KONDE 康大

中國康大食品有限公司
CHINA KANGDA FOOD COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Singapore stock code : P74
Hong Kong stock code : 834

Annual Report 2012

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安全食品

Corporate Profile

Established in 1992, China Kangda is a diversified food manufacturing and processing group based in the People's Republic of China ("PRC") and is primarily engaged in the production, processing, sale and distribution of:

a) chilled and frozen rabbit meat;
b) chilled and frozen chicken meat;
c) processed foods which include a wide range of food products such as instant soup, curry food, chicken-based cooked products, roasted rabbit food, meatballs, de-oxygenated consumer packed chestnuts and seafood; and
d) other products which mainly include pet food, dehydrated vegetables, poultry, rabbit organs, fruits, dried chili, pig liver and seasoning.

China Kangda's chilled and frozen rabbit meat is mainly exported to European Union ("EU"). Besides selling products under its own brand names of "康大", "嘉府", "U味", and "KONDA", China Kangda also acts as an Original Equipment Manufacture ("OEM") manufacturer of a variety of processed foods including meatballs, seafood, chicken-based cooked products, chestnuts, instant soups and curry products and etc.

China Kangda currently distributes its wide range of products in 26 provinces and over 30 major cities in the PRC and exports to more than 20 countries and cities including Japan, the United Arab Emirates and certain countries in the EU.

China Kangda is one of the major companies in the PRC authorised to supply rabbit meat to the EU and one of the largest PRC exporters of rabbit meat. China Kangda is also the first PRC company to be granted the certification for breeding progeny rabbit in the PRC. China Kangda is further strengthening its foothold in this segment through stable expansion strategies.

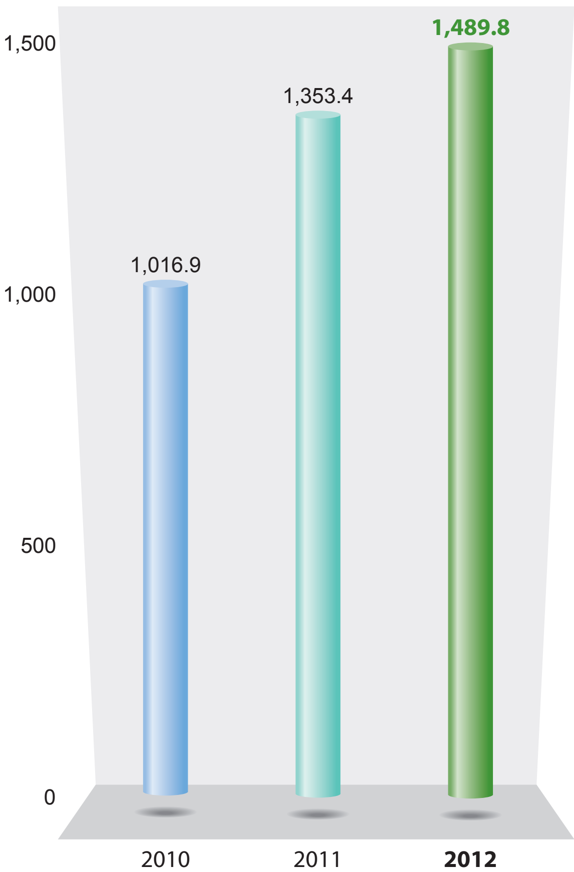
For more information, please log on to www.kangdafood.com

Contents

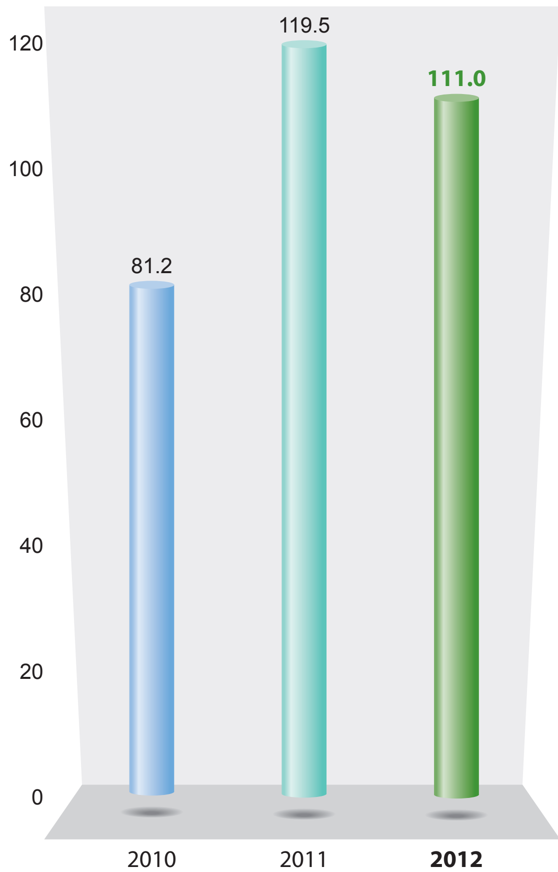
Financial Highlights

	FY2012 *RMB'million*	**FY2011** *RMB'million*	**FY2010** *RMB'million*
Revenue	**1,489.8**	1,353.4	1,016.9
Gross Profit	**111.0**	119.5	81.2
Net Profit Attributable to Owners of the Company	**4.9**	12.2	3.4
Earnings per Share – Basic (RMB cents)	**1.1**	2.8	0.8
Net Asset Value per Share – Basic (RMB cents)	**162.9**	162.8	159.4

Total Revenue increased: 10.1%
RMB'million



Gross profit decreased: 7.1%
RMB'million

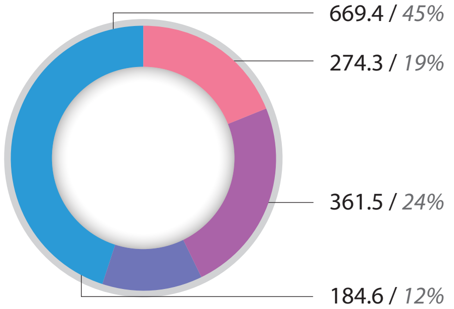


Financial Highlights

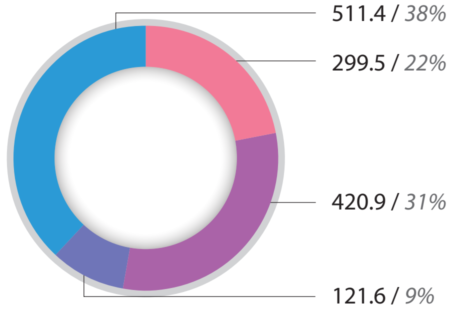
Revenue by Products

RMB'million

2012



2011

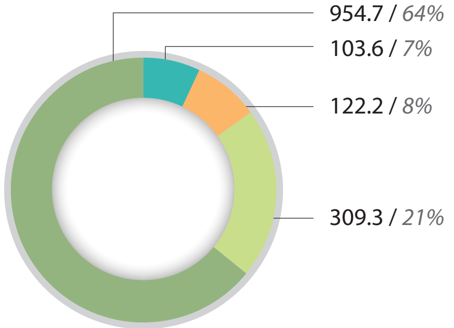


Processed foods · Chilled and frozen rabbit meat · Chilled and frozen chicken meat · Other products

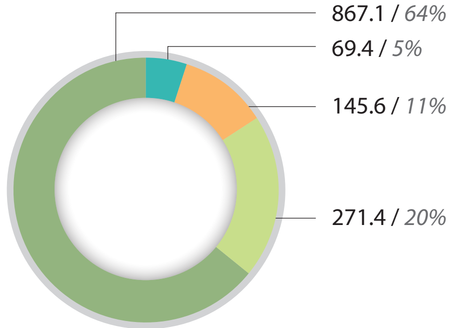
Revenue by Geographical Markets

RMB'million

2012



2011

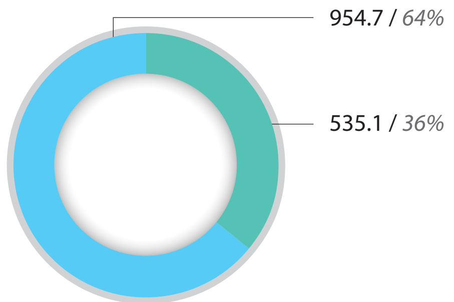


PRC · Japan · Europe · Other Countries

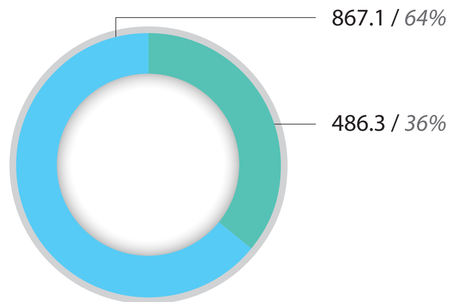
Revenue by Region

RMB'million

2012



2011



Export · PRC

Chairman's Statement

Gao Sishi
Non-executive Chairman

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of China Kangda Food Company Limited (the "Company), I am pleased to present the audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

BUSINESS REVIEW

In 2012, the domestic and overseas economic growth remained weak and this had affected the consumer market. The market competition became increasingly fierce which led a downward pressure on the prices of meat products. With continued weakness in the global economy and unresolved global economic uncertainties such as the European debt crisis and the U.S. fiscal cliff, major countries worldwide are in need of stimulus to drive economic growth.

In spite of these challenges, the Group had responded with positive attitude and stable expansion of its operations. The Group continues to expand its market share and enhanced its competitiveness by increasing its production capacity through gearing up of its productivity and intergration of its food supply chain, upstream and downstream. In 2012, the Group recorded sales revenue of approximately RMB1,489.8 million, representing an increase of 10.1% from that of RMB1,353.4 million recorded in the previous year.

The Group's gross profit margin was still affected as the price of raw materials, such as corn and soybean, and labour wages remained high. The unfavourable business environment and the strong appreciation of the Renminbi ("RMB") also hampered the Group's export businesses in Europe. Therefore, the Group's gross profit margin declined from 8.8% to 7.5% and the comprehensive profit attributable to owners of the Company declined from RMB12.2 million to RMB4.9 million compared to the previous year.

To mitigate the increasing operating costs, the Group has invested its efforts in the research and development ("R&D") of new products and techniques, expanded its business scope and set a direction for continuing development through the innovations of the Group's strong R&D team. Thanks to the efforts of the R&D team, the Group was the first PRC company with the certification for breeding progeny rabbit from the Ministry of Agriculture in the PRC and the Group currently use this breeding techniques and efficiency to further reduce its production costs.

In addition, the Group has also continued to improve its production efficiency, utilization rates, operational efficiency and product quality through enhancement of its existing production facilities. Taking advantage of the Group's reputation as a provider for meat products, the commitment to healthier, safer and quality meat products will place the Group ahead of its fellow competitors.

Chairman's Statement

FOOD SAFETY

The Group currently has its own production facilities in Jiaonan, Gaomi and Jilin. The Group's quality control centre has complied with both the PRC and international requirements and obtained the HACCP certification. Its quality management system has also achieved ISO9001 and ISO14001 certification. The Group views its ability to comply with PRC and international standards as its strength. Due to the strict compliance with epidemic prevention system and vaccination, there was no outbreak in the Group's breeding business.

Given the fact that more and more problems about safety has arisen, food safety has gradually become the most concerned issue for the public. On November 2012, reports in the media disclosed that certain of the chicken suppliers had been feeding toxic chemicals to chickens sold to Kentucky Fried Chicken ("KFC") China. Certain KFC's chicken suppliers in PRC had injected chickens with excessive antibiotics and other illegal chemicals. The Group was not involved in the incident because the Group has its own supply of live rabbits and chickens with strict control on its breeding chain. The Group does not engage any independent breeders for supplying poultry. This incident does not impact the Group's operation as the Group is strictly monitoring each procedure on the breeding chain closely to ensure the consumers are provided with safe food.

In addition, by comprehensively implementing tracing system to monitor the safety of the food supply chain, the Group has been continuously optimizing biological safety, hygienic and disease prevention system. Food safety has already become the basic and most pertinent factor for the Group's development.

With the commitment to healthier, safer and quality meat products, the Group is firmly committed to food quality and safety. The Group will continue to strengthen its quality and risks management over every operation process ranging from purchases, breeding, production, logistics and storage to sales to ensure that the Group consistently offers quality and safe food to consumers.

CORPORATE GOVERNANCE

The Board is committed to achieving and maintaining high standards of corporate governance in managing the business and affairs of the Group, guided by all the applicable code provisions of the Code of Corporate Governance 2005 (the "Singapore Code") and the Corporate Governance Code (the "Hong Kong Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"). These Codes practices are instilled throughout the Group's operations.

OUTLOOK

While the Euro financial crisis has spread to the economies of the rest of the world, the US economy has started to show signs of stabilization and is slowly recovering. Inevitably, all these took a toll on growth in PRC, which experienced a notable slowdown during the year.

2012 was the year marked by slow economic growth and uncertainties in many parts of the world. In 2012, the food industry in PRC also experienced substantial changes. As the food industry is facing a challenging business environment, the Group has adopted a more prudent approach in assessing its plan to increase production in line with the actual market conditions. The Group also plans its sales network expansion under the principle of maintaining an organic growth.

Expanding domestic demand will continue to be a key support for the continuous economic growth of PRC in the future. The Group has capitalized on this important opportunity to expand its production capacity, and consolidate its position as the leader in PRC's food industry. The Group will continuously expand its market share in PRC by upgrading its machinery and equipment and improving management tools in order to enhance the operational efficiency.

Management will also monitor closely cost trends and deliver the best strategies to cope with market challenges.

On behalf of the Board of Directors, I would like to express my great gratitude and sincere appreciation to my colleagues and to our shareholders for their unwavering support and persistent concern.

I would also like to thank Mr Gao Yanxu for his contribution during his tenure as Chief Executive Officer ("CEO") of the Company and look forward to working with Mr Wang Baowang as CEO of the Company in the coming year.

During the year 2012, Mr Kuik See Juan and Mr Sim Wee Leong had stepped down as Independent Non-Executive Directors. Mr He Dingding and Mr Lau Choon Hoong had been appointed as Independent Non-Executive Directors as part of the Company's Board leadership renewal process. The Board would like to record its sincere thanks and appreciation for the invaluable contributions of Mr Kuik and Mr Sim during their tenure on the Board.

Last but not least, please join me in welcoming Mr He Dingding and Mr Lau Choon Hoong who were appointed Directors of the Company on 25 August 2012 and 8 November 2012 respectively. We look forward to benefitting from their expertise and experience.

We will do all our best for the upcoming year.

Gao Sishi
Non-executive Chairman

Board of Directors

Executive Directors

Wang Baowang（王寶旺）, aged 45, is the Group's CEO and an Executive Director of the Company. He was appointed as the CEO and a Director on 3 September 2012 and 28 November 2012 respectively. He is primarily responsible for the Group's business strategy and direction, the implementation of the Group's corporate plans and policies, and the general management of the business of the Group.

