd, a wholly-owned subsidiary of the Company, entered into a strategic cooperation agreement with the Institute of Agricultural Resources and Regional Planning of Chinese Academy of Agricultural Sciences for the establishment of "Fulilong's laboratory for active fertilizer"under the technological centre of Chinese Academy of Agricultural Sciences (中國農業科學院). All parties endeavor to study the development of active fertilizers in the PRC and paved the way for growth with certain scale, low cost, high efficiency, environmentally friendly.

Following the rapid social and technological development, and the intensive changes in population structure and modern living style, people become eager to lead their lives in a healthy way. The healthy product industry of the PRC is growing rapidly and its market size is expanding continuously. In addition, healthy products keeps increasing in its significance in the nations's economy, in particular the healthy products industry, and has become a new impetus in motivating the economic development of the nation. According to forecast made by authoritative experts,subsequent to revolution in relation to industry, commerce and internet, there will be a new revolution brought forward by nutritious and healthy products. Today, the social economy in the PRC is in its historical stage of rapid transformation. Development of nutritious and healthy product industry is an effective means in the expansion of domestic demand and the control of rapid increase in chronic diseases. Following the continuous perfection of the laws and regulations of the PRC, the disorderly market competition will be much reduced under the raising entry barrier in the healthy product industry. Disqualified enterprises or products will then be eliminated from the market. The Group will capture this historical golden opportunity. In the future, it will consolidate its target markets of

Management Discussion and Analysis

healthy products, re-optimize the product structure and increase the productivity. It will also actively cooperate with Tianjin University of Science and Technology (天津科技大學) to develop new healthy food for enhancement in the quality of the products. In addition, the Group will design and develop applicable electronic business platform for products, explore electronic sales channels, allocate usable resources scientifically and develop practical marketing portfolio as well as organize relevant implementation. Further, it will adjust its product price to a reasonable level with reference to any changes in cost and establish channels for marketing with a series of promotion campaigns be held for specific products. It is believed that all these help in realization of our business objectives set for healthy food.

To address the complicated and tough economic situation and market condition ahead, the Group will strengthen its internal management comprehensively, further enhance its operation control, adopt stringent measure to address challenges and realize sustainable development to achieve the best return for our Shareholders.

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 (the "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.

1. MEETING OF THE SUPERVISORY COMMITTEE

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

1. On 21 March 2013, the Supervisory Committee held the first meeting in 2013, at which the consolidated financial statements of the Group for the year 2012 audited by BDO Limited was reviewed and approved;

2. On 9 May 2013, the Supervisory Committee held the second meeting in 2013, at which the first quarterly report of the unaudited results for the three months ended 31 March 2013 was reviewed and approved;

3. On 8 August 2013, the Supervisory Committee held the third meeting in 2013, at which the half-year report of the unaudited results of the Company for the six months ended 30 June 2013 was reviewed and approved;

4. On 7 November 2013, the Supervisory Committee held the fourth meeting in 2013, at which the third quarterly report of the unaudited results of the Company for the nine months ended 30 September 2013 was reviewed and approved.

2. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE OPERATION OF THE COMPANY IN 2013:

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.

Report of the Supervisory Committee

2. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE OPERATION OF THE COMPANY IN 2013: *(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 omission of important material facts, and is favorable for the shareholders to truly understand the financial and operational status of the Company.

In the coming year, the members of the Supervisory Committee will continue to improve their working capabilities, enhance their senses of responsibilities and adhere to principles, while being bold, fair and responsible when performing their duties. Meanwhile, the Supervisory Committee will further improve the corporate governance, enhance the consciousness of self-discipline and sense of integrity, strengthen the supervisory intensity as well as earnestly bear the responsibilities of protecting shareholders' interests in accordance with the Company Law.

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

19 March 2014

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 2013.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

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 28 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 39 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 2013 calculated under the Company's bye-laws amounted approximately to RMBNil (2012: 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 43 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 2013 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.

Directors' Report

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2013, the Group and the Company had contingent liabilities amounting to RMB65,000,000 (31 December 2012: RMB65,000,000) and RMB45,000,000 (31 December 2012: RMB25,000,000) respectively 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	21.80%
– Five largest suppliers combined	36.82%
Sales	
– The largest customer	3.51%
– Five largest customers combined	11.50%

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, SUPERVISORS AND SENIOR MANAGEMENT

The directors, supervisors and senior management during the year were:

Executive Directors

Mr. Wang Shuxin
Mr. Hao Zhihui
Mr. Zhang Chunsheng (resigned on 3 July 2013)

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)
Mr. Chan Kin Sang (appointed on 14 May 2013)

Supervisors

Ms. Yang Chunyan
Ms. Liu Jinyu

Independent Supervisors

Mr. Gao Xianbiao
Mr. Zhao Kuiying

Senior Management

Chief Executive Officer
Mr. Zhang Chunsheng (resigned on 3 July 2013)
Mr. Wang Shuxin (appointed on 3 July 2013)

Qualified Accountant and Company Secretary
Mr. Ng Ka Kuen Raymond

Directors' Report

The Company has two executive directors,three non-executive directors and three independent non-executive directors 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 subject to re-election every three years. All the directors and supervisors of the Company were recently reelected by the shareholders of the Company for a term of three years at the extraordinary general meeting held on 27 December 2013.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Wang Shuxin ("Mr. Wang") , aged 49, 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. 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. Wang has been appointed as the Chairman of the Board of Directors of the Company since September 2000 and he also started to serve as Chief Executive Officer of the Company since 3 July 2013.

Mr. Hao Zhihui ("Mr. Hao") , aged 52, 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 47, 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 served as the Chief Executive Officer of the Company since April 2011 and the executive director of the Company since August 2011, both till 3 July 2013.

Directors' Report

Non-executive Directors

Mr. Feng Enqing ("Mr. Feng") , aged 55, 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 chief engineer of Tianjin Xinggang Textile Manufacture (天津新港紡織廠). Mr. Feng is a director of Alpha and the chief engineer of TTII from 2001 to 2004 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 has been appointed as a non-executive director since then.

Mr. Xie Guangbei ("Mr. Xie") , aged 59, 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 43, 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 has been appointed as a non-executive director of the Company since August 2011.

Independent Non-executive Directors

Mr. Guan Tong ("Mr. Guan") , aged 45, 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 ("Mr. Wu") , aged 69, 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.

Directors' Report

Mr. Cao Kai ("Mr. Cao") , aged 57, graduated from Northwest College of Agronomy with a bachelor's degree in 1985. Mr. Cao is a highend 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.

Mr. Chan Kin Sang ("Mr. Chan", alias: Mr. Peter K. S. Chan) , aged 62, is the sole proprietor of Messrs. Peter K. S. Chan & Co., Solicitors and Notaries. Mr. Chan graduated from the University of Hong Kong with a bachelor's degree in laws in 1979. Mr. Chan has been a practising solicitor in Hong Kong since 1982. Mr. Chan was admitted as a notary public in 1997 and as a China-appointed attesting officer in 2000. He is currently a Fellow of the Hong Kong Institute of Directors. Mr. Chan has been appointed as an independent non-executive director of the Company since May 2013.