Prior to joining the Company, Mr. Wang was the general manager of Beijing Kangda Guoxin Investment Development Co., Ltd.（北京康大國信投資發展公司）, a company engaging in the provision of debt and equity financing related activities, from 2011 to 2012, during which Mr. Wang was responsible for the business development and the day-to-day management. From 2010 to 2011, Mr. Wang worked as a vice general manager of Xinxing Ductile Iron Pipes Property Investment and Development Co., Ltd.（新興鑄管置業投資發展有限公司）being responsible for assisting the general manager in overseeing the invested projects.

Gao Yanxu（高岩緒）, aged 47, is an Executive Director. He was appointed as a Director on 10 May 2006 and was last re-elected on 29 April 2011. Mr. Gao has more than 10 years of experience in the food production industry.

From 1996 to 1999, Mr. Gao worked as the Manager of Qingdao City Jiaonan Kangda Feed Co., Ltd. ("KD Feed Company"). He then worked in Shandong Province Qingdao Kanghong Poultry & Egg Co., Ltd.（山東省青島康宏肉食蛋品有限公司）in 1999 as a Manager. On 1 January 2001, Mr. Gao founded Qingdao City Jiaonan Kangda Foreign Trading Group Co., Ltd.（青島市膠南康大外貿集團公司）("KD Trading Company") with Mr. Gao Sishi, Mr. An Fengjun, Mr. Zhang Qi, Mr. Kang Peiqiang and other independent third parties. As at 31 December 2012, Mr. Gao held 5.3% of the equity interests in KD Trading Company. Mr. Gao obtained a Bachelor's Degree in Business and Economic Management from Renmin University of China（中國人民大學）in June 1997. On 28 February 2000, he completed the courses of Master's degree in Management in Business Administration in the graduate school of Renmin University of China（中國人民大學研究生院）.

Non-Executive Directors

Gao Sishi（高思詩）, aged 55, is a non-executive Chairman and Non-executive Director of the Company. He was appointed as a Director on 12 May 2006 and was last re-elected on 29 April 2011. Mr. Gao has more than 20 years of experience in the food export and production industry. He is the founder and currently the Chairman and General Manager of KD Trading Company, comprising a group of companies engaging in various business activities in the PRC such as property development, transport, animal feeds production and import and export business. As at 31 December 2012, Mr. Gao held 40% of the equity interests in KD Trading Company.

During the period from March 1995 to December 1999, Mr. Gao worked as the Chairman and General Manager of KD Trading Company. From January 1992 to March 1995, Mr. Gao was the General Manager of Qingdao Jiaonan City Import and Export Company（青島市膠南進出口公司）. Mr. Gao also worked as Vice Factory Head of Jiao Nan City Foreign Trading Cold Storage Factory（膠南市外貿冷藏廠）from July 1989 to December 1991, and was the Vice Factory Head of Qingdao Jiao Nan Import and Export Company Integrated Processing Factory（青島市膠南進出口公司綜合加工廠）from September 1985 to June 1989. In addition, Mr. Gao served the Qingdao Private Enterprises Committee（青島市民營企業協會）as Vice President and is the founder of the Jiaonan City General Charity Committee（膠南市慈善總會）. Mr. Gao completed the degree course of Master in Business Administration at the graduate school of Renmin University of China（中國人民大學研究生院）in March 2004. He is the uncle of Mr. Gao Yanxu, an Executive Director of the Company.

Board of Directors

Non-Executive Directors (Continued)

Zhang Qi（張琪）, aged 46, is a Non-executive Director. He was appointed as a Director on 25 August 2006 and was last re-elected on 29 April 2010. Mr. Zhang is currently the Internal Audit Manager and Assistant to the General Manager of KD Trading Company. As at 31 December 2012, Mr. Zhang held 3.3% of the equity interests in KD Trading Company. He is responsible for the auditing of the financial and operating system of KD Trading Company and is a Director of KD Feed Company, Qingdao Tianranju Property Management Co., Ltd. and Beijing International Trust Huaxia Investment Co., Ltd., all of which are members of KD Trading Company. Mr. Zhang has more than 20 years of experience in financial matters.

In December 1986, Mr. Zhang joined Qingdao No. 9 Cotton Textile Factory（青島第九棉紡織廠）as the head of financial department and was subsequently promoted to Vice General Accountant in September 1996. During the period from 2001 to 2002, he joined Sino-Zam MuLuGuCi Textile Co., Ltd.（中贊合資穆隆古希紡織有限公司）and was responsible for financial matters. Mr. Zhang obtained a Bachelor's Degree in Financial Management majored in accounting from Qingdao University（青島大學）in July 1986.

Naoki Yamada（山田直樹）, aged 63, is a Non-executive Director. He was appointed as a Director on 29 April 2011 and was last re-elected on 30 April 2012. Mr. Yamada holds a Bachelor's degree in Sociology from Hitotsubashi University in Japan and a Bachelor's degree in Chinese from Nanyang Technological University in Singapore. He has also completed a Master's degree in Business Administration in Tsinghua University, PRC. Mr Yamada is currently the chairman and general manager of ZENSHO RESTAURANT (SHANGHAI) CO., LTD., a subsidiary of Zensho in Shanghai.

Independent Non-Executive Directors

Lau Choon Hoong（劉俊雄）, aged 40, is an Independent Non-executive Director. He was appointed as a Director on 8 November 2012. Mr. Lau is currently the General Manager of the finance department in M1 Limited in Singapore and has been working for M1 Limited since May 2011. Prior to that, Mr Lau worked as group accountant and group financial controller of companies listed in Singapore from 2002 to 2011. Mr. Lau has also gained experience in financial and accounting markets through working in international audit firms in Singapore and Kuala Lumpur from 1996 to 2001. Mr. Lau is a member of each of the Institute of Certified Public Accountants of Singapore and the Association of Chartered Certified Accountants.

He Dingding（賀丁丁）, aged 36, is an Independent Non-executive Director. He was appointed as a Director with effect from 25 August 2012. Mr. He is currently a director of fixed income and principal finance department of Guosen Securities (HK) Capital Ltd ("Guosen") and has been working for Guosen since 2011. Mr. He has gained experience in corporate finance and capital markets through working in an international corporate finance advisory firm in Hong Kong from 2007 to 2011 and in international investment banks in Singapore prior to that. Mr. He graduated from Nanyang Technological University with a bachelor's degree in civil engineering. Mr. He was awarded the CFA Charter by the CFA Institute in September 2006.

Yu Chung Leung（余仲良）, aged 42, is an Independent Non-executive Director. He was appointed as a Director upon the listing of the Company on the Stock Exchange of Hong Kong Limited on 22 December 2008 and was re-elected a Director on 30 April 2012. He has been a partner of Lee & Yu Certified Public Accountants since March 2003. Mr. Yu had been working in an international accounting firm, during the period from July 1993 to January 2003. Mr. Yu is a member of each of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an authorized supervisor to train prospective members of the Hong Kong Institute of Certified Public Accountants. He obtained a Master of Arts in International Accounting from the City University of Hong Kong in July 2006.

Key Management

Fong William（方偉濂）, aged 33, is the chief financial officer and company secretary of the Group. He joined the Group on 13 July 2010 and is responsible for the preparation of the Group's financial statements as well as the review and development of the effective financial policies and control procedures of the Group. Mr. Fong has over seven years of experience in accounting and auditing and worked in an international accounting firm prior to joining the Group. He graduated from City University of Hong Kong with a Bachelor's Degree in Accountancy. Mr. Fong is a member of Hong Kong Institute of Certified Public Accountants and Taxation Institute of Hong Kong.

Gao Yumei（高玉梅）, aged 44, is the production manager of the production department of the Group. Ms. Gao has more than 20 years of experience in the food production industry. From 1985 to 1995, Ms. Gao worked in Qingdao Jiaonan City Import and Export Company（青島市膠南市進出口公司）as the complex production factory head. She later joined Qingdao Kangda Food Refrigareration Factory（青島市康大食品冷藏廠）as its head of workshop from 1995 to 1997. From 1997 to 1999, she held the position of head of workshop at Second Refrigeration Factory of Kangda Foods（青島康大食品有限公司第二冷凍廠）before joining KD Feed Company as its production manager until 2000. From 2001 to 2002, Ms. Gao was the vice manager at Qingdao Kangyang Food Company, Ltd.（青島康洋食品有限公司）. She subsequently moved on to Shandong Qingdao Kanghong Meats and Eggs Products Company, Limited（山東青島康宏肉食蛋品有限公司）in 2002 where she served as a vice manager until 2003. In 2004, she joined our subsidiary, Qingdao Kangda Haiqing Food Co., Ltd. as its vice manager. Ms. Gao undertook a part-time course at the Party School of Shandong Provincial Party Committee of China Communist Party（中共山東省委黨校）and obtained a certificate in economic management. Mr. Gao Yumei is connected with neither Mr. Gao Yanxu nor Mr. Gao Sishi.

Xu Gui Yu（徐桂玉）, aged 49, is the vice manager of the Group's production department. Ms. Xu has more than 20 years of experience in the food production industry. She joined the Group's subsidiary, Qingdao Kangda Haiqing Foods Co., Ltd, as the supervisor of the production facility from 1985. In 2000, she joined another subsidiary, Qingdao Kangda Foods Co., Ltd, where she served as the supervisor of the chicken production department. For the period from 2006 to 2012, Ms. Xu held the position of assistant manager of rabbit production department. Ms. Xu completed an enterprise management course from Shandong Professional College（山東職業專業學院）.

Zhao Ruifen（趙瑞芬）, aged 48, is the manager of the Group's administration department. She has more than 20 years of working experience and is responsible for the administrative functions of the Group. Ms. Zhao joined the Group's subsidiary, Kangda Foods, in July 2001. She assumed management responsibilities of some of the Group's production facilities and was the supervisor of production and business departments of Kangda Foods. From March 2000 to July 2001, Ms. Zhao was the sales manager of the domestic sales department of KD Trading Company. Between March 1995 and March 2000, she was an assistant secretary of Qingdao Kangyu Diamond Company, Ltd.（青島康宇鑽石有限公司）. In March 1994, Ms. Zhao joined Qingdao Kangda Food Refrigeration Factory（青島市康大食品冷藏廠）and was responsible for the production activities of the factory. She was in charge of the human resource department of Jiaonan City Foreign Trading Refrigeration Factory（膠南市外貿冷藏廠）between December 1984 and March 1994. Ms. Zhao has completed a part-time Economics Management course from Shandong Provincial Party Committee School（中共山東省委黨校）.

Pang Shumei（逄淑梅）, aged 40, is the manager of the Group's quality control department. She has more than 10 years of working experience and is responsible for the products quality control of the Group. Ms. Pang worked in the Second Refrigeration Factory of Kangda Foods（青島康大食品有限公司第二冷凍廠）as a quality control staff during the period from 1997 to 1999. She was the head of the quality control division of Kangda Foods during 2000 to 2002. In 2003, she was the manager of the quality control department of Kangda Foods. Ms. Pang studied foods inspection and graduated from Hubei University of Technology（湖北工業大學）, previously known as Hubei Technology Institute（湖北工學院）, in June 1997.

Corporate Information

BOARD OF DIRECTORS
Executive (see note (i) and (iv) below):
Wang Baowang (CEO)
Gao Yanxu

Non-executive:
Gao Sishi (Chairman)
Zhang Qi
Naoki Yamada

Independent non-executive
(see note (ii) and (iii) below):
He Dingding
Lau Choon Hoong
Yu Chung Leung

AUDIT COMMITTEE
Lau Choon Hoong (Chairman)
He Dingding
Zhang Qi
Yu Chung Leung
Naoki Yamada

REMUNERATION COMMITTEE
Yu Chung Leung (Chairman)
He Dingding
Lau Choon Hoong
Gao Sishi
Naoki Yamada

NOMINATION COMMITTEE
He Dingding (Chairman)
Lau Choon Hoong
Gao Yanxu
Yu Chung Leung

COMPANY SECRETARIES
Fong William (HKICPA)
Josephine Toh Lei Mui (ACIS)

AUTHORISED REPRESENTATIVES
Gao Yanxu
Fong William

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
No. 1, Hai Nan Road
Economic and Technology Development Zone
Jiaonan City
Shandong Province
PRC

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE COMPANIES ORDINANCE
Room 4215, Office Tower
Convention Plaza,
No. 1 Harbour Road
Wanchai
Hong Kong

SINGAPORE SHARE REGISTRAR
B.A.C.S. Private Limited
63 Cantonment Road
Singapore 089758

HONG KONG SHARE REGISTRAR
Tricor Investor Services Limited
Level 26, Tesbury Centre,
28 Queen's Road East
Hong Kong

JOINT AUDITORS
BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Engagement Director
Li Wing Yin (appointed with effect from the financial year ended 31 December 2012)

BDO LLP
Public Accountants and
Certified Public Accountants
21 Merchant Road
#05-01 Royal Merukh S.E.A. Building
Singapore 058267

Audit Partner In-charge
William Ng Wee Liang (appointed with effect from the financial year ended 31 December 2012)

WEBSITE OF THE COMPANY
www.kangdafood.com
(The contents of the Company's website do not form part of this document)

Notes:

(i) The following changes as announced on 3 September 2012, were effected and became effective from 3 September 2012:

(1) Resignation of Mr. Gao Yanxu as the chief executive officer of the Company; and

(2) Appointment of Mr. Wang Baowang as the chief executive officer of the Company.

(ii) The following changes as announced on 27 August 2012, were effected and became effective from 25 August 2012:

(1) Resignation of Mr. Kuik See Juan as a lead independent non-executive director, the chairman of the nomination committee, a member of each of the audit committee and remuneration committee of the Company; and

(2) Appointment of Mr. He Dingding as a lead independent non-executive director, the chairman of the nomination committee, a member of each of the audit committee and remuneration committee of the Company.

(iii) The following changes as announced on 8 November 2012, were effected and became effective from 8 November 2012:

(1) Resignation of Mr. Sim Wee Leong as the independent non-executive director, the chairman of the audit committee, a member of each of the remuneration committee and nomination committee of the Company; and

(2) Appointment of Mr. Lau Choon Hoong as the independent non-executive director, the chairman of the audit committee, a member of each of the remuneration committee and nomination committee of the Company.

(iv) The following changes as announced on 28 November 2012, were effected and became effective from 28 November 2012:

(1) Resignation of Mr. An Fengjun as the executive director of the Company; and

(2) Appointment of Mr. Wang Baowang as the executive director of the Company.

Management Discussion and Analysis

BUSINESS REVIEW

Due to the Eurozone debt crisis, the macro-economic growth across the globe has slowed down and consumption has shrinked. The global macro-environment has also affected the economic growth in PRC.

In 2012, the inflating cost of sales, appreciation of the RMB and the increasing competition in the Group's target markets have impacted and squeezed the Group's gross profit margin which declined from 8.8% to 7.5%. As a result, overall profitability was adversely affected and the total comprehensive profit attributable to owners of the Company decreased from RMB12.2 million to RMB4.9 million. Earnings per share for the year ended 31 December 2012 ("FY2012") was RMB1.14 cents (2011: RMB2.83 cents).

Notwithstanding the above, the Group was still able to achieve an organic growth in revenue. With the stable expansion in its production capacity and focusing on its products quality, turnover for the Group surged by 10.1% to approximately RMB1,489.8 million in FY2012.

PROSPECT

The Group will continue to optimize its sales channels in PRC by further enhancing its brand profile and launching diversified product mix. The Group will also continue to implement an extensive marketing strategy with emphasis on maintaining good relationships with customers and suppliers. Further, the Group will continue with its cost control measures, improve management tools and focus on widening its domestic and international customer base.

To mitigate the increasing prices of raw materials, the Group will increase its efforts in the research and development of new products. The Group will also look for opportunities that may bring steady long term growth and fit with its strategy, such as, continue to increase its existing production capacity and control its products quality to increase its market penetration.

Although the global economy being volatile and misty, the Board remains positive that the Group's financial position is stable and has sufficient cash resources to meet its present and future cash flow requirements. The Board believes that the above strategies and measures will bring the Group steady and sustainable long term growth.

Management Discussion and Analysis

OPERATING AND FINANCIAL REVIEW

REVENUE BY PRODUCTS

	FY2012 RMB'000	FY2011 RMB'000	% Change +/(-)
Processed foods	**669,377**	511,416	30.9
Chilled and frozen rabbit meat	**274,305**	299,492	(8.4)
Chilled and frozen chicken meat	**361,495**	420,907	(14.1)
Other products	**184,661**	121,582	51.9
Total	**1,489,838**	1,353,397	10.1

Processed Food Products

Revenue derived from processed food products increased by 30.9% to approximately RMB669.4 million in FY2012.

Based on the Group's reputation and track record in the processed food products market, the Group's market share had increased further which was evident by its turnover and brand recognition by consumers as a result of more intensive advertising effort. In FY2012, the Group had successfully launched various new product ranges under its own brand, such as vegetables and roasted bowl.

Chilled and Frozen Meat Products

The rabbit and chicken meat segments contributed 42.7% and 53.2% to the Group's total revenue in FY2012 and FY2011 respectively. The revenue of the rabbit and chicken meat segments registered a 11.7% decrease to approximately RMB635.8 million in FY2012.

Given the uncertain economic situation in Europe, the Group faced a challenging business environment. Demand for rabbit meat declined generally. Revenue derived from the sale of rabbit meat decreased by 8.4% to approximately RMB274.3 million in FY2012.

Revenue of the chicken meat segment contributed 24.3% to the Group's total revenue and decreased by 14.1% to approximately RMB361.5 million in FY2012. The decrease was due mainly to the intense competition of frozen chicken meat products in PRC market.

Other Products

Revenue derived from the production and sale of other products increased by 51.9% to RMB184.7 million in FY2012 due mainly to the increased demand for the Group's pet food products from the PRC and Korea markets. Pet food sales contributed over 50% to this segment, with growth generated from the Beijing and Shanghai markets in the PRC and overseas markets in Japan and Korea.

Management Discussion and Analysis

REVENUE BY GEOGRAPHICAL MARKETS

	FY2012 RMB'000	FY2011 RMB'000	% Change +/(-)
Export	**535,164**	486,337	10.0
PRC	**954,674**	867,060	10.1
Total	**1,489,838**	1,353,397	10.1

On a geographical basis, revenue from the export sales increased by 10.0% to approximately RMB535.2 million in FY2012. The increase in export sales was attributable mainly to the increase in demand for processed food products.

By continuously optimizing its sales channels and stepping up its brand promotion in PRC, the Group achieved a satisfactory result in the promotional and product development on its brand. PRC sales increased by 10.1% to approximately RMB954.7 million, reflecting that the Group's brand was well received in the PRC market.

Management Discussion and Analysis

PROFITABILITY

Gross Profit and Margin

	FY2012 RMB'000	FY2012 Margin %	FY2011 RMB'000	FY2011 Margin %	Change RMB'000	% Change +/(-)
Processed foods	69,486	10.4	59,257	11.6	10,229	17.3
Rabbit meat	24,507	8.9	40,958	13.7	(16,451)	(40.2)
Chicken meat	9,444	2.6	14,210	3.4	(4,766)	(33.5)
Other products	7,571	4.1	5,027	4.1	2,544	50.6
Total	111,008	7.5	119,452	8.8	(8,444)	(7.1)

Gross profit margin declined from 8.8% to 7.5% in FY2012 which was due mainly to the increase in raw materials prices, particularly the rise in corn price, increase in operational costs and the decreasing price of chicken meat products in the PRC market as a result of intense competition.

In FY2012, staff cost in the PRC had generally been rising at a growth rate of more than 10% in compliance with the revised requirements in minimum wages and social security regulations. The revision of the employees' salaries is also to ensure competitiveness and maintain their commitment and loyalty to the Group.

Processed Food Products

Processed food business was the major income source for the Group in FY2012. The processed food business segment continued its thriving and healthy development. The effect of the economy of scale resulting from the expansion of the Group's existing production capacity has increased the Group's gross profit by 17.3% to RMB69.5 million in FY2012.

Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat declined significantly from 13.7% to 8.9% in FY2012 due to the decrease in selling price resulting from the decrease of rabbit meat demand in Europe market.

Chilled and Frozen Chicken Meat

The decline in gross profit of chilled and frozen chicken meat segment was due mainly to the increase in raw material prices and the decreasing price of chicken meat products in the PRC market.

In addition, competition in the chicken meat market became more intense while industry peers offered steeper discounts to tap into the lower-price market. As a result of the oversupply of chicken meat products from smaller plants in the PRC, the bargaining power on discount for mass-purchase of raw materials had weakened.

With the average selling price of chicken meat decreased and coupled with the increased cost of raw materials, both gross profit and gross profit margin of the Group declined to RMB9.4 million and 2.6% respectively.

Other Products

Other products are mainly chicken and rabbit meat by-products and pet food products, which are not the core profit drivers of the Group. Due to the increase in demand of the chicken and rabbit meat by-products, gross profit margin remained stable as 4.1% in FY2012 and gross profit increased from RMB5.0 million to RMB7.6 million.

Management Discussion and Analysis

Other Income

Other income comprised mainly government grants, gain on change in fair value of biological assets and interest income from bank deposits amounting to RMB12.1 million, RMB8.6 million and RMB3.1 million respectively. The rest was mainly minor income generated from sale of raw materials, mainly vegetables and food ingredients, to factories in Qingdao. The decrease in other income was due to the decrease of government grants provided by the PRC government.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly transportation costs, promotion costs and salary and welfare. The increase in selling and distribution expenses by 9.0% to approximately RMB39.5 million was primarily due to the increase in transportation expenses related to the sales of the Group's products and marketing expenses in attempts to increase the Group's market share in the PRC.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, travelling expenses and other miscellaneous expenses and increased slightly by 1.5% to approximately RMB70.1 million in FY2012.

Other Operating Expenses

Other operating expenses represented miscellaneous expenses relating to the disposal of damaged packaging materials, which had increased with the increase of sales during the year.

Finance costs

Finance costs decreased by 10.2% to approximately RMB29.7 million in FY2012 due mainly to the capitalization of borrowing costs which amounted to approximately RMB2.6 million (2011: Nil). The borrowing costs capitalized were calculated by applying a capitalisation rate of 7.04% to expenditure on qualifying assets.

Taxation

The income tax expense comprised both the accrued PRC corporate income tax and the charge of deferred tax liability that arose from the fair value adjustment on property, plant and equipment, intangible assets and land use rights in the course of the business combination of Kaijia Food and its subsidiary, Shandong Kaijia International Trade Co., Ltd. ("Kaijia Trade") (collectively referred to as the "Kaijia Group") in FY2012.

The income tax expense was offset by the Hong Kong profit tax refund from the Inland Revenue Department of Hong Kong in relation to an excess tax charged in prior years.

Exchange loss, net

Some of the Group's export sales transactions were originally invoiced in foreign currency, such as Japanese yen and US dollar; the appreciation of RMB against those currencies and the increase of sales in FY2012 had increased the exchange loss.

Review of the Group's Financial Position as at 31 December 2012

The Group's property, plant and equipment increased by 3.8% to approximately RMB618.2 million as at 31 December 2012 due mainly to an acquisition of equipment of approximately RMB78.2 million. This was offset by a depreciation charge of approximately RMB52.2 million.

The reduction in prepaid premium for land leases and intangible assets in FY2012 amounted to approximately RMB2.6 million and approximately RMB1.2 million respectively. This was due mainly to amortisation. The intangible assets refer to the export licenses and hygiene registration certificates awarded by the relevant authorities in Japan and EU. The said licenses and certificates allow the Group to export its products to these countries.

Goodwill arising from the acquisitions of subsidiaries in the past.

Biological assets refer to progeny rabbits and progeny chickens for sale and breeder rabbits and chickens for breeding purpose. These biological assets were valued by an independent professional valuer as at 31 December 2012 with reference to market-determined prices.

Management Discussion and Analysis

Inventories decreased by 20.0% to approximately RMB153.2 million due to the improvement of the Group's inventory management. The inventory turnover days for FY2012 were 43 days compared to 49 days for FY2011.

Trade receivables decreased by 14.1% to approximately RMB88.1 million as at 31 December 2012. The trade receivables turnover days decreased to 23 days in FY2012 compared with 26 days in FY2011 due to the stepping up of collection efforts.

Prepayments, other receivables and deposits increased slightly by approximately 6.5% to approximately RMB57.3 million as at 31 December 2012.

Cash and cash equivalents, including pledged deposits, increased by approximately RMB107.0 million to approximately RMB422.1 million due mainly to the increase of bank borrowings acquired close to the year ended in 2012. Approximately RMB51.4 million of the bank deposit is for securing the interest-bearing borrowings by the Group.

Trade and bills payables increased by 29.9% to approximately RMB175.7 million as at 31 December 2012 due to the increase in purchase of raw materials to cater to the anticipated increase in demand in the first quarter of 2013.

Accrued liabilities and other payables received represented payables for construction and facilities, salary and welfare payables, accrued expenses and deposit received. The slight decrease by 3.3% was due to the repayment of deposits placed by customers.

The interest-bearing bank borrowings balance as at 31 December 2012 increased to approximately RMB589.0 million after taking into account the additional bank borrowings of approximately RMB784.0 million and the bank borrowings repayment of approximately RMB695.4 million during the year.

To provide for the Group's additional working capital, Qingdao Kangda Foreign Trade Group Limited ("KD Group") had advanced approximately RMB100.0 million in March 2011 to the Group which was unsecured and interest-free. Approximately RMB20.0 million had been repaid before 31 December 2011 and RMB80.0 million had been repaid to KD Group in January 2012. The outstanding balance of amount due to a related party was as a result of cash transfer.

Tax payables decreased from approximately RMB1.9 million as at 31 December 2011 to approximately RMB0.8 million as at 31 December 2012. This was due to income tax paid during 2012.

CAPITAL STRUCTURE

During the year under review, the Group had net assets of approximately RMB705.5 million (31 December 2011: RMB704.8 million), comprising non-current assets of approximately RMB859.3 million (31 December 2011: RMB834.7 million), and current assets of approximately RMB750.3 million (31 December 2011: RMB694.5 million). The Group recorded a net current liability position of approximately RMB139.3 million (31 December 2011: RMB116.9 million) as at 31 December 2012, which primarily consist of cash and cash equivalents balances amounted to approximately RMB370.7 million (31 December 2011: RMB310.9 million). Moreover, inventories that amounted to approximately RMB153.2 million (31 December 2011: RMB191.6 million) and trade receivables that amounted to approximately RMB88.1 million (31 December 2011: RMB102.6 million) are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings that amounted to approximately RMB175.7 million (31 December 2011: RMB135.2 million) and approximately RMB589.0 million (31 December 2011: RMB500.4 million) respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group has cash and cash equivalent of approximately RMB370.7 million (31 December 2011: RMB310.9 million) and had total interest-bearing bank borrowings of approximately RMB589.0 million (31 December 2011: RMB500.4 million). The Group's interest-bearing bank borrowings were debts with interest rate ranging from 6.00% to 7.87% (31 December 2011: 4.38% to 7.60%) per annum.

The gearing ratio for the Group was 87.9% (31 December 2011: 75.2%) as at 31 December 2012, based on net debt of approximately RMB589.0 million (31 December 2011: RMB500.4 million) and equity attributable to Company's owners of approximately RMB670.1 million (31 December 2011: RMB665.2 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The Board is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

Management Discussion and Analysis

FOREIGN CURRENCY EXPOSURE

The following table details the Group's exposures at the reporting date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which the Group's entities relate:

	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HK$ RMB'000
Financial assets					
Trade receivables	29,337	8,087	1,812	–	–
Cash and bank balances	10,385	583	–	27	108
	39,722	8,670	1,812	27	108
Financial liabilities					
Trade payables	6,868	–	719	–	–

In view of the nature of the Group's business, which spans several countries, foreign exchange risks will continue to be an integral aspect of its risk profile in the future. Currently, the Group neither has a formal foreign currency hedging policy nor conducts hedging exercise to reduce foreign currency exposure. The Group will continue to monitor its foreign exchange exposure should it be necessary.

CAPITAL COMMITMENTS

As at 31 December 2012, the capital commitment of the Group which had been contracted for but not provided in the financial statements was in the total amount of approximately RMB13.1 million (2011: RMB12.0 million).

CHARGE ON ASSETS

Total secured interest-bearing bank borrowings are approximately RMB325,000,000 as at 31 December 2012 (2011: RMB205,000,000).

As at 31 December 2011 and 2012, the Group's interest-bearing bank borrowings are guaranteed by certain related parties of the Group and secured against pledge of certain of the Group's property, plant and equipment, land use rights, pledged deposits and trade receivables.