Mr. Chan currently acts as independent non-executive directors of several Hong Kong and overseas listed companies, namely China Taifeng Beddings Holdings Limited (Stock Code: 873) and China Percious Metal Resources Holdings Co., Ltd. (Stock Code: 1194) listed on the Stock Exchange, as well as Luxking Group Holdings Limited (Stock Code: L34) listed on Singapore Exchange Securities Trading Limited ("SGX-ST"). Mr. Chan also acts as non-executive directors of a number of Hong Kong and overseas listed companies, namely Combest Holdings Limited (Stock Code: 8190) listed on GEM of the Stock Exchange, and Pan Hong Property Group Limited (Stock Code: P36) listed on SGX-ST. In the past three years, Mr. Chan acted as director of a number of Hong Kong and overseas listed companies, namely United Pacific Industries Limited (Stock Code: 176) , Pacific Plywood Holdings Limited (Stock Code: 767) , Zhongda International Holdings Limited (Stock Code: 909) and Mayer Holdings Limited (Stock Code: 1116) which are all listed on the Stock Exchange, as well as Ming Kei Holdings Limited (Stock Code: 8239) listed on GEM of the Stock Exchange and People's Food Holdings Limited (Stock Code: P05) listed on SGX-ST.

Supervisors

Ms. Yang Chunyan ("Ms. Yang") , aged 37, 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 has been appointed as Chairman of the Trade Union of the Group since 28 June 2007 and a supervisor of the Company since January 2010.

Ms. Liu Jinyu ("Ms. Liu") , aged 41, 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 has been appointed as a supervisor of the Company since August 2011.

Directors' Report

Independent Supervisors

Mr. Gao Xianbiao ("Mr. Gao") , aged 52, graduated from the Agricultural Soil Department (土壤農化系) of Shandong Agricultural Industry University (山東農業大學) in 1982. Mr. Gao 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 ("Mr. Zhao") , aged 45, is an economist. Mr. Zhao 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", resigned as the Chief Executive Officer of the Company on 3 July 2013.

Mr. Wang Shuxin, whose biographical details are set out in the section headed "Executive Directors" has been appointed as the Chief Executive Officer of the Company in place of Mr. Zhang since 3 July 2013.

Qualified Accountant and Company Secretary

Mr. Ng Ka Kuen Raymond ("Mr. Ng"), aged 53, 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.

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 service contracts of the Company's directors and supervisors were renewed for a term of three years commencing from 1 January 2014 as approved at the extraordinary general meeting held on 27 December 2013 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 by the shareholders of the Company 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.

Directors' Report

MATERIAL CONTRACTS

Save for the directors' and supervisors' service contracts disclosed in this annual report, no material contracts (including provision of 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 HIGHEST PAID PERSONS

Details of directors' remuneration and the top five highest paid 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. Chan Kin Sang, 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 (the "GEM Listing Rules") and the Company still considers the independent non-executive directors to be independent.

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

As at 31 December 2013, 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 (Note 2)	–	2,415,000 (Note 1)	–	–	2,415,000	0.17%

Note 1: 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.

Note 2: Mr. Zhang Chunsheng resigned as an executive director and the chief executive officer of the Company on 3 July 2013.

Save as disclosed in this paragraph, as at 31 December 2013, 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' Report

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 2013, 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:

Names 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 2013, 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.

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 2013, none of the Directors, the Supervisors, or the management shareholders and their respective associates of the Company (as defined the GEM Listing Rule) 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.

Directors' Report

SHARE OPTION SCHEME

For the year ended 31 December 2013, the Company has no existing share option 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. Chan Kin Sang, 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 2013.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 27 to 36 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 14 May 2013, BDO Limited ("BDO") was re-appointed,and 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 2013 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, 19 March 2014

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 except Code provision A.2.1 of the Code during the period under review.

DIRECTORS' SECURITIES TRANSACTION

For the year ended 31 December 2013, 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 with 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 eight Directors of the Company including two 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 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 20 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 overall corporate strategy, annual and interim results, implementation of corporate plans, risk management, major acquisitions, disposals and capital raising, and other significant operational and financial matters. The Chairman of the Board has focused on the effective operation of the Board, and encouraged 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 supervised the implementation and review of 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 publication, execution of business strategies and initiatives adopted by the board of Directors, effective implementation of internal controls system and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. Pursuant to the requirements set out in Code, the Chairman has carried out measures to ensure that the management provides updated information to all the members of the Board on a monthly basis, which contains 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 has also taken appropriate measures to keep in touch with the shareholders and make sure that the opinions of the shareholders can be heard by the Board; to encourage and help the non-executive Directors to make contributions to the Board and to ensure that the executive Directors maintain a constructive relationship with the non-executive Directors.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Board Composition and Board Practices *(continued)*

The Board members for the year ended 31 December 2013 were:

Executive Directors

Mr. Wang Shuxin
Mr. Hao Zhihui
Mr. Zhang Chunsheng (resigned on 3 July 2013)

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)
Mr. Chan Kin Sang (appointed on 14 May 2013)

Pursuant to the requirements of Code provision A.2.1 of the Code, the Chairman of the Board and the Chief Executive Officer shall be performed 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.

However, following the resignation of Mr. Zhang from the post of Chief Executive Officer on 3 July 2013, Mr. Wang becomes the Chief Executive Officer of the Company in place of Mr. Zhang. Such practice deviates from code provision A.2.1 of the Code which requires that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Wang, the Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Wang to hold both positions as it helps to maintain the continuity of the policies and the stability of the operations of the Company until suitable candidates could be identified for the appointment as a Chief Executive Officer of the Company. The Company has been proactively recruiting candidates for the post of Chief Executive Officer through different means so as to fulfill the requirements of A.2.1 of the Code as soon as possible for increasing the transparency and independence of corporate governance.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Board Composition and Board Practices *(continued)*

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 the 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 standard as well as providing adequate checks and balances for safeguarding the 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 2013, 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 has met on other occasions when a board-level decision on a particular matter was required. The Directors has received details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The Directors have attended 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 has been 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 have been treated the same as other members of the Board, and have attended the board meetings and the committee meetings where they served 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 have also attended general meetings and developed 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 two special trainings in relation to the GEM Listing Rules for the Directors, Supervisors and the senior management, which covered the revised provisions of the GEM Listing Rules in respect of the continuing obligations of disclosure of inside information of listed companies and 'Environmental, Social and Governance Reporting Guide'.

Corporate Governance Report

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 Meeting**	**Attendance/ Number of General Meetings**	**Attendance/ Number of the Training Course**
Executive Directors			
Mr. Wang Shuxin	7/7	3/3	2/2
Mr. Hao Zhihui	7/7	3/3	2/2
Mr. Zhang Chunsheng (resigned on 3 July 2013)	2/4	0/1	0/1
Non-executive Directors			
Mr. Feng Enqing	7/7	1/3	2/2
Mr. Xie Guangbei	7/7	1/3	2/2
Mr. Ou Linfeng	5/7	0/3	2/2
Independent Non-executive Directors			
Mr. Guan Tong	7/7	3/3	2/2
Mr. Wu Chen	7/7	3/3	2/2
Mr. Cao Kai (resigned on 21 March 2013)	0/3	0/0	0/0
Chan Kin Sang (appointed on 14 May 2013)	2/3	0/2	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 seven 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 2013 and the 2013 annual report.

Corporate Governance 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	7/7
Mr. Wu Chen	7/7
Mr. Cao Kai (resigned on 21 March 2013)	0/3
Mr. Chan Kin Sang (appointed on 14 May 2013)	3/3

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 14 May 2013 until the conclusion of the forthcoming annual general meeting of the Company.