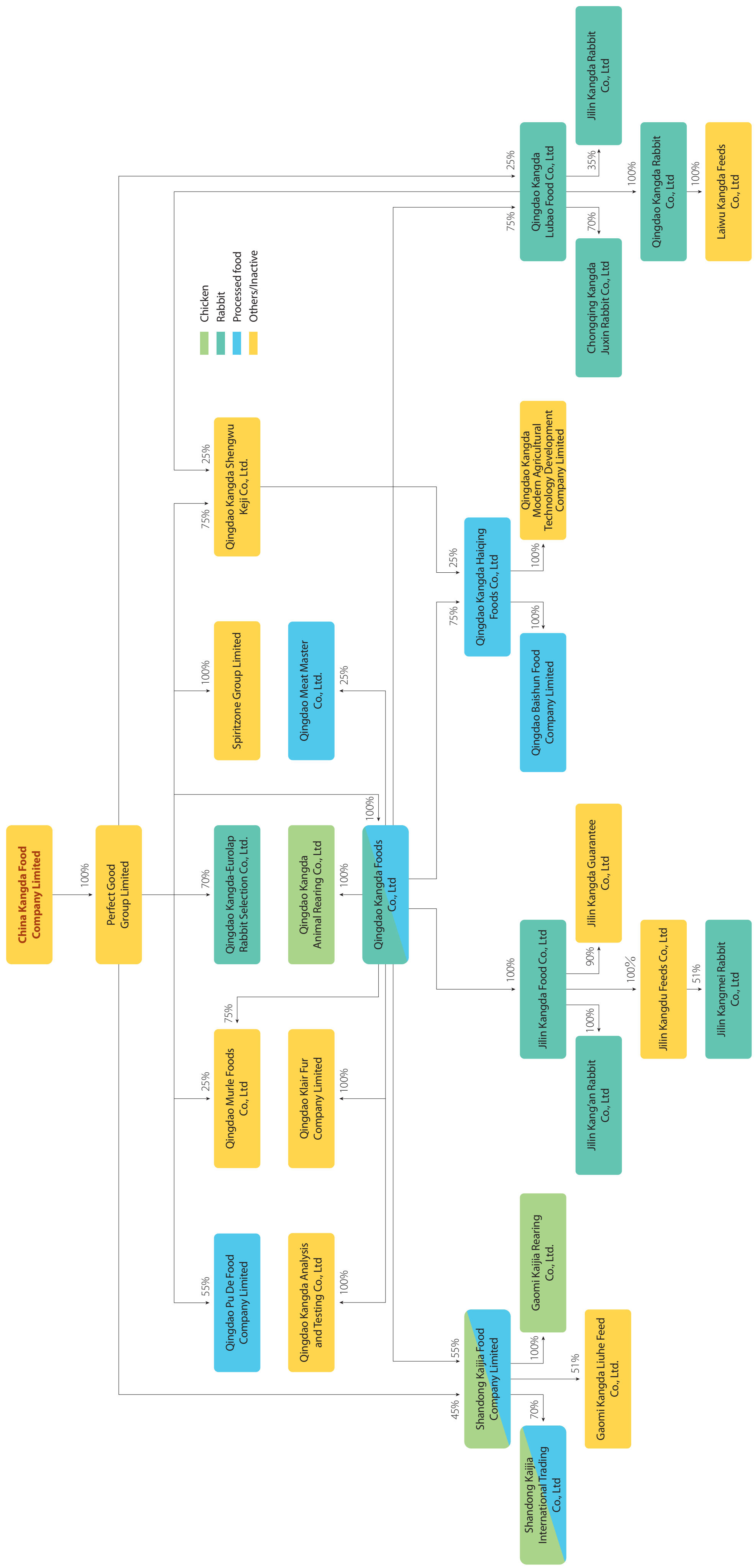
CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any material contingent liabilities (31 December 2011: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2012, the Group employed a total of 5,529 employees (2011: 5,008 employees) in the PRC. The Group's emolument policy is formulated based on the industry practices and performance of individual employee. During the year under review, the total staff costs (including Directors' emoluments) were in the amount of approximately RMB204.7 million (2011: RMB160.9 million). The Company does not have share option scheme for its employees.

Corporate Structure



Corporate Governance Report

The Board of Directors (the "**Board**") is committed to maintain a high standard of corporate governance practices and procedures within the Company and its subsidiaries (the "**Group**"). The Board endeavors to ensure that its businesses are conducted in accordance with the rules and regulations and applicable codes and standards.

For the year under review, the Company has generally complied with all the applicable code provisions of the Code of Corporate Governance 2005 (the "**Singapore Code**") issued by the Council on Corporate Disclosure and Governance, Singapore and the Corporate Governance Code (the "**HK Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "**Hong Kong Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**SEHK**") (where they are applicable, relevant and practicable to the Group). Any deviation from the guidelines of the Singapore Code and HK Code or areas of non-compliance would be explained accordingly.

The Board will review and take the necessary steps to align the Group's governance framework with the recommendations made by the Singapore Corporate Governance Council on the Code of Corporate Governance in the revised Code of Corporate Governance 2012 ("**CG 2012**"), where they are applicable, relevant and practicable to the Group. The CG 2012 is effective in respect of the Company's Annual Report for the financial year ending 31 December 2013. In respect of CG 2012, the Board will also review and enhance the Company's corporate governance in risk management with due regard to the guidelines set out in the Risk Governance for Listed Boards issued by the Singapore Corporate Governance Council in May 2012.

BOARD OF DIRECTORS

(A) Board's Conduct of its Affairs

The Board, in addition to its statutory responsibilities has the duty to protect and enhance long-term shareholders' values, is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

The principal functions of the Board are to:

1. approve the policy initiatives, strategies and financial objectives of the Group and monitoring the performance of management of the Company (the "**Management**") towards achieving adequate shareholders' value;

2. approve annual budgets, major funding proposals, investment and divestment proposals, material acquisitions and disposal of assets and interested person transactions of a material nature;

3. oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance, including the release of financial results and timely announcements of material transactions;

4. declare interim and final dividends, if applicable;

5. approve all Board appointments/re-elections and appointment of key personnel;

6. assume responsibility for corporate governance;

7. prepare financial statements which give a true and fair view of the Company for each financial period in accordance with the International Financial Reporting Standards; and

8. oversee the proper conduct of the Company's business.

Approval of the Board is required for any matters which is likely to have a material impact on the Group's operating units and/or financial positions as well as matters other than in the ordinary course of business. The Board believes that when taking decisions, all Directors of the Board act objectively and in the interest of the Company.

Corporate Governance Report

The Board is supported by the Audit Committee (the "**AC**"), the Remuneration Committee (the "**RC**") and the Nomination Committee (the "**NC**") (collectively as "**Board Committees**"). These Board Committees function within clearly defined terms of reference. All Board Committees are chaired by an Independent Director and a majority of the members are Independent Directors. The composition and terms of reference of each of the Board Committees are described in this report. The Board accepts that while these Board Committees have the delegated power to make decisions, execute actions or make recommendations in their specific areas respectively and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility for their decisions and actions rests with the Board. The Board meets on a quarterly basis. These meetings are scheduled in advance to facilitate the Directors' individual administrative arrangements in view of their ongoing commitments.

Ad hoc meetings will be convened as and when warranted by particular circumstances between scheduled meetings. The Company's Bye-laws provide for meetings to be held via telephone and video conferencing. When a physical Board or Board Committee meeting is not possible, timely communication with members of the Board or Board Committee can be achieved through electronic means or the circulation of written resolution for approval by the relevant members of the Board or Board Committees.

The day-to-day management, administration and operation of the Group are taken by the executive Board members and which are delegated to the Management. Each Executive Director of the Company has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties can be carried out in an effective and efficient manner. Directors may request further explanations, briefing or discussion on any aspect of the Group's operations or business from Management. When circumstances require, Board members exchange views outside the formal environment of Board meetings.

Details of Directors' attendance at the Board and Board Committee meetings, held for the year ended 31 December 2012 ("FY2012") are set out in the table below:

Meetings of	**Board**	**AC**	**NC**	**RC**
Total held in 2012	*5*	*5*	*2*	*1*
		Attendance Record		
Gao Sishi	2	N/A	N/A	1
Wang Baowang [1]	0	N/A	N/A	N/A
Gao Yanxu [1]	5	N/A	2	N/A
An Fengjun [1]	4	N/A	N/A	N/A
Zhang Qi	3	2	N/A	N/A
Naoki Yamada	4	4	N/A	1
Kuik See Juan [2]	3	4	2	1
He Dingding [2]	1	1	N/A	N/A
Sim Wee Leong [3]	3	2	2	1
Lau Choon Hoong [3]	1	1	N/A	N/A
Yu Chung Leung	4	5	2	1

1 Mr Gao Yanxu stepped down as Chief Executive Officer ("CEO") of the Company on 3 September 2012 and Mr Wang Baowang was appointed as the CEO of the Company in his place. Mr Gao remains an Execute Director of the Company.

Mr Wang was appointed as an Executive Director on 28 November 2012 in place of Mr An Fengjun who left the Company to pursue his own business interests.

2 Mr He Dingding was appointed as the Lead independent non-executive Director, Chairman of the NC, a member of each of the AC and RC in place of Mr Kuik See Juan on 27 August 2012.

3 Mr Lau Choon Hoong was appointed as an independent non-executive Director, Chairman of the AC, a member of each of the RC and NC of the Company in place of Mr Sim Wee Leong on 8 November 2012.

Corporate Governance Report

Newly appointed Directors are briefed on the Group's business activities, strategic direction and regulatory environment in which the Group operates. They will also have the opportunity to visit the Group's operational facilities and to meet with Management so as to gain a better understanding of the Group's business operations. They will be provided with a letter of appointment setting out their duties, obligations and terms of appointment.

Directors who do not have prior experience or are not familiar with the duties and obligations required of a Director of a listed company in Singapore, will undergo the necessary training and briefing.

The Board is updated on amendments and requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST"), and other statutory requirements from time to time. Relevant press release from the SGX-ST and postings on the HKSE website will also be circulated to the Board for information.

(B) Board Composition

The Board comprises eight Directors, with two Executive Directors, three Non-Executive Directors, and three Independent Non-Executive Directors. The names of the Directors are set out as follows:

Executive Directors
Wang Baowang *(CEO)*
Gao Yanxu

Non-executive Directors
Gao Sishi *(Chairman)*
Zhang Qi
Naoki Yamada

Independent Non-executive Directors
He Dingding
Lau Choon Hoong
Yu Chung Leung

The biographies of the Directors are set out on pages 5 to 6 of the annual report.

During FY2012, the Board met the requirements of the Hong Kong Listing Rules relating to the appointment of at least three Independent Non-Executive Directors and one third of the Board comprises Independent Non-Executive Directors in compliance with the Singapore Code and the Hong Kong Listing Rules.

The NC, which is responsible for reviewing the independence of each Director on an annual basis, has adopted the Singapore Code's definition of what constitutes an independent director and guidelines as to relationships which would deem a director not to be independent. In addition, the NC requires each Non-Executive Director to state whether he considers himself independent despite having any of the relationships identified in the Singapore Code which would deem him to be not independent.

The NC and the Board have received the annual written confirmations of independence from all the Independent Non-Executive Directors pursuant to Rule 3.13 of the Hong Kong Listing Rules and the Singapore Code. The NC and the Board are of the view that all the Independent Non-Executive Directors are independent in accordance with the Hong Kong Listing Rules and the Singapore Code.

The size and composition of the Board are reviewed on an annual basis by the NC to ensure that it has an appropriate mix of expertise and experience, and collectively possesses the necessary core competencies which the Group may tap on for assistance in furthering its business objectives and shaping its business strategies. The NC also strives to ensure that the size of the Board is conducive to facilitate effective discussions and decision-making. The diversity of the Directors' background allows for useful exchange of ideas and views. The NC with the concurrence of the Board considers the current Board size of eight as appropriate, having regard to the nature, size and scope of the Group's operations.

Corporate Governance Report

Non-Executive Directors contribute to the Board process by monitoring and reviewing Management's performance against the Group's goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. When challenging Management's proposals or decisions, they bring independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities.

(C) Chairman and Chief Executive Officer

According to the code provision A.2.1 of the HK Code and principle 3 of the Singapore Code, the roles of Chairman and Chief Executive Officer ("**CEO**") should be separated and should not be performed by the same individual. This is to ensure that there is an appropriate balance of power and authority such that no one individual embodies a considerable concentration of power. The posts of Chairman and CEO are held by Mr Gao Sishi and Mr Wang Baowang respectively and they are not related to each other.

As the Non-executive Chairman of the Group, Mr Gao Sishi, who is the founder of the Group, bears the responsibility for the effective working of the Board. He ensures that Board meetings are held when necessary, setting the Board meeting agenda in consultation with the Group's CEO and the Chief Financial Officer ("**CFO**")/Company Secretary and that the Directors receive accurate timely and clear information. In addition to making sure that effective communication is achieved with shareholders, he acts as facilitator to Non-executive Directors for them to contribute effectively to the Group. He is responsible for encouraging constructive relations between Management and the Board as well as between the Executive Directors and Non-executive Directors.

As part of the leadership renewal process, Mr Wang Baowang, an Executive Director, took over the role of CEO of the Company from Mr Gao Yanxu who remains an Executive Director of the Company. As CEO, Mr Wang Baowang is responsible for the day-to-day management of the affairs of the Group including reviewing and charting of corporate directions and strategies. He also ensures that stipulated corporate policies are properly complied with and the Directors are kept updated and informed of the Group's development.

The Directors are of the view that there are sufficient safeguards and checks to ensure that the decision-making process of the Board is independent and based on collective decision of the Directors without any individual exercising any considerable concentration of power or influence. All major decisions made by the Chairman and the CEO are reviewed by the Board which comprised a majority of Non-Executive Directors. The Chairman's and CEO's performance and appointment to the Board are reviewed by the NC and their remuneration packages by the RC. Both the NC and RC are chaired by Independent Non-Executive Directors.

In line with the recommendations of the Singapore Code, Mr He Dingding has been appointed as a Lead Independent Non-Executive Director of the Company to co-ordinate and lead the Independent Directors to provide a non-executive perspective in circumstances where it would be inappropriate for the Chairman to serve in such capacity and to contribute a balance viewpoint to the Board. He will also assist the Chairman of the Board to ensure effective corporate governance in managing the affairs of the subsidiaries and the Company. Mr He is available to address the concerns, if any, of the Company's shareholders on issues that contract through the normal channels of the Chairman/CEO or the CFO has failed to render or where such contact is inappropriate.

(D) Board Membership and Performance

Nomination Committee

The NC, regulated by a set of written terms of reference, comprises four members, a majority of whom are Independent Non-Executive Directors. The chairman is Mr He Dingding, an Independent Non-Executive Director, who is not directly associated with any substantial shareholder of the Company.

Corporate Governance Report

The members of the NC are as follows:

He Dingding	*(Chairman)*
Lau Choon Hoong	
Gao Yanxu	
Yu Chung Leung	

The principal functions of the NC are to:

1. review and recommend to the Board the structure, size and composition of the Board and proposed changes;

2. determine the process for selection and appointment of new Directors to the Board including disclosure on the search and nomination process;

3. review nominations for the appointment, including re-elections to the Board, having regard to the Directors' contribution and performance;

4. ensure that all Directors submit themselves for re-election at regular intervals;

5. evaluate the performance of the Board as a whole;

6. review and evaluate whether or not a Director is able to and has been adequately carrying out his duties as a Director of the Company, having regard to the competing time commitments when serving on multiple Boards; and

7. review on an annual basis the independence of Directors bearing in mind the circumstances set forth in the HK Code and Singapore Code and any other salient factors.

In reviewing and recommending the appointment of new Directors, the NC would seek to identify the competencies required to enable the Board to fulfill its responsibilities. The Curriculum Vitae and other particulars/documents of the nominee or candidate will be given to the NC for consideration.

The NC has adopted a process for selection and appointment of new directors which provides the procedure for identification of potential candidates, evaluation of the suitability of the candidate based on his qualifications, skills, knowledge, business and related experience, commitment, ability to contribute to the Board process and such qualities and attributes that may be required by the Board. The NC will make its recommendation to the Board after its review of the candidates' suitability.

During the year, there were some changes to the Board. The details of changes were described in the footnotes below the attendance table on page 18 of this report. The change of Directors is part of the Board and leadership renewal process, taking into account the need for progressive refreshing of the Board.

The NC had reviewed the curriculum vitae of Mr Wang Baowang, Mr He Dingding and Mr Lau Choon Hoong respectively and assessed their qualifications and work experience before making its recommendations to the Board. The NC is of the view that Mr Wang's extensive experience and expertise in various senior management positions, handling overseas investments mergers and acquisition business development and day-to-day management would put him in good stead as CEO and Executive Director to lead the Group and bring it up to the next level. Both Mr He and Mr Lau have corporate finance/capital markets and financial/accounting backgrounds respectively and are considered independent for the purposes of the Hong Kong Listing Rules and Singapore Code.

The NC had noted that Mr Wang, Mr He and Mr Lau do not have prior experience as a Director of a listed company in Singapore or Hong Kong. Management will arrange for them to undergo the training course conducted by the Singapore Institute of Directors in conjunction with the SGX or the Hong Kong Institute of Directors to familiarize themselves with the roles and responsibilities of a Director of a listed company.

Corporate Governance Report

Under code provision A.4.1 of the HK Code, the Non-Executive Directors should be appointed for a specific term, subject to re-election. The Non-Executive Directors of the Company, Mr Gao Sishi, Mr Zhang Qi and Mr Naoki Yamada, are each appointed by the Company for a one-year term. Their appointment may be terminated by either party giving at least one month's written notice or in accordance with the terms of the appointment letters.

The Independent Non-Executive Directors, Mr Yu Chung Leung, Mr He Dingding and Mr Lau Choon Hoong were each appointed for a one-year term. Their appointment may be terminated by either party giving at least one month's written notice or in accordance with the terms of the appointment letters.

The Executive Directors, Mr Gao Yanxu and Mr Wang Baowang, were also each appointed for a period of one year. Their respective appointment may be terminated by either party giving at least one month's notice or in accordance with the terms of the service agreements.

The NC will review the performance of each of the Directors and will recommend to the Board if their term of office would be renewed for a further year. The RC will review and recommend to the Board if there were any changes to their existing remuneration packages.

Pursuant to its Terms of Reference, the NC is required to determine if a Director has been adequately carrying out the duties as a Director of the Company, particularly if he has multiple Board representation. In view of this, the NC having considered the annual written confirmations from all the Non-Executive Directors, concluded that such multiple Board representations, if any, do not hinder each Director from carrying out his duties as a Director of the Company. The Board concurred with the NC's views.

In accordance with the Company's Bye-laws, each Director is required to retire at least once in every three years by rotation and all newly appointed Directors will have to retire at the next annual general meeting ("AGM") following their appointments. The retiring Directors are eligible to offer themselves for re-election.

The NC, having considered the attendance and participation of the following Directors at Board and Board Committee meetings, in particular, their contributions to the business and operation of the Company as well as Board processes, had recommended to the Board the re-election of these Directors who will be retiring at the forthcoming AGM:

(a) Under bye-law 86(1):

- Mr Zhang Qi

(b) Under bye-law 85(6):

- Mr He Dingding
- Mr Lau Choon Hoong
- Mr Wang Baowang

The Board had accepted the NC's recommendation and accordingly, the above Directors will be offering themselves for re-election at the forthcoming AGM.

Mr He Dingding and Mr Lau Choon Hoong, being members of the NC had abstained from voting on any resolutions and making any recommendations/participating in any deliberations of the NC in respect of their nomination for re-election as Director.

An evaluation of Board performance is conducted annually by the NC to assess the effectiveness of the Board as a whole which examines factors such as Board composition, information flow to the Board, Board procedures, Board accountability, and standards of conduct of the Board members.

For the year under review, the NC had conducted a Board performance evaluation. The results of the Board performance evaluation were collated and presented to the NC for discussion with comparatives from the previous year's results. The NC was generally satisfied with the results of the Board performance evaluation for FY2012, which indicated areas of strengths and those that could be improved further. No significant problems were identified. The NC had presented the results to Board members who agreed to work on those areas that could be improved further. The NC will continue to review its procedure and effectiveness from time to time.

Corporate Governance Report

(E) Access to Information

All Directors have independent access to the Group's senior management and the Company secretaries. All Directors are provided, where appropriate, with complete, adequate and timely information on Board affairs and issues to enable them to participate at the meetings and make informed decisions. Information provided included background or explanations relating to matters to be brought before the Board and copies of disclosure documents.

The CEO keeps Board members abreast of key developments affecting the Group as well as material transactions in order that the Board is fully aware of the affairs of the Group. Management provides reports and financial statements to the Board on a regular basis. Board and Board Committee papers are sent to Directors at least three working days before such meeting so that the Directors may better understand the matter prior to the meeting and discussions may be focused on questions that the Directors have on these matters. Financial highlights of the Group's performance and developments are presented on a quarterly basis at Board Meetings. The CEO and senior management are present at these presentations to address any queries which the Board may have.

Both Company Secretaries attend all Board meetings and assist the Board in ensuring that Board procedures and all other rules and regulations applicable to the Company are complied with. The Company Secretaries also follow the direction of the Chairman to ensure that there is sufficient/pertinent information flow within the Board and its committees and between senior management and non-executive directors, as well as to facilitate orientation and assist with professional development when required to do so. The appointment and removal of the Company Secretaries are subject to approval by the Board.

Should the Directors, whether as a group or individually, need independent professional advice to fulfill their duties, the Directors will be able to obtain such advice from professionals for which the consultation fees incurred will be borne by the Company. The appointment of such independent professional advisor is subject to approval by the Board.

(F) Procedures for Developing Remuneration Policies, Level and Mix of Remuneration and Disclosure on Remuneration

Remuneration Committee

The RC, regulated by a set of written terms of reference, comprises the following non-executive directors:

Yu Chung Leung	*(Chairman)*
Gao Sishi	
Lau Choon Hoong	
He Dingding	
Naoki Yamada	

The principal functions of the RC are to:

1. review and recommend to the Board a framework of remuneration for the Board and key executives;

2. review and recommend the Directors' fees for Non-Executive Directors, which are subject to shareholders' approval at the AGM;

3. assess, review and recommend the remuneration package of the executive Directors, senior management and those employees related to the Directors of the Company; and

4. recommend to the Board on share option or long term incentive schemes which may be set up from time to time.

Mr Wang Baowang's service agreement term of office is from 3 September 2012 to 2 September 2013. Mr He Dingding and Mr Lau Choon Hoong's term of office is from 27 August 2012 to 26 August 2013 and 8 November 2012 to 7 November 2013 respectively. The RC had recommended their remuneration packages outlined in their service agreements and letters of appointment respectively at the time of their appointment. The Board had concurred with the RC's recommendation.

Corporate Governance Report

The RC had reviewed the renewal of letters of appointment of the Non-Executive Directors, Mr Gao Sishi, Mr Zhang Qi, Mr Naoki Yamada and Mr Yu Chung Leung, and the service agreements of the Executive Directors, Mr Gao Yanxu and Mr Wang Baowang.

The duration of the renewed terms of the other Directors is as follows:

Mr Gao Sishi and Mr Zhang Qi – from 26 August 2012 to 25 August 2013.
Mr Yu Chung Leung – from 22 December 2012 to 21 December 2013.
Mr Naoki Yamada 29 April 2012 to 25 August 2013.

The RC with the concurrence of the NC, having regard to the contribution and performance of each Director, had recommended that their terms of office be renewed as above. The Board had accepted the RC's recommendation.

The Non-Executive Directors namely Mr Gao Sishi, Mr Zhang Qi and Mr Naoki Yamada have waived their respective Directors' Fees for FY2012.

Taking the above into account, the RC had recommended to the Board an amount of S$130,000 (equivalent to RMB640,000) as Directors' fees for the Independent Non-Executive Directors for FY2012. The Board will table this at the forthcoming AGM for shareholders' approval.

The annual review of the remuneration packages of all Directors was carried out by the RC to ensure that the remuneration of the Directors and key executives commensurate with their performance, qualifications, experience and duties giving due regard to the financial and commercial health and business needs of the Group.

The RC would also in consultation with Management determine the target profit ("the Target Profit") for each financial year for the Executive Directors to achieve. The Target Profit would determine the performance incentive of the Executive Directors. For FY2012, the Executive Directors were not entitled to any performance incentive as the target profit was not met.

The objective of the remuneration policies is to ensure that the Directors would be provided with the appropriate incentives to encourage enhanced performance and are, in a fair and reasonable manner, rewarded for their individual contributions to the success of the Company.

Each member of the RC had abstained from voting on any resolutions and making recommendations and/or participating in any deliberations of the RC in respect of his remuneration package or fees.

Disclosure on remuneration

The breakdown of each individual Director's remuneration, in percentage terms showing the level and mix for FY2012, is as follows:

Name of Director	**Salary**	**Bonus**	**Director's fees**	**Other benefits**	**Total**
	%	%	%	%	%
Below S$250,000					
Gao Sishi	–	–	–	–	–
Gao Yanxu	100	–	–	–	100
Wang Baowang	100	–	–	–	100
An Fengjun	100	–	–	–	100
Zhang Qi	–	–	–	–	–
Naoki Yamada	–	–	–	–	–
Kuik See Juan	–	–	100	–	100
He Dingding	–	–	100	–	100
Sim Wee Leong	–	–	100	–	100
Lau Choon Hoong	–	–	100	–	100
Yu Chung Leung	–	–	100	–	100

Corporate Governance Report

Other than Mr Gao Yanxu who is a nephew of Mr Gao Sishi, there is no employee of the Group who is an immediate family member of a Director or the CEO or controlling shareholder and whose remuneration exceeds S$150,000 during the year.

Details of remuneration paid to the top 5 executives of the Group (who are not Directors) for the year ended 31 December 2012 are set our below:

Name of executive	Salary %	Bonus %	Other benefits %	Total %
Below S$250,000				
Fong William	100	–	–	100
Gao Yumei	100	–	–	100
Ren Qun	100	–	–	100
Zhou Zhao Quan	100	–	–	100
Sun Hong Bo	100	–	–	100

The Group does not have a share-option or long-term incentive scheme in place.

The emoluments paid or payable to members of senior management under code provision B.1.5 of the HK Code were within the following bands:

	2012 **No. of individuals**	2011 No. of individuals
Nil to RMB1,000,000	**5**	5

(G) Accountability

The Board provides shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis within the timeline as stipulated in the SGX-ST Listing Manual and the Hong Kong Listing Rules.

In line with the SGX-ST listing requirements, negative assurance statements were issued by the Board to accompany its quarterly financial results announcements, confirming to the best of its knowledge that nothing had come to its shareholders which would render the Company's quarterly results to be false or misleading.

Corporate Governance Report

(H) Audit Committee ("AC")

The AC, regulated by a set of written terms of reference, comprises five members, all of whom are Non-executive Directors and majority of the members is independent. The members of the AC are:

Lau Choon Hoong *(Chairman)*
He Dingding
Naoki Yamada
Zhang Qi
Yu Chung Leung

Members of the AC have the appropriate accounting professional qualifications and/or related management expertise or experience as the Board interprets such qualification to discharge their responsibilities.

The principal functions of the AC are to:

1. review the annual, half-yearly and quarterly financial statements of the Company and the Group before submission to the Board for adoption;

2. review with the external auditors, their scope, audit plans and audit reports as well as any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulation, which has or is likely to have a material impact on the Group's operating results or financial position, and Management's response thereto to satisfy itself that adequate measures are in place to identify and mitigate any material business risks associated with the Group;

3. approve the internal audit plans and review results of internal audit made by internal auditors as well as Management's responses to the recommendations from the internal auditors and to ensure that the internal control recommendations have been implemented by the Management;

4. review the co-operation given by the Company's officers to the external auditors;

5. nominate and review the appointment or re-appointment of internal and external auditors and matters relating to resignation or dismissal of the auditor;

6. review interested person transactions;

7. review the cost effectiveness of the audit, independence and objectivity of the external auditors annually, including the volume of non-audit services provided by the external auditors to satisfy Itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors before confirming their nomination;

8. potential aspects of interests, if any;

9. undertake such other functions and duties as may be required by the statute or the Listing Manual of the SGX-ST and the Hong Kong Listing Rules; and

10. ensure the adequacy and effectiveness of the Group's internal controls including financial, operational, compliance and information technology controls in order for the Board to provide an opinion on the adequacy of such controls.

Corporate Governance Report

The AC has the explicit powers to conduct or authorise investigation into any of the abovementioned matters.

The AC meets at least four times a year and when deemed appropriate to carry out its functions as sets out under its terms of reference. The AC has full access to and the co-operation of Management, has full discretion to invite any Directors and executive officers to attend its meetings, and has reasonable adequate resources to enable it to discharge its functions. The Board is of the view that the members of the AC are appropriately qualified, having the necessary accounting or related financial management expertise or experience as the Board interprets such qualification to discharge their responsibilities.

Five AC meetings were held in FY2012 to discuss and review the following matters:

1. the annual and quarterly financial statements of the Company and the Group before submission to the Board for adoption;

2. the audit plans and audit reports with the internal and external auditors;

3. the adequacy and effectiveness of the internal control system and to make recommendation to the Board for improvement of internal controls and risk management;

4. the nomination and appointment or re-appointment of internal and external auditors;

5. the co-operation given by the Company's officers to the internal and external auditors;

6. the related party transactions, interested person transactions (as defined under the Listing Manual of SGX-ST) and continuing connected transactions (as defined under the Hong Kong Listing Rules);

7. the independence of the external auditors annually; and

8. the undertaking of such other functions and duties as may be required by statue or the Listing Manual of the SGX-ST and the Hong Kong Listing Rules.

For FY2012, the AC had met with the internal and external auditors without the presence of Management and had established that the internal and external auditors have had the full co-operation of Management in carrying out their work. The AC had conducted a review of the audit and non-audit services provided by the external auditors and approved the following fees amounting to RMB1,681,000:

	2012 RMB'000
Audit fee	**1,624**
Non-audit fee – other reporting services	**57**

The AC is of the opinion that the non-audit services provided by the external auditors would not affect their independence.

The external auditors had also confirmed their independence in this respect.

The AC confirmed that the Company had complied with Rule 715 of the SGX-ST Listing Manual in relation to the appointment of auditors.

The AC has also put in place a "whistle-blowing" policy whereby staff of the Group may raise concerns on financial improprieties, fraudulent acts or other matters and ensure that arrangements are in place for investigation. There was no whistle-blowing report for FY2012.

Corporate Governance Report

As recommended by CG 2012, the "Whistle-Blowing" would be extended to persons other than staff of the Group. This would be done by having the Group's whistle-blowing policy and arrangements updated on the Company's web-site.