The annual financial statements for the financial year ended 31 December 2013 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 2013 (for the year ended 31 December 2012: 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:

	Fee Charged	
Types of Services	**for the year ended 31 December 2013 RMB'000**	for the year ended 31 December 2012 RMB'000
Audit for the Group	**922**	880

Corporate Governance Report

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 members, namely Mr. Guan Tong and Mr. Wu Chen, who are independent non-executive directors.

The primary duties of the Nomination Committee cover the reviewing of the structure of the Board as well as combining the business model and actual needs through considering factors like the number of directors on the Board, the balance of composition of executive directors and non-executive directors, professional experience, cultural and educational background, etc., so as to enhance the diversity of the members of the Board and strengthen the independence elements. 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 are also the duties of the Nomination Committee.

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

Name of Members	**Attendance/ Number of Meetings held**
Mr. Wang Shuxin	3/3
Mr. Guan Tong	3/3
Mr. Wu Chen	3/3

During the year under review, the nomination committee conscientiously performed its duties. Three meetings were held to review 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. In addition, the nomination committee has proposed the appointment of Mr. Chan Kin Sang as an independent non-executive director of the Company upon resignation of Mr. Cao Kai.

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.

Corporate Governance Report

REMUNERATION COMMITTEE *(continued)*

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

Name of Members	**Attendance/ Number of Meetings held**
Mr. Guan Tong	3/3
Mr. Xie Guangbei	3/3
Mr. Wu Chen	3/3

During the year under review, the remuneration committee performed its duties conscientiously. Three meetings were held to review the remuneration policy and structure of the Group, determine the remuneration packages of the Directors and members of the senior management, assess the performance of all Directors and senior management, review and approve the performance-linked remuneration by reference to the operation goals of the Company passed by the Board and make recommendations to the Board in order to ensure the Company has properly disclosed the detail os the remunerations payable to all the directors and members of senior management, whether individually or on a named basis. 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

	2013 (RMB)			2012 (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	**485,552**	**92,814**	**578,366**	389,690	79,537	469,227
Mr. Hao Zhihui	**447,224**	**90,234**	**537,478**	353,172	77,100	430,272
Mr. Zhang Chunsheng (resigned on 3 July 2013)	**288,116**	**–**	**288,116**	385,874	–	385,874
Non-executive Directors						
Mr. Feng Enqing	**41,355**	**–**	**41,355**	41,355	–	41,355
Mr. Xie Guangbei	**41,355**	**–**	**41,355**	41,355	–	41,355
Mr. Ou Linfeng	**–**	**–**	**–**	131,072	–	131,072
Independent Non-executive Directors						
Mr. Guan Tong	**41,355**	**–**	**41,355**	41,355	–	41,355
Mr. Wu Chen	**41,355**	**–**	**41,355**	41,355	–	41,355
Mr. Cao Kai (resigned on 21 March 2013)	**13,785**	**–**	**13,785**	41,355	–	41,355
Mr. Chan Kin Sang (appointed on 14 May 2013)	**89,250**	**–**	**89,250**	–	–	–

Corporate Governance Report

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT *(continued)*

	2013 (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 (resigned on 3 July 2013)	**288,116**	**–**	**288,116**	385,874	–	385,874
Mr. Wang Shuxin (appointed on 3 July 2013)	**485,552**	**92,814**	**578,366**	389,690	79,537	469,227
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 the applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statements made by the external auditor of the Company, BDO Limited, as to its reporting responsibilities on the consolidated financial statements of the Group is set out in the Auditor's Report on pages 37 to 96 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.

Corporate Governance Report

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 share capital 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. The convening procedures should follow the procedures of the board convening a general meeting as far as practicable.

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 share capital 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 such 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.

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 indicating 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, as required under Rule 17.50(2) of the GEM Listing Rules.

The notices must be submitted from date immediately the following the day of dispatch of 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 for the attention of the company secretary.

Corporate Governance Report

INVESTORS 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 keep informed of the Group's strategies and goals.

At the Company's annual general meeting held on 14 May 2013 and the extraordinary general meetings held on 25 July 2013 and 27 December 2013, all executive and independent non-executive Directors of the Company, were present in the meetings 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 2013, 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 (together the "Group") set out on pages 39 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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 a 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 2013 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, 19 March 2014

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2013

	Notes	**2013 RMB**	2012 RMB
Turnover	7	**583,111,851**	677,640,122
Cost of sales		**(452,527,189)**	(541,303,689)
Gross profit		**130,584,662**	136,336,433
Other income and net losses	8	**(1,936,533)**	(198,365)
Selling and distribution costs		**(46,337,136)**	(43,897,995)
Administrative expenses		**(28,995,919)**	(36,204,066)
Research and development expenses		**(20,961,537)**	(17,961,329)
Finance costs	9	**(7,606,131)**	(7,146,800)
Profit before income tax expenses	9	**24,747,406**	30,927,878
Income tax expenses	10	**(2,605,800)**	(6,709,627)
Profit and total comprehensive income for the year		**22,141,606**	24,218,251
Attributable to:			
Owners of the Company		**21,373,605**	24,017,317
Non-controlling interests		**768,001**	200,934
		22,141,606	24,218,251
Earnings per share – Basic and diluted (RMB)	13	**1.51 cents**	1.69 cents

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB	2012 RMB
Non-current assets			
Property, plant and equipment	15	**76,647,961**	81,863,801
Goodwill	16	**3,133,932**	3,133,932
Prepaid land lease payments	18	**8,619,037**	16,676,746
Prepayment and other receivables	21	**–**	375,729
Total non-current assets		**88,400,930**	102,050,208
Current assets			
Inventories	19	**109,138,521**	98,208,640
Trade and bills receivables	20	**111,878,457**	123,621,119
Prepayments and other receivables	21	**59,336,675**	55,037,803
Restricted bank deposits	23	**1,000,000**	16,712,100
Bank balances and cash	23	**43,108,953**	23,345,651
		324,462,606	316,925,313
Assets classified as held for sale	24	**–**	3,000,000
Total current assets		**324,462,606**	319,925,313
Total assets		**412,863,536**	421,975,521
Current liabilities			
Trade and bills payables	25	**55,406,552**	67,495,807
Other payables and accruals	26	**26,493,970**	60,879,122
Tax payable		**3,892,048**	7,671,232
Bank borrowings	27	**102,300,000**	83,300,000
Total current liabilities		**188,092,570**	219,346,161
Net current assets		**136,370,036**	100,579,152
Total assets less current liabilities		**224,770,966**	202,629,360
NET ASSETS		**224,770,966**	202,629,360

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB	2012 RMB
Capital and reserves attributable to owners of the Company			
Share capital	28	**142,000,000**	142,000,000
Reserves		**59,429,468**	38,055,863
Equity attributable to owners of the Company		**201,429,468**	180,055,863
Non-controlling interests	29	**23,341,498**	22,573,497
TOTAL EQUITY		**224,770,966**	202,629,360