The AC has recommended to the Board the nomination of BDO Limited, Certified Public Accountants, Hong Kong ("BDO") for re-appointment as auditors of the Company at its forthcoming AGM in compliance with Chapter 4.03 of the listing rule of SEHK. To comply with Rule 712 of the SGX-ST Listing Manual, the AC has also recommended that BDO LLP, Certified Public Accountants, Singapore ("BDO LLP") to be reappointed as auditors of the Company, to act jointly with BDO at the forthcoming AGM. The AC is satisfied that the resources and experience of both BDO LLP and BDO, the audit engagement partners and their respective teams assigned to the audit of the Group were adequate to meet their audit requirements, given the size, nature, operations and complexity of the Group.

The Board concurred with the AC's recommendation.

(I) Internal Controls and Internal Audit

The Board recognises that it is responsible for the overall internal control framework, but accepts that no cost effective internal control system will preclude all errors and irregularities, as the system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company does not have a risk management committee. However, Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant control policies and procedures and highlights all significant matters to the Board and AC.

The Group has changed its external sourced internal auditors from Reanda, Certified Public Accountants to Elite Partners CPA Limited ("**Elite Partners**") during FY2012. The change was initiated after evaluating the resources and experience of the audit team of Elite Partners which would be able to meet the Group's internal auditing needs better. The internal audit of the Group covers the review of financial, operational and compliance controls and risk management functions of the Group. Non-compliance and internal control weaknesses noted during the internal audits and external audits and their recommendations thereof are reported to the AC including Management's responses. The AC will review these findings and ensure that the recommendations are implemented. The internal and external auditors will follow up on the implementations in their next audit review.

The internal auditors report directly to the AC.

Based on the internal controls established and maintained by the Group, reports from the internal and external auditors, the Board, with the concurrence of the AC, is of the opinion that there are adequate internal controls to address the Group's material financial, operational and compliance risks in its current business environment. Management will continue to focus on improving the standard of internal controls and corporate governance.

The Group's financial risk management is disclosed under Note 36 of the Notes to the Financial Statements on pages 54 to 103 of this Annual Report.

Corporate Governance Report

(J) Communication with Shareholders, Investors and Greater Shareholder Participation

In line with the continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of press releases, announcements and circulars on the websites of the SGX-ST, the SEHK and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the quarterly, half-yearly and full year period via the websites of the SGX-ST, the SEHK, and the Company;

(c) interim reports and annual reports that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings; and

(e) meetings with investors and analysts.

The Chairman and the respective chairman of the AC, RC and NC, as well as the external auditors, are also normally available at general meetings to answer shareholders' queries.

The market capitalisation of the Company as at 31 December 2012 was approximately S$30,306,360 (issued share capital: 432,948,000 shares at closing market price: S$0.07 per share).

(K) Shareholders Rights

At the annual general meetings, the shareholders will be given an opportunity to voice their views and seek clarification from the Directors and members of the senior management.

In accordance with the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act.

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the re-election of the retiring directors.

All votes of the shareholders at the shareholders' meeting will be taken by poll. Poll results will be posted on the websites of the Company, the SGX-ST and SEHK following the shareholders' meeting.

Corporate Governance Report

SECURITIES TRANSACTIONS

The Company has adopted the Model Code For Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules and Listing Rule 1207(19) on Dealings in Securities issued by the SGX-ST (the "SGX-ST Listing Rule 1207(19)") as its own code of conduct regarding securities transactions by the Directors of the Company. Having made specific enquiry of all Directors of the Company, the Company confirms that all Directors of the Company have complied with the required standard as set out in the Model Code and the SGX-ST Listing Rule 1207(19) for FY2012.

The Group has also adopted an internal compliance code of conduct to provide guidance to its officers regarding dealings in the Company's securities. Officers are prohibited from dealing in securities of the Company on short-term considerations and two weeks before the release of the quarterly and the half-yearly results and at least one month before the release of the full year results. The officers are also advised against dealing in the Company's securities at all times, if in possession of inside information. The Group confirmed that it has adhered to its policy for securities transactions for FY2012.

INTERESTED PERSON TRANSACTIONS

The Company has adopted an internal policy with regard to transactions with interested persons and has set out procedures for review and approval of the Company's interested person transactions. All interested person transactions are subject to review by the AC. During the financial year under review, there are no interested person transactions entered into by the Company which are more than 3% of the Group's latest audited net tangible assets. The Group does not have any interested person transactions' mandate. The aggregate value of the interested person transactions during FY2012 is provided below:

(in RMB'000)

	Year ended 31 December 2012	
Name of interested person	**Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)**	**Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)**
Sales to related parties (Note 1)	584	Nil

Note:

1. Sales to related parties were made to related parties of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi have beneficial interest. These sales were made in the ordinary course of business with reference to the terms negotiated between the Group and these related parties.

Corporate Governance Report

MATERIAL CONTRACTS UNDER THE LISTING MANUAL OF SGX-ST

On 26 March 2012, the Company entered into a framework agreement, pursuant to which the Company agreed that the Group will sell and supply to the Zensho Holding Co., Ltd (the "Zensho"), which is a company incorporated under the law of Japan and a connected person of the Company, and its subsidiaries and associates (collectively the "Zensho Group"), and Zensho agreed that the Zensho Group will purchase from the Group.

The annual caps for the products sales by the Group to Zensho Group under the framework agreement for 2012, 2013 and 2014 are RMB300 million, RMB550 million and RMB650 million respectively.

Further details are set out in the announcement and circular dated 26 March 2012 and 26 April 2012 respectively published by the Company on the SEHK and SGX-ST. During the reporting period, the Company has fully complied with the terms under such continuing connected transactions and closely monitoring the relevant cap amount.

Save as disclosed in the Corporate Governance Report, the Directors' Report and in the Financial Statements, the Group did not enter into any material contracts involving the interests of the directors or controlling shareholders during FY2012 as required to be reported under Rule 1207 (8) of the Listing Manual of SGX-ST.

FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance and the Hong Kong Listing Rules. In preparing the financial statements for FY2012, the Directors have selected suitable accounting policies and have applied them consistently which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

The statement by the Auditors of the Company about their responsibilities for the financial statements is set out in the independent joint auditors' report and independent auditor's report contained in this annual report.

SHARE INTEREST OF KEY MANAGEMENT

Ms. Zhao Ruifen, being one of the key management whose brief biographical details are set out in this annual report, is beneficially interested in 8,400,000 shares of the Company as at 31 December 2012.

CONFIRMATION OF NON-COMPETITION

Mr Gao Sishi, the controlling shareholder (as defined in the Hong Kong Listing Rules) has provided a written confirmation, which has been reviewed and confirmed by the Independent Non-Executive Directors, confirming that, during FY2012, he has complied with the terms of the Deed of Non-competition Undertaking dated 25 August 2006 and the Supplemental Deed of Non-Competition Undertaking dated 25 November 2009, both entered into with the Company.

Financial Contents

Directors' Report

The Directors of the Company herein present their report and audited financial statements of the Company and the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

There was no significant change in the nature of the principal activities of the Group during the year.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 47 to 103.

The Board of Directors (the "**Board**") did not recommend any dividend for the year ended 31 December 2012.

Directors' Report

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below. The summary does not form part of the audited financial statements.

	Year ended 31 December				
RESULTS	**2012**	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)	RMB'000 (Restated)
Revenue	**1,489,838**	1,353,397	1,016,870	750,841	943,426
Profit before tax	**1,483**	11,316	794	28,345	97,277
Income tax (expense)/credit	**(879)**	(2,568)	1,212	2,451	(12,662)
Profit for the year	**604**	8,748	2,006	30,796	84,615
Other comprehensive income	**–**	–	–	–	–
Total comprehensive income for the year	**604**	8,748	2,006	30,796	84,615
Profit for the year attributable to:					
Owners of the Company	**4,917**	12,240	3,383	30,355	85,643
Non-controlling interests	**(4,313)**	(3,492)	(1,377)	441	(1,028)
	604	8,748	2,006	30,796	84,615

	As at 31 December				
ASSETS AND LIABILITIES	**2012**	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000
Non-current assets	**859,312**	834,738	801,763	433,789	310,989
Current assets	**750,278**	694,482	433,061	466,017	657,482
TOTAL ASSETS	**1,609,590**	1,529,220	1,234,824	899,806	968,471
Current liabilities	**889,537**	811,348	533,874	225,476	337,392
Non-current liabilities	**14,601**	13,024	11,015	9,759	2,030
TOTAL LIABILITIES	**904,138**	824,372	544,889	235,235	339,422
NET ASSETS	**705,452**	704,848	689,935	664,571	629,049

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group are set out in note 15 to the financial statements.

INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2012 are set out in note 30 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Memorandum of Association, Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company (the "**Shareholders**").

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the Statements of Changes in Equity on page 50 to page 51 of the annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provision of laws of Bermuda, amounted to approximately RMB263,216,000 (2011: approximately RMB263,216,000). The balance of approximately RMB257,073,000 (2011: approximately RMB257,073,000) in the share premium account may be distributed in the form of fully paid bonus shares.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the year (in 2011: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's turnover and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers, respectively.

As at 31 December 2012, Zensho Holdings Co., Ltd who is interested in more than 5% of the issued share capital of the Company had an interest in one of the five largest customers of the Group:

Name of customer	Name of shareholder	Nature of interest	Approximate percentage of interest
Global Table Supply Co., Ltd	Zensho Holdings Co., Ltd (Note)	Direct	100%
Global Foods Ltd	Zensho Holdings Co., Ltd (Note)	Direct	100%

Notes: Zensho Holdings Co., Ltd is a substantial shareholder holding 11.02% of the Company's issued shares.

Save as disclosed above, none of the Directors, their associates or any Shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers and/or suppliers of the Group.

Directors' Report

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:
Wang Baowang *(Chief Executive Officer)*
Gao Yanxu

Non-executive Directors:
Gao Sishi *(Chairman)*
Zhang Qi
Naoki Yamada

Independent Non-executive Directors:
He Dingding
Lau Choon Hoong
Yu Chung Leung

In accordance with the Company's Bye-Laws, the following Directors shall retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election at the annual general meeting:

(a) Under bye-law 86(1):

– Mr. Zhang Qi

(b) Under bye-law 85(6):

– Mr. He Dingding
– Mr Lau Choon Hoong
– Mr Wang Baowang

The Company has received annual confirmations of independence from each of its non-executive directors and considers them to be independent under Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") and all the applicable code provisions of the Code of Corporate Governance 2005 (the "**Singapore Code**").

Biographical details of the Directors and the senior management of the Group are set out on pages 5 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Each of Mr Gao Yanxu and Mr Wang Baowang has entered into service contracts (the "ED Service Contracts") with the Company, which are as follows:

Mr Gao Yanxu – 26 August 2012 to 25 August 2013
Mr Wang Baowang – 28 November 2012 to 27 November 2013

The appointment of each of Mr Gao Yanxu and Mr Wang Baowang may be terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the ED Service Contracts.

Directors' Report

Under the ED Service Contracts, Mr Wang Baowang is entitled to a monthly salary of RMB50,000, and such salary will be reviewed annually by the Remuneration Committee. Each of Mr Gao Yanxu and Mr Wang Baowang is also entitled to a management bonus by reference to the consolidated net profits of the Group after taxation and minority interests but before extraordinary items ("Net Profits") as the Board may approve provided that the aggregate amount of management bonuses payable to all Executive Directors in respect of any financial year of the Group shall not exceed 10 percent of the Net Profits for the relevant financial year.

Independent Non-executive Directors

Each of Mr He Dingding and Mr Lau Choon Hoong has signed appointment letters (the "**INED Appointment Letters**") with the Company, for a one-year term from their date of appointment. Their respective INED Appointment Letters can be terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter.

Under the INED Appointment Letters, Mr He Dingding and Mr Lau Choon Hoong are each entitled to a remuneration of RMB180,000 per annum respectively (subject to the approval of the Shareholders).

Mr Yu Chung Leung has signed an appointment letter with the Company which had been renewed for a year up to 26 August 2013 unless otherwise terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter. Under the appointment letter, Mr Yu Chung Leung is entitled to a remuneration of RMB180,000 per annum.

Non-executive Directors

Both Mr Gao Sishi, and Mr Zhang Qi have each signed appointment letters with the Company, which had been renewed up to 25 August 2013, unless otherwise terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter. Mr Naoki Yamada has signed a letter of appointment with the Company on 29 April 2012. His term will expire on 25 August 2013 unless otherwise terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter. None of the Non-executive Directors will receive any directors' fee under the appointment letters.

None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract or an appointment letter with the Company or any of its subsidiaries which is not terminable by the employer within one year without payment of compensation, (other than statutory compensation).

CONTRACTS OF SIGNIFICANCE

Save as those disclosed in the sub-sections headed "Directors' Services Contracts" above and "Interested Person Transactions, Connected Transactions and Continuing Connected Transactions" below, and note 38 to the financial statements, no Director of the Company has a significant interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its subsidiaries, the controlling shareholders and/or any of his associates was a party during the year under review.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY UNDER THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571) OF THE LAWS OF HONG KONG (THE "SFO")

As at 31 December 2012, the interests of the Directors and Chief Executive in the share capital of the Company or Associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were as follows:

	Long positions in the shares of the Company					
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total**	**Percentage (%)**
Gao Sishi	166,740,000	–	–	–	166,740,000	38.5
Wang Baowang	21,647,400	–	–	–	21,647,400	5.0
Gao Yanxu	14,310,000	–	–	–	14,310,000	3.3
Zhang Qi	8,910,000	–	–	–	8,910,000	2.1
Naoki Yamada	–	–	–	–	–	–
He Dingding	–	–	–	–	–	–
Lau Choon Hoong	–	–	–	–	–	–
Yu Chung Leung	–	–	–	–	–	–
	211,607,400	–	–	–	211,607,400	48.9

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

	Held in Name of Director		Deemed Interest	
Name of Director	**1/1/2012**	**21/1/2013 and 31/12/2012**	**1/1/2012**	**21/1/2013 and 31/12/2012**
Gao Sishi	166,740,000	166,740,000	–	–
Wang Baowang	–	21,647,400	–	–
Gao Yanxu	14,310,000	14,310,000	–	–
Zhang Qi	8,910,000	8,910,000	–	–
Naoki Yamada	–	–	–	–
An Fengjun	–	–	–	–
Kuik See Juan	–	–	–	–
He Dingding	–	–	–	–
Sim Wee Leong	–	–	–	–
Lau Choon Hoong	–	–	–	–
Yu Chung Leung	–	–	–	–
	189,960,000	211,607,400	–	–

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS UNDER THE SFO

As at 31 December 2012, insofar as is known to the Directors and Chief Executive of the Company, the following persons (not being a Director or Chief Executive of the Company), had an interest and short position in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as follows:

In respect of the Company

Name of Substantial Shareholder (Note 1)	**Capacity/nature of interests**	**Number of Shares held** (Note 1)	**Approximate percentage of issued share capital** (%)
Cheng Xiutai (Note 2)	Registered and beneficial owner	33,324,000	7.7
Proven Choice Group Limited (Note 3)	Registered and beneficial owner	27,980,000	6.5
Huang Quan (Note 3)	Deemed interests	27,980,000	6.5
Zensho Holdings Co., Ltd. (Note 4)	Registered and beneficial owner	47,715,000	11.0

Notes:

1. Information was provided by substantial shareholder.

2. Mr Cheng Xiutai is an independent third party, but ceased to be a substantial Shareholder on 1 February 2013.

3. Proven Choice Group Limited is wholly-owned by Huang Quan who is not related to any of the Directors or Shareholders. As such, Huang Quan is deemed to be interested in the 27,980,000 shares held by Proven Choice Group Limited under Part XV of the SFO.