On behalf of the Board

Wang Shuxin
Director

Hao Zhihui
Director

Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB	2012 RMB
Non-current assets			
Property, plant and equipment	15	**579,185**	257,752
Investments in subsidiaries	17	**115,181,397**	106,781,397
Total non-current assets		**115,760,582**	107,039,149
Current assets			
Prepayments and other receivables	21	**455,799**	419,250
Amount due from subsidiaries	22	**46,921,828**	52,095,433
Bank balances and cash	23	**590,738**	351,737
		47,968,365	52,866,420
Assets classified as held for sale	24	**–**	3,000,000
Total current assets		**47,968,365**	55,866,420
Total assets		**163,728,947**	162,905,569
Current liabilities			
Trade and bills payables	25	**26,918**	26,918
Amount due to a subsidiary	22	**20,769,961**	20,769,961
Other payables and accruals	26	**4,250,332**	3,943,059
Total current liabilities		**25,047,211**	24,739,938
Net current assets		**22,921,154**	31,126,482
NET ASSETS		**138,681,736**	138,165,631
Capital and reserves			
Share capital	28	**142,000,000**	142,000,000
Reserves	30	**(3,318,264)**	(3,834,369)
TOTAL EQUITY		**138,681,736**	138,165,631

On behalf of the Board

Wang Shuxin
Director

Hao Zhihui
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2013

	Share capital Note 28 RMB	Share premium Note 30(i) RMB	Surplus reserve Note 30(ii) RMB	Capital reserve Note 30(iii) RMB	Accumulated losses Note 30(iv) RMB	Attributable to owners of the Company RMB	Non-controlling interests Note 29 RMB	Total RMB
Balance as at 1 January 2012	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
Profit and total comprehensive income for the year	–	–	–	–	21,373,605	21,373,605	768,001	22,141,606
Transfer to reserve	–	–	2,226,398	–	(2,226,398)	–	–	–
Balance as at 31 December 2013	142,000,000	75,816,410	6,831,045	2,541,404	(25,759,391)	201,429,468	23,341,498	224,770,966

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2013

	Notes	2013 RMB	2012 RMB
Cash flows from operating activities			
Profit before income tax expenses		**24,747,406**	30,927,878
Amortisation of prepaid land lease payments		**423,672**	405,588
Depreciation		**8,832,048**	8,664,403
Interest expense		**7,606,131**	7,146,800
Interest income		**(244,877)**	(290,001)
(Reversal of)/provision for bad debt of trade and other receivables		**(343,318)**	3,847,920
Provision for obsolete stock, net		**372,345**	393,267
Write off of property, plant and equipment		**147,138**	–
Impairment losses on property, plant and equipment		**1,810,336**	–
(Gains)/losses on disposal of property, plant and equipment		**(192,051)**	1,957
Operating cash flows before working capital changes		**43,158,830**	51,097,812
Increase in inventories		**(11,302,226)**	(22,803,887)
Decrease/(increase) in trade and bills receivables		**11,691,834**	(71,300,580)
Decrease in prepayments and other receivables		**6,265,040**	1,287,865
(Decrease)/increase in trade and bills payables		**(12,089,255)**	54,409,112
(Decrease)/increase in other payables and accruals		**(34,385,152)**	23,721,586
Cash generated from operations		**3,339,071**	36,411,908
Income tax paid		**(6,384,984)**	(1,181,687)
Interest paid		**(7,606,131)**	(7,146,800)
Net cash (used in)/generated from operating activities		**(10,652,044)**	28,083,421
Cash flows from investing activities			
Purchase of property, plant and equipment	15	**(8,024,108)**	(10,678,595)
Proceeds from disposal of assets classified as held for sale		**3,000,000**	–
Proceeds from disposal of property, plant and equipment		**482,477**	226,354
Decrease/(increase) in restricted bank deposits		**15,712,100**	(16,712,100)
Interest received		**244,877**	290,001
Net cash generated from/(used in) investing activities		**11,415,346**	(26,874,340)
Cash flows from financing activities			
New bank borrowings		**111,300,000**	83,300,000
Repayment of bank borrowings		**(92,300,000)**	(93,500,000)
Net cash generated/(used in) from financing activities		**19,000,000**	(10,200,000)
Net increase/(decrease) in cash and cash equivalents		**19,763,302**	(8,990,919)
Cash and cash equivalents at beginning of year		**23,345,651**	32,336,570
Cash and cash equivalents at end of year		**43,108,953**	23,345,651
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**43,108,953**	23,345,651

Notes to the Consolidated Financial Statements

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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 manufacturing and sale 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 is disclosed in the "Corporate Information" section to the annual report.

As at 31 December 2013, 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 2013

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 19 (2011)	Employee Benefits
HK(IFRIC) – Interpretation 20	Stripping Costs of the Production Phase of a Surface Mine
Amendments to HKFRS 1	Government loans

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or reclassification has a material effect on the information presented in the opening position. Further, this opening statement of financial position does not have to be accompanied by comparative information in the related notes. This is consistent with the Group's existing accounting policy.

Notes to the Consolidated Financial Statements

31 December 2013

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

(a) Adoption of new/revised HKFRSs – Effective 1 January 2013 *(continued)*

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 and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively and the adoption of the amendments has no impact on these financial statements as the Group has no other comprehensive income items for the financial year ended 31 December 2013.

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.

The adoption of the amendments has no impact on these financial statements as the Group has not offset financial instruments, nor has it entered into a master netting agreement or a similar arrangement.

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 accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest (see Note 4(b)). The adoption does not change any of the control conclusion reached by the Group in respect of its involvement with other entities as at 1 January 2013.

Notes to the Consolidated Financial Statements

31 December 2013

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

(a) Adoption of new/revised HKFRSs – Effective 1 January 2013 *(continued)*

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.

HKFRS 12 disclosures are provided in Note 29. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

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 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance. The standard requires additional disclosures about fair value measurements and these are included in Note 35. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

Notes to the Consolidated Financial Statements

31 December 2013

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

(a) Adoption of new/revised HKFRSs – Effective 1 January 2013 *(continued)*

HKAS 19 (2011) – Employee Benefits

HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs.

The Group has amended its accounting policies for short-term employee benefits and termination benefits, however the adoption of the revised standard has no effect on the Group's financial position or performance.

Amendments to HKFRS 1 – Government Loans

The amendments add an exception to the retrospective application of HKFRSs to require that first-time adopters apply the requirements in HKFRS 9 Financial Instruments and HKAS 20 Accounting for Government Grants and Disclosure of Governance Assistance prospectively to government loans existing at the date of transition to HKFRSs.

This means that first-time adopters will not recognise the corresponding benefit of the government loan at a below market rate of interest as a government grant. However, entities may choose to apply the requirements of HKFRS 9 and HKAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan.

The adoption of the amendments has no impact on these financial statements because the Group is not a first-time adopter of HKFRS.

Notes to the Consolidated Financial Statements

31 December 2013

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.

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments – classification of financial assets and financial liabilities[4]
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	Hedge Accounting[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 36	Amendments to HKAS 36 – Recoverable Amount Disclosures[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) 21	Levies[1]
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014
4 No mandatory effective date yet determined but is available for adoption

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.

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.

Notes to the Consolidated Financial Statements

31 December 2013

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

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

Amendments to HKFRS 9, HKFRS 7 and HKAS 39 – Hedge Accounting

The amendments overhaul hedge accounting to allow entities to better reflect their risk management activities in financial statements. Changes included in HKFRS 9 to address the own credit risk issue on financial liabilities designated at fair value through profit or loss can be applied in isolation without the need to change any other accounting for financial instruments. The amendments also remove the 1 January 2015 effective date for HKFRS 9.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 "Consolidated Financial Statements" and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

Amendments to HKAS 36 – Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or cash generating unit (CGU) to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal.