4. Zensho Holdings Co., Ltd. is an independent third party and is a listed company in Japan.

Save as disclosed above, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2012, which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 17 to 31 of the Annual Report.

INTERESTED PERSON TRANSACTIONS, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the interested person transactions (as defined under the Listing Manual of the SGX-ST) for the year under review are set out on page 30 of this Annual Report and connected transactions (as defined under the Hong Kong Listing Rules) for the year under review are set out as below.

The Group has entered into the following continuing connected transactions (the "**Transactions**") as defined under the Hong Kong Listing Rules. These continuing connected transactions between certain connected parties (as defined in the Hong Kong Listing Rules) and the Group also constituted certain related party transactions as disclosed in note 39 to the financial statements.

- The Group entered into 8 lease agreements dated between 1 January 2005 to 31 October 2008 either as tenant (collectively the "**Lease Agreements**") with various connected persons (as defined under the Hong Kong Listing Rules) including Qingdao Kangda Foreign Trade Group Company Limited ("**KD Trading Company**") with annual rent ranging from RMB2,400 to RMB218,880. The terms of the Lease Agreements will expire between 31 July 2012 and 31 December 2024. The total amount of rent paid by the Group for the year ended 31 December 2012 amounted to approximately RMB27,000 (2011: RMB344,000).

Directors' Report

- On 26 March 2012, the Company entered into a framework agreement, pursuant to which the Company agreed that the Group will sell and supply to the Zensho Group, and Zensho agreed that the Zensho Group will purchase from the Group directly, instead of purchasing through a sourcing company, which is a third party independent of the Group and Zensho Group. This arrangement may provide the Group with greater flexibility relating to price negotiation with the Zensho Group and allow the Group to sell the products to the Zensho Group at prices higher than that to the sourcing company and therefore can improve the profit margins of the relevant products. The annual caps for the products sales by the Group to Zensho Group under the framework agreement for 2012, 2013 and 2014 are RMB300 million, RMB550 million and RMB650 million respectively.

Regarding the continuing connected transactions with Zensho Group, the Company has applied for, and the SEHK has granted, a waiver with regard to the framework agreement and the continuing connected transactions ("**Transactions**") contemplated thereunder for the period commencing on 26 March 2012 to the year ending 31 December 2014 from strict compliance with the announcement (but not reporting) and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules, provided that the above-mentioned continuing connected transactions are conducted in compliance with the conditions (including the respective proposed cap amounts) imposed by the SEHK.

The Independent Non-executive Directors of the Company have reviewed the Transactions conducted during the year and confirmed that the Transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties;

(iii) have been entered into in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded the annual cap for the year ended 31 December 2012 as disclosed in the framework agreement.

In accordance with paragraph 14A.38 of the Hong Kong Listing Rules, the Board engaged the auditors of the Company to perform certain factual finding procedures on the continuing connected transactions under the framework agreement on a sample basis in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the Board.

The Company confirms that the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules, save as the aforesaid, there were no other transactions which need to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements under the Hong Kong Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr Gao Sishi is directly and indirectly interested in KD Trading Company, which is principally engaged in diversified businesses, including trading of construction materials, fresh vegetables, animal feeds and property management.

The following companies of KD Trading Group conduct businesses similar to but are not in competition with the Group's business:

- KD Trading Company is a company established in the PRC and is owned by Mr Gao Sishi as to 40%, Mr Gao Yanxu as to 5.3%, Mr An Fengjun as to 1.3% and Mr Zhang Qi as to 3.3%. Apart from its principal business of construction materials trading, KD Trading Company is also engaged in the sales of processed food products to a target group of customers who are its business partners. The Directors understand that KD Trading Company will continue to purchase processed food products for self-consumption, including making of gift packages to be gifted to others at nil consideration but does not intend to sell any processed food products in the future. As such, the Directors are of the view that there is no competition with KD Trading Company.

Directors' Report

- Qingdao Kangda Delijia Import and Export Co., Ltd. ("KD Import & Export Company") is a company established in the PRC and is owned by Qingdao Kangda Property Co., Ltd. as to 30%. In 2005 and 2006, apart from its principal business of trading of chemical products, KD Import & Export Company also engaged in selling fish to overseas market. KD Import & Export Company has ceased the trading of fish since 1 September 2006, the Directors are of the view that there is no competition with KD Import & Export Company.

Save as disclosed above, during the year and up to the date of this report, none of the Directors are considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as Directors to represent the interests of the Company and/or the Group. The Directors are not aware that any KD Trading Group member had any actual operation in food processing business during the year and up to the date of this report. The Directors also are not aware that any KD Trading Group member plans to engage in food processing business which may compete with the business of the Group in the near future. As the Group is principally engaged in the production and sales of chicken meat, rabbit meat and processed foods which are distinct from the businesses of KD Trading Group, the Directors are of the view that the businesses of KD Trading Group do not compete or are unlikely to compete directly or indirectly with the Group's business.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public (as defined in the Hong Kong Listing Rules) as at the date of this report.

AUDIT COMMITTEE, NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

Details of the Company's Audit Committee, Nomination Committee and Remuneration Committee are set out in the Corporate Governance Report in pages 17 to 31 of the Annual Report.

AUDITORS

Due to a merger of the businesses of Grant Thornton ("**GTHK**"), now known as JBPB & Co. and BDO Limited, Certified Public Accountants, ("**BDO**") to practise in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 8 December 2010. BDO and BDO LLP, Certified Public Accountants, Singapore ("**BDO LLP**") were appointed on 30 April 2012 as joint auditors to satisfy the Listing Manual of the Singapore Exchange Securities Trading Limited, save as disclosed therein, there is no change in the auditors of the Company in any of the preceding three years.

BDO and BDO LLP retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming Annual General Meeting of the Company to the appointment of auditors of the Company for the ensuring year until the next Annual General Meeting in 2014.

On behalf of the Board

Gao Sishi
Chairman

Gao Yanxu
Executive Director

28 March 2013

Statement by the Directors

We, Gao Sishi and Gao Yanxu, being two of the directors of China Kangda Food Company Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows of the Group and the Statement of Financial Position and Statement of Changes in Equity of the Company, together with the notes thereto, are drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and of the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year then ended; and

(ii) as at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The financial statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on the date stated hereunder.

Gao Sishi
Chairman

Gao Yanxu
Executive Director

28 March 2013

The following is the text of the joint auditors' report on the financial statements for the year ended 31 December 2012 received from the Company's joint auditors in respect of the Company's listing on the Singapore Exchange Securities Trading Limited. The Company's joint auditors are BDO LLP, Singapore and BDO Limited, Hong Kong.

BDO

INDEPENDENT JOINT AUDITORS' REPORT
TO THE SHAREHOLDERS OF CHINA KANGDA FOOD COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of China Kangda Food Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 47 to 103, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the 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 financial statements.

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

Independent Joint Auditors' Report

OPINION

In our opinion, the financial statements of the Group and the statement of financial position and statement of changes in equity of the Company give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

We draw attention to Note 3(b) to the financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB139.3 million as at 31 December 2012. This condition, along with other matters as set forth in Note 3(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

OTHER MATTERS

1. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. Our responsibility, as joint auditors, is set out in the "Auditors' Responsibility" section of this report. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

2. The financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2011 were audited by BDO Limited who expressed an unmodified opinion with an emphasis of matter on going concern assumption on preparation of financial statements on those statements on 30 March 2012.

BDO LLP
Public Accountants and Certified Public Accountants
21 Merchant Road
#05-01 Royal Merukh S.E.A. Building
Singapore 058267

28 March 2013

BDO Limited
Certified Public Accountants
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

28 March 2013

The following is the text of the auditor's report on the Company's financial statements for the year ended 31 December 2012 received from the Company's auditor in Hong Kong, BDO Limited, in respect of the Company's listing on the Stock Exchange of Hong Kong Limited.

BDO

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CHINA KANGDA FOOD COMPANY LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Kangda Food Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 47 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated and company statements 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 International Financial Reporting Standards 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 section 90 of the Bermuda Companies Act, 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 International Standards on Auditing. 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

OPINION

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

EMPHASIS OF MATTER

We draw attention to Note 3(b) to the financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB139.3 million as at 31 December 2012. This condition, along with other matters as set forth in Note 3(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

BDO Limited
Certified Public Accountants

Li Wing Yin
Practising Certificate Number P05035

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

28 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	7	**1,489,838**	1,353,397
Cost of sales		**(1,378,830)**	(1,233,945)
Gross profit		**111,008**	119,452
Other income	7	**31,229**	31,543
Selling and distribution costs		**(39,454)**	(36,195)
Administrative expenses		**(70,128)**	(69,073)
Other operating expenses		**(1,149)**	(871)
Profit from operations	8	**31,506**	44,856
Finance costs	9	**(29,730)**	(33,097)
Share of loss of associates		**(293)**	(443)
Profit before taxation		**1,483**	11,316
Income tax expense	10	**(879)**	(2,568)
Profit for the year		**604**	8,748
Other comprehensive income		**–**	–
Total comprehensive income for the year		**604**	8,748
Profit for the year attributable to:			
Owners of the Company		**4,917**	12,240
Non-controlling interests		**(4,313)**	(3,492)
		604	8,748
Total comprehensive income attributable to:			
Owners of the Company		**4,917**	12,240
Non-controlling interests		**(4,313)**	(3,492)
		604	8,748
Earnings per share for profit attributable to the owners of the Company during the year	13		
Basic (RMB cents)		**1.14**	2.83
Diluted (RMB cents)		**1.14**	2.83

Statements of Financial Position

As at 31 December 2012

		Group		Company	
		2012	2011	**2012**	2011
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	15	**618,233**	595,347	**5**	8
Prepaid premium for land leases	16	**123,298**	125,849	**–**	–
Intangible assets	17	**1,990**	3,171	**–**	–
Investments in subsidiaries	18	**–**	–	**84,144**	84,144
Interest in associates	19	**3,166**	3,459	**–**	–
Goodwill	20	**59,428**	59,428	**–**	–
Biological assets	21	**39,727**	32,935	**–**	–
Deferred tax assets	22	**13,470**	14,549	**–**	–
Total non-current assets		**859,312**	834,738	**84,149**	84,152
Current assets					
Biological assets	21	**29,538**	31,384	**–**	–
Inventories	23	**153,169**	191,552	**–**	–
Trade receivables	24	**88,121**	102,592	**–**	–
Prepayments, other receivables and deposits	25	**57,348**	53,849	**95**	95
Amounts due from subsidiaries	26	**–**	–	**237,117**	133,682
Pledged deposits	27	**51,403**	4,171	**–**	–
Cash and cash equivalents	27	**370,699**	310,934	**5,419**	113,521
Total current assets		**750,278**	694,482	**242,631**	247,298
Current liabilities					
Trade and bills payables	28	**175,707**	135,223	**–**	–
Accrued liabilities and other payables	29	**83,581**	86,408	**468**	586
Interest-bearing bank borrowings	30	**589,000**	500,430	**–**	–
Amount due to a related party	31	**38,891**	86,527	**–**	–
Deferred government grants	32	**1,537**	891	**–**	–
Tax payables		**821**	1,869	**–**	–
Total current liabilities		**889,537**	811,348	**468**	586
Net current (liabilities)/assets		**(139,259)**	(116,866)	**242,163**	246,712
Total assets less current liabilities		**720,053**	717,872	**326,312**	330,864
Non-current liabilities					
Deferred government grants	32	**14,601**	13,024	**–**	–
Total non-current liabilities		**14,601**	13,024	**–**	–
Net assets		**705,452**	704,848	**326,312**	330,864

Statements of Financial Position

As at 31 December 2012

		Group		Company	
		2012	2011	**2012**	2011
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
EQUITY					
Equity attributable to the Company's owners					
Share capital	33	**112,176**	112,176	**112,176**	112,176
Reserves		**557,946**	553,029	**214,136**	218,688
		670,122	665,205	**326,312**	330,864
Non-controlling interests		**35,330**	39,643	**–**	–
Total equity		**705,452**	704,848	**326,312**	330,864

Gao Yanxu
Director

Wang Baowang
Director

Statements of Changes in Equity

For the year ended 31 December 2012

Group

	Equity attributable to the Company's owners								
	Share capital RMB'000	Share premium* RMB'000	Merger reserve* (note 34) RMB'000	Capital redemption reserve* (note 34) RMB'000	Other reserves* (note 34) RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	112,176	257,073	(41,374)	2,374	41,818	280,898	652,965	36,970	689,935
Contribution from a non-controlling shareholder	–	–	–	–	–	–	–	6,165	6,165
Transactions with owners	–	–	–	–	–	–	–	6,165	6,165
Profit for the year	–	–	–	–	–	12,240	12,240	(3,492)	8,748
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	12,240	12,240	(3,492)	8,748
Transfer to other reserves	–	–	–	–	2,299	(2,299)	–	–	–
At 31 December 2011 and 1 January 2012	112,176	257,073	(41,374)	2,374	44,117	290,839	665,205	39,643	704,848
Profit for the year	–	–	–	–	–	4,917	4,917	(4,313)	604
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	4,917	4,917	(4,313)	604
Transfer to other reserves	–	–	–	–	41	(41)	–	–	–
At 31 December 2012	**112,176**	**257,073**	**(41,374)**	**2,374**	**44,158**	**295,715**	**670,122**	**35,330**	**705,452**

* The consolidated reserves of the Group as at 31 December 2012 of approximately RMB557,946,000 (2011: RMB553,029,000) as presented in the Group's statement of financial position comprised these reserve accounts.