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendments provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

Notes to the Consolidated Financial Statements

31 December 2013

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

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

HK (IFRIC) 21 – Levies

HK (IFRIC) 21 clarifies that an entity recognises a liability to pay a levy imposed by government when the activity that triggers payment, as identified by the relevant legislation, occurs.

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. Among them HKAS 16 "Property, Plant and Equipment" has been amended to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

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 disclosures required by the Rules Governing the Listing of Securities on the 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.

Notes to the Consolidated Financial Statements

31 December 2013

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.

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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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 investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill *(continued)*

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.

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%
Other structures and improvements	5%–20%
Plant and machinery	5%–20%
Motor vehicles	12.5%–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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of other assets *(continued)*

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.

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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(i) Financial assets (continued)

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.

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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(ii) Impairment loss on financial assets (continued)

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.

(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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

Notes to the Consolidated Financial Statements

31 December 2013

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.

Notes to the Consolidated Financial Statements

31 December 2013

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.

Notes to the Consolidated Financial Statements

31 December 2013

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

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(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.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(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.

Notes to the Consolidated Financial Statements

31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

Notes to the Consolidated Financial Statements

31 December 2013

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.

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.

Notes to the Consolidated Financial Statements

31 December 2013

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

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 biological compound fertiliser products

- Manufacturing and sale of health care products

Inter-segment transactions are priced with reference to prices charged to extend parties for similar order.

Notes to the Consolidated Financial Statements

31 December 2013

6. SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results

For the year ended 31 December 2013

	Fertiliser products RMB	Health care products RMB	Elimination RMB	Total RMB
Revenue to external customers	**487,506,072**	**96,858,163**	**(1,252,384)**	**583,111,851**
Segment profit before income tax expenses	**17,930,096**	**6,817,310**	**–**	**24,747,406**

For the year ended 31 December 2012

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

(b) Segment assets and liabilities

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

	2013 RMB	2012 RMB
Segment assets		
Fertiliser products	**321,361,123**	333,025,184
Health care products	**91,477,326**	88,860,092
Segment assets	**412,838,449**	421,885,276
Unallocated	**25,087**	90,245
Consolidated total assets	**412,863,536**	421,975,521

The unallocated assets represented the corporate assets of the Company.

Notes to the Consolidated Financial Statements

31 December 2013

6. SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities *(continued)*

	2013 RMB	2012 RMB
Segment liabilities		
Fertiliser products	**165,770,286**	141,707,995
Health care products	**18,687,157**	74,158,297
Segment liabilities	**184,457,443**	215,866,292
Unallocated	**3,635,127**	3,479,869
Consolidated total liabilities	**188,092,570**	219,346,161

The unallocated liabilities represent the corporate payables of the Company.

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

For the year ended 31 December 2013

	Fertiliser products RMB	Health care products RMB	Total RMB
Interest income	**166,764**	**78,113**	**244,877**
Finance costs	**3,994,080**	**3,612,051**	**7,606,131**
Income tax expenses	**1,126,172**	**1,479,628**	**2,605,800**
Amortisation of prepaid land lease payments	**423,672**	**–**	**423,672**
Depreciation	**7,948,798**	**883,250**	**8,832,048**
Reversal of provision for bad debt of trade and other receivables	**(118,195)**	**(225,123)**	**(343,318)**
Provision for obsolete stock, net	**372,345**	**–**	**372,345**
Additions to non-current assets	**6,071,021**	**1,953,087**	**8,024,108**
Write-off of property, plant and equipment	**147,138**	**–**	**147,138**
Impairment losses on property, plant and equipment	**1,810,336**	**–**	**1,810,336**
(Gain)/loss on disposal of property, plant and equipment	**(220,488)**	**28,437**	**(192,051)**

Notes to the Consolidated Financial Statements

31 December 2013

6. SEGMENT INFORMATION *(continued)*

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

For the year ended 31 December 2012

	Fertiliser products RMB	Health care products RMB	Total RMB
Interest income	119,761	170,240	290,001
Finance costs	3,218,037	3,928,763	7,146,800
Income tax expenses	4,719,591	1,990,036	6,709,627
Amortisation of prepaid land lease payments	405,588	–	405,588
Depreciation	7,828,198	836,205	8,664,403
Provision for bad debt of trade and other receivables	2,920,951	926,969	3,847,920
Provision for obsolete stock, net	393,267	–	393,267
Additions to non-current assets	14,000,637	800,775	14,801,412
(Gain)/loss on disposal of property, plant and equipment	(35,475)	37,432	1,957

(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 2013 and 2012, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

Notes to the Consolidated Financial Statements

31 December 2013

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:

	2013 RMB	2012 RMB
Fertiliser products	**487,506,072**	588,289,787
Health care products	**95,605,779**	89,350,335
	583,111,851	677,640,122

8. OTHER INCOME AND NET LOSSES

	2013 RMB	2012 RMB
Gain/(loss) on disposal of property, plant and equipment	**192,051**	(1,957)
Write off of property, plant and equipment	**(147,138)**	–
Impairment loss on property, plant and equipment	**(1,810,336)**	–
Government grants (Note)	**153,794**	43,791
Interest income	**244,877**	290,001
Others	**(64,382)**	18,177
	(1,431,134)	350,012
Less: Business tax	**(505,399)**	(548,377)
	(1,936,533)	(198,365)

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.

Notes to the Consolidated Financial Statements

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9. PROFIT BEFORE INCOME TAX EXPENSES

	Notes	2013 RMB	2012 RMB
Profit before income tax expenses is arrived after charging/(crediting):			
Finance costs			
Interest expense on bank borrowings wholly repayable within five years		**7,606,131**	7,146,800
Auditor's remuneration		**922,309**	880,000
Research and development expenses		**20,961,537**	17,961,329
Cost of inventories recognised as expense		**452,527,189**	541,303,689
Depreciation on property, plant and equipment	15	**8,832,048**	8,664,403
Amortisation of prepaid land lease payments	18	**423,672**	405,588
Allowance for/(reversal of) impairment losses on (net):			
– Trade receivables	20(b)	**50,828**	3,760,631
– Other receivables	21(a)	**(394,146)**	87,289
Operating lease rentals – land and buildings		**3,216,909**	3,620,144
Staff costs (including emoluments of directors and supervisors – Note 14):			
– Salaries and allowances		**36,430,458**	45,361,927
– Pension fund contribution		**3,893,551**	3,063,616
		40,324,009	48,425,543

Note: Borrowing costs of approximately RMB180,000 attributable to qualifying assets have been capitalised with a capitalisation rate of 8.48% during the year ended 31 December 2013 (2012: Nil).

10. INCOME TAX EXPENSES

(a) The amount of taxation in the consolidated statement of comprehensive income represents:

	2013 RMB	2012 RMB
Current tax – PRC		
– tax for the year	**4,663,002**	6,438,892
– (over)/under provision in respect of prior years	**(2,057,202)**	270,735
	2,605,800	6,709,627

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based on the statutory tax rate of 25%, except for the following subsidiary.

Notes to the Consolidated Financial Statements

31 December 2013

10. INCOME TAX EXPENSES *(continued)*

(a) *(continued)*

Guangdong Fulilong Compound Fertilisers Co., Ltd. is recognised as a High and New-Tech enterprise according to the PRC tax regulations and is entitled to a preferential tax rate of 15% (2012: 15%).

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

	2013 RMB	2012 RMB
Profit before income tax expenses	**24,747,406**	30,927,878
Calculated at statutory rate of 25% (2012: 25%)	**6,186,851**	7,731,970
Tax effect of non-taxable items	**(109,972)**	(21,118)
Tax effect of expenses not deductible for taxation purposes	**292,539**	1,318,408
Utilisation of tax losses previously not recognised	**(152,759)**	(570,729)
Tax rate differential	**(1,553,657)**	(2,019,639)
(Over)/under provision in prior years	**(2,057,202)**	270,735
Income tax expenses	**2,605,800**	6,709,627

(b) Deferred taxation

At 31 December 2013, the Group and the Company have no unused tax losses (2012: RMB1,539,000 and RMB1,539,000) 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. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of a loss of RMB7,533,895 (2012: loss of RMB7,643,986).

12. DIVIDEND

No dividend has been paid or declared by the Company during the year (2012: 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 RMB21,373,605 (2012: RMB24,017,317), divided by the weighted average number of shares of 1,420,000,000 (2012: 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 2013 and 2012.

Notes to the Consolidated Financial Statements

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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:

	2013 RMB	2012 RMB
Fees	**318,969**	390,557
Salaries, housing and other bonus and allowances	**1,369,928**	1,292,988
Retirement benefits scheme contributions	**234,408**	203,755
	1,923,305	1,887,300

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
2013				
Mr Wang Shuxin	**–**	**485,552**	**92,814**	**578,366**
Mr Zhang Chunsheng (i)	**–**	**288,116**	**–**	**288,116**
Mr Hao Zhihui	**–**	**447,244**	**90,234**	**537,478**
	–	**1,220,912**	**183,048**	**1,403,960**
2012				
Mr Wang Shuxin	–	389,690	79,537	469,227
Mr Zhang Chunsheng (i)	–	385,874	–	385,874
Mr Hao Zhihui	–	353,172	77,100	430,272
	–	1,128,736	156,637	1,285,373

Notes to the Consolidated Financial Statements

31 December 2013

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:

	2013	2012
	RMB	RMB
Mr Feng Enqing	**41,355**	41,355
Mr Xie Guangbei	**41,355**	41,355
Mr Ou Linfeng	**–**	131,072
	82,710	213,782

Independent non-executive directors:

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

	2013	2012
	RMB	RMB
Mr Guan Tong	**41,355**	41,355
Mr Chao Kai (ii)	**13,785**	41,355
Mr Chan Kin Sang (iii)	**89,250**	–
Mr Wu Chen	**41,355**	41,355
	185,745	124,065

(i) Resigned on 3 July 2013
(ii) Resigned on 21 March 2013
(iii) Appointed on 14 May 2013

Notes to the Consolidated Financial Statements

31 December 2013

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

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

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
2013			
Ms Yang Chunyan	**72,824**	**24,564**	**97,388**
Ms Liu Jinyu	**76,192**	**26,796**	**102,988**
	149,016	**51,360**	**200,376**
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

Independent supervisors:

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

	2013 RMB	2012 RMB
Mr Gao Xianbiao	**26,355**	26,355
Mr Zhao Kuiying	**24,159**	26,355
	50,514	52,710

Notes to the Consolidated Financial Statements

31 December 2013

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2012: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2012: one) individuals during the year are as follows:

	2013 RMB	2012 RMB
Salaries, housing and other allowances	**246,744**	164,775
Retirement benefits scheme contributions	**–**	–
Salaries, housing and other allowances	**246,744**	164,775

The emoluments fell within the following bands:

	Number of individuals	
	2013	2012
Nil – RMB788,457 (2012: RMB802,182) (equivalent to Nil – HK$1,000,000)	**2**	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 (2012: Nil).

Except that Mr. Ou Linfeng, the non-executive director, waived the emolument of RMB40,000 in 2013, no other directors and supervisors waived any emoluments during the year (2012: Nil).

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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 2012	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
Additions	–	3,821,918	1,883,509	1,503,525	277,060	538,096	8,024,108
Reclassification to other receivable	–	–	–	–	–	(2,160,000)	(2,160,000)
Disposals	–	–	(634,000)	(1,091,380)	(68,528)	–	(1,793,908)
Write off	–	(100,000)	(1,156,259)	(100,000)	(670,505)	–	(2,026,764)
At 31 December 2013	48,167,183	9,902,614	53,747,870	10,586,077	6,072,971	3,032,616	131,509,331
Accumulated depreciation							
At 1 January 2012	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
Charge for the year (Note 9)	1,318,053	777,493	4,802,292	1,358,394	575,816	–	8,832,048
Impairment loss for the year	–	–	–	–	–	1,810,336	1,810,336
Written back on disposals	–	–	(447,735)	(1,000,062)	(55,685)	–	(1,503,482)
Write off	–	(100,000)	(1,138,926)	(83,169)	(557,531)	–	(1,879,626)
At 31 December 2013	11,364,297	1,454,588	29,793,584	6,472,996	3,965,569	1,810,336	54,861,370
Carrying amount							
At 31 December 2013	36,802,886	8,448,026	23,954,286	4,113,081	2,107,402	1,222,280	76,647,961
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

Notes:

(1) A construction of research and development centre in the PRC has been terminated during the year ended 31 December 2013. The relevant construction in progress of approximately RMB1.8 million and the Company assessed the value-in-use amount to be minimal. Therefore, an impairment loss of approximately RMB1.8 million was recognised in other gains and losses to write down the carrying amount.

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

(3) At 31 December 2013, the carrying amount of property, plant and equipment pledged as security for certain of the Group's banking facilities amounted to approximately RMB19 million (2012: RMB38 million) (Note 27).

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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 2012	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
Additions	–	360,960	37,976	398,936
Disposal	–	(105,449)	–	(105,449)
At 31 December 2013	1,113,790	1,475,397	441,860	3,031,047
Accumulated depreciation				
At 1 January 2012	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
Charge for the year	–	38,285	33,946	72,231
Disposal	–	(100,177)	–	(100,177)
At 31 December 2013	1,113,790	1,097,000	241,072	2,451,862
Carrying amount				
At 31 December 2013	–	378,397	200,788	579,185
At 31 December 2012	–	60,994	196,758	257,752

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16. GOODWILL

	Group	
	2013	2012
	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 sale 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% (2012: 46%)
2 Pre-tax discount rate of 16% (2012: 16%) per year
3 Average growth rate of 7% (2012: 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 2013.

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.

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17. INVESTMENTS IN SUBSIDIARIES

	Company 2013 RMB	2012 RMB
Unlisted equity investments, at cost (Note (i))	**115,181,397**	106,781,397

(i) The Company increased investment of RMB8.4 million in Tianjin Alpha Health Care Products Co., Ltd during the year ended 31 December 2013.

Particulars of the Group's subsidiaries as at 31 December 2013, which are all incorporated and operating in the PRC, are as follows:

	Form of business structure	Place of incorporation	Attributable equity interest held by the Group	Place of operation and principal activities
Tianjin Alpha Health Care Products Co. Ltd. 天津阿爾發保健品有限公司	Corporation	PRC	100%	Manufacturing and sale of sugar-reducing and sugar-free health products in the PRC
Shandong Hidersun Fertiliser Industry Co., Ltd. ("SD Hidersun") 山東海得斯肥業有限公司	Corporation	PRC	51%	Manufacturing and sale of biological compound fertilisers in the PRC
Guangdong Fulilong Compound Fertiliser Co., Ltd. 廣東福利龍複合肥有限公司	Corporation	PRC	100%	Manufacturing and sale of biological compound fertilisers in the PRC

Note: None of the subsidiaries had issued any debt securities at the end of the year.

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18. PREPAID LAND LEASE PAYMENTS

	Group	
	2013	2012
	RMB	RMB
Cost		
At 1 January	**18,865,324**	18,865,324
Reclassification (Note (ii))	**(9,446,528)**	–
At 31 December	**9,418,796**	18,865,324
Accumulated amortisation and impairment		
At 1 January	**1,782,989**	1,377,401
Charge for the year (Note 9)	**423,672**	405,588
Reclassification (Note (ii))	**(1,590,701)**	–
At 31 December	**615,960**	1,782,989
Carrying amount		
At 31 December (Note (i))	**8,802,836**	17,082,335
Portion classified as current assets (included in prepayments and other receivables)	**183,799**	405,589
Non-current assets	**8,619,037**	16,676,746
	8,802,836	17,082,335

(i) 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 2013, no prepaid land lease payments pledged as security for certain of the Group's banking facilities (2012: RMB3 million) (Note 27).

(ii) In October 2013, the Group started legal proceedings against a lessor and its associates for failure to assist the Group in applying for relevant certificate of a prepaid land lease with carrying value of approximately RMB7.9 million in a reasonable time frame. The Group made claim for recovering the consideration paid and other additional costs incurred. The Company obtained legal advice in respect of the merits of the case and the directors of the Company are confident that they have a strong claim in this proceeding. As the Company expect to recover the carrying value through a request of full refund from the lessor and its associates, the carrying amount was reclassified to other receivables as at year ended 31 December 2013.

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19. INVENTORIES

	2013		2012	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Raw materials	**49,872,829**	**336,542**	51,456,353	336,542
Work-in-progress	**696,342**	**–**	759,996	–
Finished goods	**47,742,244**	**–**	36,879,727	–
Packaging materials	**12,546,041**	**–**	10,459,154	–
	110,857,456	**336,542**	99,555,230	336,542
Less: Provision for inventory obsolescence	**(1,718,935)**	**(336,542)**	(1,346,590)	(336,542)
	109,138,521	**–**	98,208,640	–

At 31 December 2013, inventories pledged as security for certain of the Group's banking facilities amounted to RMB44 million (2012: RMB71 million) (Note 27).

20. TRADE AND BILLS RECEIVABLES

	Group	
	2013	2012
	RMB	RMB
Trade receivables (Note (a))	**117,644,659**	130,105,865
Less: Allowance for doubtful debts (Note (b))	**(6,755,417)**	(7,684,746)
	110,889,242	122,421,119
Bills receivables	**989,215**	1,200,000
	111,878,457	123,621,119

Notes to the Consolidated Financial Statements

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20. TRADE AND BILLS RECEIVABLES *(continued)*

Notes:

(a) The Group generally grants credit terms of 120 days to major customers and 90 days to other trade customers. As at 31 December 2013, no trade receivables was (2012: RMB82 million) being pledged for bank borrowing (Note 27).

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

	Group	
	2013	2012
	RMB	RMB
Within 3 months	**64,763,567**	89,893,483
Between 3 to 6 months	**32,408,930**	25,465,635
Between 6 to 12 months	**13,468,575**	8,587,123
Over 1 year	**7,003,587**	6,159,624
	117,644,659	130,105,865

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

	Group	
	2013	2012
	RMB	RMB
At 1 January	**7,684,746**	3,924,115
Impairment loss recognised (Note 9)	**50,828**	3,760,631
Bad debt written off	**(980,157)**	–
At 31 December	**6,755,417**	7,684,746

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB6.8 million (2012: RMB7.7 million) with a carrying amount before provision of RMB6.8 million (2012: RMB7.7 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.

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20. TRADE AND BILLS RECEIVABLES *(continued)*

Notes: *(continued)*

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

	Group 2013 RMB	2012 RMB
Within 3 months	**32,408,930**	25,465,635
Between 3 to 6 months	**13,468,575**	6,470,566
Between 6 to 12 months	**7,003,587**	1,085,228
	52,881,092	33,021,429

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.

21. PREPAYMENTS AND OTHER RECEIVABLES

	2013 Group RMB	2013 Company RMB	2012 Group RMB	2012 Company RMB
NON-CURRENT				
Prepayments				
Prepaid promoting expenses	**–**	**–**	375,729	–
CURRENT				
Prepayments				
Prepaid promoting expenses	**375,725**	**–**	2,225,801	–
Advanced deposits to suppliers	**40,792,514**	**–**	46,053,910	–
Other prepayments	**614,509**	**430,712**	1,240,514	329,005
	41,782,748	**430,712**	49,520,225	329,005
Other receivables	**19,535,150**	**1,651,950**	7,892,947	1,992,139
Less: allowance for doubtful debts (Note a)	**(1,981,223)**	**(1,626,863)**	(2,375,369)	(1,901,894)
	17,553,927	**25,087**	5,517,578	90,245
	59,336,675	**455,799**	55,037,803	419,250

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21. PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(a) Allowance for doubtful debts

	2013		2012	
	Group RMB	Company RMB	Group RMB	Company RMB
At 1 January	**2,375,369**	**1,901,894**	2,288,080	1,401,894
Allowance for impairment loss	**–**	**–**	87,289	500,000
Recovery on amounts written off	**(394,146)**	**(275,031)**	–	–
At 31 December	**1,981,223**	**1,626,863**	2,375,369	1,901,894

Other receivables are assessed to be impaired individually at each reporting date and impairment losses of the Group and the Company amounting to approximately RMB2.0 million (2012: RMB2.4 million) and RMB1.6 million (2012: RMB1.9 million) respectively have been made as at 31 December 2013. 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.

22. AMOUNT DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are interest-free, unsecured and repayable on demand.

23. 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 2013, cash and bank balances denominated in RMB amounted to approximately RMB42,878,400 (2012: approximately RMB23,191,842). 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 2013 and 2012 were denominated in RMB and pledged to secure the Group's credit facilities granted by banks.

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24. ASSETS CLASSIFIED AS HELD FOR SALE

	Group and Company	
	2013	2012
	RMB	RMB
Unlisted equity investment, at cost	**–**	3,000,000

In May 2012, the Group entered into an agreement to dispose of 10% interests in a non-listed equity investment. The directors of the Company are of the opinion that the disposal transaction has been completed for the year ended 31 December 2013.

25. TRADE AND BILLS PAYABLES

	2013		2012	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Trade payables	**54,406,552**	**26,918**	35,495,807	26,918
Bills payables	**1,000,000**	**–**	32,000,000	–
	55,406,552	**26,918**	67,495,807	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:

	2013		2012	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Within 3 months	**34,592,475**	**–**	59,316,245	–
Between 3 and 6 months	**6,954,715**	**–**	3,316,668	–
Between 6 and 12 months	**11,153,901**	**–**	2,499,909	–
Over 1 year	**2,705,461**	**26,918**	2,362,985	26,918
	55,406,552	**26,918**	67,495,807	26,918

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26. OTHER PAYABLES AND ACCRUALS

	2013		2012	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Other payables	**7,933,380**	**1,117,630**	22,189,689	906,335
Accruals	**3,217,070**	**615,205**	5,472,057	463,190
Receipt in advance	**12,826,023**	**–**	29,143,842	–
Amount due to a shareholder (Note (i))	**–**	**–**	1,500,000	–
Payable to Social Security Fund (Note (ii))	**2,517,497**	**2,517,497**	2,573,534	2,573,534
	26,493,970	**4,250,332**	60,879,122	3,943,059

Notes:

(i) Amount due to a shareholder in 2012 was unsecured, interest-free and repayable on demand and was fully repaid during the year ended 31 December 2013.

(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).

27. BANK BORROWINGS

	2013		2012	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Secured	**102,300,000**	**–**	83,300,000	–

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

Notes:

(i) In 2013, secured against property, plant and equipment, inventories and restricted deposits with a total carrying amount of about RMB66 million. Certain bank loans were also guaranteed by the Company, fellow subsidiary of the Group, a director of the Company and independent third parties.

In 2012, 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. Certain bank loans were guaranteed by the Company, a fellow subsidiary of the Group, a director of the Company and independent third parties.

(ii) The bank borrowings of the Group bear interest at fixed and floating effective interest rate ranging from 6.2% to 8.6% (2012: floating rate from 6.6% to 7.8%) per annum.

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28. SHARE CAPITAL

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

	2013 Number (million)	2013 RMB (million)	2012 Number (million)	2012 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 2013, none of the directors or supervisors, employees or other participants of the Scheme had any rights to acquire the H Shares in the Company (2012: Nil).

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29. NON-CONTROLLING INTERESTS

SD Hidersun, a 51% owned subsidiary of the Company, has material non-controlling interests ("NCI"). Summarised financial information in relation to the NCI of SD Hidersun, before intra-group elimination is presented below:

	2013 RMB	2012 RMB
For the year ended 31 December		
Revenue	**210,598,226**	281,476,935
Profit for the year	**1,567,341**	410,069
Total comprehensive income for the year	**1,567,341**	410,069
Profit and total comprehensive income allocated to NCI	**768,001**	200,934
For the year ended 31 December		
Cash flow generated from operating activities	**4,222,920**	5,082,976
Cash flow used in investing activities	**(4,403,231)**	(4,520,819)
Cash flow used in financing activities	**–**	(1,700,000)
Net cash outflow	**(180,311)**	(1,137,843)
As at 31 December		
Current assets	**72,462,475**	80,136,806
Non-current assets	**76,346,126**	78,750,747
Current liabilities	**(101,204,726)**	(112,850,719)
Net assets	**47,603,875**	46,036,834
Accumulated non-controlling interests	**23,341,498**	22,573,497

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30. RESERVES

The Company	Share premium RMB (Note(i))	Capital reserve RMB (Note(iii))	Accumulated losses RMB (Note(iv))	Total RMB
At 1 January 2012	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)
Profit and total comprehensive income for the year	–	–	516,105	516,105
At 31 December 2013	75,816,410	(2,312,483)	(76,822,191)	(3,318,264)

(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.

The current year's profit of the Company was used for making up the accumulated losses from prior years and no surplus reserve was set up for the Company for the year ended 31 December 2013.

(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.

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31. COMMITMENTS

(a) Capital commitments

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

	Group	
	2013	2012
	RMB	RMB
Authorised and contracted for		
– Acquisition of property, plant and machinery	**1,753,000**	434,000

(b) Operating lease commitments

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises and staff quarters. At the end of reporting period, the Group had outstanding minimum commitments under operating leases review every 1 to 10 years and many have break clauses, which fall due as follows:

	Group	
	2013	2012
	RMB	RMB
Within one year	**3,536,670**	699,156
After one year but within five years	**12,441,973**	959,490
After five years	**18,180,736**	3,896,334
	34,159,379	5,554,980

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 2013.

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.

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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.

The net debt-to-adjusted capital ratio at 31 December 2013 and 2012 was as follows:

	Group	
	2013	2012
	RMB	RMB
Total debts – Bank borrowings	**102,300,000**	83,300,000
Less: Bank balances and cash and restricted bank deposits	**(44,108,953)**	(40,057,751)
Net debts	**58,191,047**	43,242,249
Total equity	**224,770,966**	202,629,360
Net debt-to-adjusted equity ratio	**25.9%**	21.3%

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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 and other 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 4% (2012: 6%) and 13% (2012: 24%) 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 20 and 21 respectively.

(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.

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34. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

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
2013			
Bank borrowings	**102,300,000**	**105,807,753**	**105,807,753**
Trade and bills payables	**55,406,552**	**55,406,552**	**55,406,552**
Other payables	**13,667,947**	**13,667,947**	**13,667,947**
	171,374,499	**174,882,552**	**174,882,552**
Financial guarantees issued			
Maximum amount guaranteed	**–**	**65,000,000**	**65,000,000**
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

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31 December 2013

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
2013			
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	**4,250,332**	**4,250,332**	**4,250,332**
	25,047,211	**25,047,211**	**25,047,211**
Financial guarantees issued			
Maximum amount guaranteed	**–**	**45,000,000**	**45,000,000**
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

(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 2013 and 2012 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 has not used any financial instruments to hedge potential fluctuations in interest rates.

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34. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk *(continued)*

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

	Group			
	2013		2012	
	Effective interest rate % per annum	**RMB**	Effective interest rate % per annum	RMB
Borrowings				
Fixed rate borrowings	**7.47%**	**45,000,000**	7.05%	56,000,000
Variable rate borrowing	**7.41%**	**57,300,000**	7.26%	27,300,000
		102,300,000		83,300,000

At 31 December 2013, 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 RMB582,000 (2012: RMB432,000).

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 2012.

(d) Currency risk

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

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35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

Summarised in the following table are the carrying amounts not measured at fair value include cash and cash equivalents, trade and other receivables, due from fellow subsidiaries, loans receivable, trade and other payables, financial guarantees issued and borrowings. Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates fair value, and accordingly no disclosure of the fair values of these items is presented.

	2013		2012	
	Group RMB	**Company RMB**	Group RMB	Company RMB
Financial assets				
Loans and receivables (including bank balances and cash and restricted bank deposits)	**173,301,462**	**47,562,362**	169,196,448	52,537,416
Financial liabilities				
Financial liabilities measured at amortised cost	**171,374,499**	**25,047,211**	182,531,087	24,739,938

36. CONTINGENT LIABILITIES

As at 31 December 2013, banking facilities of approximately RMB105 million (2012: RMB100 million) were granted to the Group and the Group utilised approximately RMB102 million (2012: RMB83 million) during the year ended 31 December 2013. The Group and the Company provided guarantees of approximately RMB65 million (2012: RMB65 million) and RMB45 million (2012: RMB25 million) respectively for the utilised banking facilities.

37. EVENT AFTER THE END OF REPORTING PERIOD

Pursuant to announcement dated 3 May 2013, the Board resolved to appoint a placing agent in relation to a placing of not more than 192,500,000 H shares for itself and for TTII. The Company hold Extraordinary General Meeting to obtain shareholders' approval on 25 July 2013.

As certain conditions precedent to the placing have not been fulfilled, no new placing H Shares are issued by the Company under the placing arrangement at the date of this report.

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 19 March 2014.