Statements of Changes in Equity

For the year ended 31 December 2012

Company

	Share capital RMB'000	Share premium** RMB'000	Merger reserve** (note 34) RMB'000	Capital redemption reserve** (note 34) RMB'000	Accumulated losses** RMB'000	Total equity RMB'000
At 1 January 2011	112,176	257,073	6,143	2,374	(40,790)	336,976
Loss for the year	–	–	–	–	(6,112)	(6,112)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(6,112)	(6,112)
At 31 December 2011 and 1 January 2012	112,176	257,073	6,143	2,374	(46,902)	330,864
Loss for the year	–	–	–	–	(4,552)	(4,552)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(4,552)	(4,552)
At 31 December 2012	**112,176**	**257,073**	**6,143**	**2,374**	**(51,454)**	**326,312**

** The reserves of the Company as at 31 December 2012 of approximately RMB214,136,000 (2011: RMB218,688,000) as presented in the Company's statement of financial position comprised these reserve accounts.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	**2012** RMB'000	2011 RMB'000
Cash flows from operating activities			
Profit before taxation		**1,483**	11,316
Adjustments for:			
Interest income	7	**(3,064)**	(3,093)
Interest expenses	9	**29,730**	33,097
Gains arising from changes in fair value less estimated costs to sell of biological assets, net	7	**(8,609)**	(5,223)
Depreciation of property, plant and equipment	8	**52,238**	43,622
Gain on disposal of property, plant and equipment	8	**(1,193)**	(213)
Amortisation of prepaid premium for land leases	8	**3,222**	3,182
Amortisation of deferred income on government grant	7	**(1,537)**	(891)
Amortisation of intangible assets	8	**1,181**	5,421
Share of loss of associates		**293**	443
Operating profit before working capital changes		**73,744**	87,661
Decrease/(increase) in inventories		**38,383**	(54,513)
Decrease/(increase) in trade receivables		**14,471**	(9,410)
Decrease in amounts due from related parties		**–**	12,795
Increase in prepayments, other receivables and deposits		**(3,499)**	(2,045)
Decrease/(increase) in biological assets		**3,663**	(9,845)
Increase in trade and bills payables		**40,484**	62,023
(Decrease)/increase in accrued liabilities and other payables		**(2,827)**	13,569
Increase in amount due to a related party		**32,364**	6,527
Cash generated from operations		**196,783**	106,762
Interest paid		**(32,378)**	(33,097)
Income taxes paid		**(848)**	(3,419)
Net cash generated from operating activities		**163,557**	70,246
Cash flows from investing activities			
Purchases of property, plant and equipment		**(75,594)**	(80,347)
Increase in prepaid premium for land leases		**(671)**	–
Proceeds from disposal of property, plant and equipment		**4,311**	777
Receipt of deferred government grants	32	**3,760**	3,000
Interest received		**3,064**	3,093
Increase in pledged deposits		**(47,232)**	(4,171)
Net cash used in investing activities		**(112,362)**	(77,648)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	**2012** **RMB'000**	2011 RMB'000
Cash flows from financing activities			
Capital contribution from non-controlling shareholders		–	6,165
Advance from a related party		–	100,000
Repayment to a related party		**(80,000)**	(20,000)
New bank borrowings		**784,000**	553,900
Repayment of bank borrowings		**(695,430)**	(438,372)
Net cash generated from financing activities		**8,570**	201,693
Net increase in cash and cash equivalents		**59,765**	194,291
Cash and cash equivalents at 1 January		**310,934**	116,643
Cash and cash equivalents at 31 December		**370,699**	310,934
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**370,699**	310,934

Notes to the Financial Statements

31 December 2012

1. CORPORATE INFORMATION

China Kangda Food Company Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 28 April 2006. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at No. 1, Hainan Road, Economic and Technology Development Zone, Jiaonan City, Qingdao, the People's Republic of China. The Company's shares have been listed on the Main Board of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx") since 9 October 2006 and 22 December 2008 respectively.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries (together with the Company referred to as the "Group") are set out in note 18 to the financial statements.

The Group's operations are principally conducted in the People's Republic of China, excluding Hong Kong and Macau, (the "PRC").

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 28 March 2013.

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of amendments to IFRSs – first effective on 1 January 2012

In the current year, the Group has applied for the first time the following amendment to standards issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012:

Amendments to IFRS 7	Disclosures – Transfer of Financial Assets

The adoption of these amendments has no material impact on the Group's financial statements.

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

The following new/revised IFRSs, 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.

IFRSs (Amendments)	Annual Improvements 2009 – 2011 Cycle [2]
Amendments to IAS 1 (Revised)	Presentation of Items of Other Comprehensive Income [1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities [3]
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities [2]
IFRS 9	Financial Instruments [4]
IFRS 10	Consolidated Financial Statements [2]
IFRS 12	Disclosure of Interests in Other Entities [2]
IFRS 13	Fair Value Measurement [2]
IAS 27 (2011)	Separate Financial Statements [2]
IAS 28 (2011)	Investments in Associates and Joint Ventures [2]

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

Notes to the Financial Statements

31 December 2012

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

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

IFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to five standards.

(i) *IFRS 1 First-time Adoption of IFRS*

Issue – repeated application of IFRS 1

The amendment applies to entities that have applied IFRS in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRS. The financial statements preparer in this situation may either prepare financial statements in accordance with IFRS 1 or apply IFRS retrospectively in accordance with IAS 8.

Issue – borrowing costs

The improvement clarifies that a first-time adopter is allowed to carry forward the amount previously capitalised under its previous GAAP in the opening statement of financial position at the date of transition. Borrowing costs incurred on or after the date of transition relating to qualifying assets are accounted for in accordance with IAS 23, even if the construction of qualifying asset commences before the transition date.

(ii) *IAS 1 Presentation of Financial Statements*

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

(iii) *IAS 16 Property, Plant and Equipment*

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

(iv) *IAS 32 Financial Instruments: Presentation*

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

Notes to the Financial Statements

31 December 2012

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

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

IFRSs (Amendments) – Annual Improvements 2009-2011 Cycle (Continued)

(v) IAS 34 Interim Financial Reporting

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

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

The amendments to IAS 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 amendments will be applied retrospectively.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

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

Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities

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

IFRS 9 – Financial Instruments

Under IFRS 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. IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 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, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

Notes to the Financial Statements
31 December 2012

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

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

IFRS 10 – Consolidated Financial Statements

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

IFRS 12 – Disclosures of Interests in Other Entities

IFRS 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.

IFRS 13 – Fair Value Measurement

IFRS 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 IFRS 7 "Financial Instruments: Disclosures". IFRS 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. IFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these pronouncements in the period of initial application and the directors anticipate that more disclosures would be made but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

Notes to the Financial Statements

31 December 2012

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB.

(b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost basis except for biological assets which are stated at fair values as explained in the accounting policies set out below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

In preparing the financial statements, the directors considered the operations of the Group as a going concern notwithstanding that:

1. The Group's current liabilities exceeded its current assets by approximately RMB139.3 million as at 31 December 2012;

2. The Group's profit decreased from approximately RMB8.7 million for the year ended 31 December 2011 to approximately RMB0.6 million for the year ended 31 December 2012; and

3. There was a significant increase in the bank borrowings of the Group from approximately RMB500.4 million as at 31 December 2011 to approximately RMB589.0 million as at 31 December 2012, all of which are due for repayment within one year from 31 December 2012.

These conditions indicate the existence of a material uncertainty which may cast significant doubts on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the financial statements were prepared based on the assumption that the Group can be operated as a going concern and the directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 31 December 2012, after taking into consideration of the following:

1. The Group continues to expand its production volume by improving the utilisation rate of its facilities and implement measures to tighten cost controls over various operating expenses in order to improve its profitability and to generate positive cash inflow from its operations in the future;

2. The Group is actively negotiating with the banks to seek for renewal of the outstanding bank borrowings. Subsequent to year end date, the Group successfully renewed bank borrowings of RMB50 million upon maturity of these bank borrowings. In addition, subsequent to year end date, the Group obtained written confirmation from one of the Group's major bankers to confirm to renew certain bank borrowings, in aggregate of up to RMB170,000,000, to the Group for another year upon the maturity of the bank borrowings;

Notes to the Financial Statements

31 December 2012

3. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement and going concern assumption (Continued)

3. The Group is actively exploring the availability of alternative source of financing; and

4. Qingdao Kangda Foreign Trade Group Limited ("KD Group"), which is substantially beneficially owned by a substantial shareholder of the Company, has agreed to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operations as a going concern notwithstanding any present or future financial difficulties experienced by the Group.

The directors of the Company believe that the aforementioned financing/business plans and operational measures will be successful, based on the continuous efforts and commitment given by the management.

Having regard to the cash flow projection of the Group, which are prepared assuming that these measures are successful, the directors of the Company are of the opinion that, in the light of the measures taken to-date, together with the expected results of the other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not yet been reflected in the financial statements.

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries in the PRC.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) 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.

(b) Subsidiaries

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

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

Notes to the Financial Statements
31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

(d) Goodwill

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

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

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

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

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Notes to the Financial Statements

31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold buildings	10 to 20 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until 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.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses.

The following useful lives are applied:

Technical knowhow	5 years
Products safety/export licences	1-2 years

Notes to the Financial Statements

31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (Continued)

(ii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

(g) Financial Instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. The Group's financial assets are categorised as loans and receivables. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Loans and receivables 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.

(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; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Notes to the Financial Statements

31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial Instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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.

Impairment losses are 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.

(iii) Financial liabilities

The Group classified its financial liabilities, depending on the purpose for which the liabilities were incurred. The Group's financial liabilities are carried at amortised cost, which include trade, bills and other payables and amount due to a related party and interest-bearing borrowings. They are subsequently measured at amortised cost using the effective interest method. The related interest expense is recognised in profit or loss. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Gain 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) 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 IAS 39.

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the estimated selling price in the ordinary course of business less all further costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition

Revenue is recognised to the extent when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, net of allowances for returns, trade discounts and value-added tax. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods – revenue is recognised when the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Normally, risk is transferred upon dispatch of goods.

(ii) Interest income – interest income is recognised as interest accrues (using the effective interest method) unless collectability is in doubt.

(iii) Government grant – revenue is recognised when there is reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

(j) Income tax

Income tax for the year comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. The PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. All charges to current tax assets or liabilities are recognised as a component of income tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply to the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Notes to the Financial Statements

31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Income tax (Continued)

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(k) Foreign currencies

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(l) Employee benefits

Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Notes to the Financial Statements
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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits (Continued)

Short-term employee benefits

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. A provision is made for the estimated liability for unutilised annual leave as a result of services rendered by employees up to the reporting date.

(m) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets 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 decreased:

– property, plant and equipment;

– interests in leasehold land held for own use under operating leases;

– investments in subsidiaries and associates; and

– intangible assets with finite lives.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

(n) Related parties

(1) 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.

Notes to the Financial Statements

31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Related parties (Continued)

(2) 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 (1). A person identified in (1)(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.

(o) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee, other than legal title, are accounted for as finance lease. Where the Group is the lessee, at the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit or loss so as to provide a constant periodic rate of charge over the lease terms. Where the Group is the lessor, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Notes to the Financial Statements

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Leases (Continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid premium for land leases represent up-front payments to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the term of the leases.

(p) 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.

(q) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand and in banks and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less pledged bank deposits and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and demand deposits repayable on demand with any banks or other financial institutions, which are not restricted to use. Cash and bank balances include deposits denominated in foreign currencies.

(r) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Government grants

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.

(t) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major products.

The Group has identified the reportable segments as production and sales of:

- Processed food products
- Chilled and frozen rabbit meat
- Chilled and frozen chicken meat
- Other products comprising chicken and rabbit meat by products and pet food products

Each of these operating segments is managed separately as each of the product lines requires different resources as well as marketing approaches.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit/loss less selling expenses. The measurement policies used by the Group for reporting segment results under IFRS 8 are the same as those accounting policies used in its financial statements prepared under IFRSs. Segment assets/liabilities have not been disclosed as such amounts are not regularly provided to the directors for resources allocation.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined to be the PRC where the majority of Company's subsidiaries operate.

(u) Dividends

Final dividends proposed by the directors are classified as an allocation of retained profits on a separate line within the equity, until they have been approved by the shareholders at general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Biological assets

Biological assets are living animals involved in the agricultural activities of the transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at each reporting date. The fair value of biological assets is determined based on the market price of livestock of similar age, breed and genetic merit.

The gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of– sale costs of biological assets is recognised in the profit or loss for the period in which it arises.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, 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.

Critical judgements in applying accounting policies and key sources of estimation uncertainty are discussed below.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the reporting date. The carrying amount of the Group's inventories as at 31 December 2012 is disclosed in note 23 to the financial statements.

(ii) Impairment of trade receivables

The Group's management assesses the collectability of trade receivables. This estimate is based on the credit worthiness and repayment history of the Group's customers and the current market condition. Management reassesses if there is any indication of the impairment loss at the reporting date. The carrying amount of the Group's trade receivables as at 31 December 2012 is disclosed in note 24 to the financial statements.

(iii) Provision for taxes

The Group is mainly subject to various taxes in the PRC including corporate income tax. Significant judgement is required in determining the amount of the provision for taxes and the timing of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made. The total amount of the Group's tax payables as at 31 December 2012 is RMB821,000 (2011: RMB1,869,000).

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31 December 2012

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(iv) Valuation of biological assets

The Group's management determines the fair values less estimated point-of-sale costs of biological assets on initial recognition and at each reporting date with reference to the market-determined prices, species, growing conditions, cost incurred and the professional valuation. This determination involved the use of significant judgement. The fair value of the Group's biological assets as at 31 December 2012 is disclosed in note 21 to the financial statements.

(v) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment net of expected residual value over their estimated useful lives, using the straight-line method. The estimated useful lives reflect the management's estimates of the periods that the Group intends to derive economic benefits from use of these assets. The carrying amount of the Group's property, plant and equipment as at 31 December 2012 is disclosed in note 15 to the financial statements.

(vi) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of the Group's goodwill as at 31 December 2012 is RMB59,428,000 (2011: RMB59,428,000).

(vii) Impairment of non-financial assets (except for goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of fair value less costs to sell and value in use. The carrying amount of the property, plant and equipment, prepaid premium for land leases and intangible assets, as disclosed in note 15, 16 and 17 respectively are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting policy as disclosed in note 4(m). Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(viii) Going concern basis

These financial statements have been prepared on a going concern basis and the details are explained in note 3(b) to the financial statements.

(ix) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses as at 31 December 2012 is disclosed in note 22 to the financial statements.

(x) Impairment of investments in subsidiaries and amounts due from subsidiaries

The carrying amount of investments in subsidiaries of RMB84,144,000 (2011: RMB84,144,000) and amounts due from subsidiaries of RMB237,117,000 (2011: RMB133,682,000) as at 31 December 2012 are reviewed for impairment when there are indications of impairment.

Notes to the Financial Statements

31 December 2012

6. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the directors is set out below:

2012	Processed foods RMB'000	Chilled and frozen rabbit meat RMB'000	Chilled and frozen chicken meat RMB'000	Other products RMB'000	Total RMB'000
Revenue from external customers	**669,377**	**274,305**	**361,495**	**184,661**	**1,489,838**
Reportable segment revenue	**669,377**	**274,305**	**361,495**	**184,661**	**1,489,838**
Reportable segment profit/(loss)	**51,759**	**17,243**	**(129)**	**2,681**	**71,554**
Depreciation of property, plant and equipment	**20,753**	**8,504**	**11,207**	**5,725**	**46,189**
Amortisation of prepaid premium for land leases	**1,448**	**593**	**782**	**399**	**3,222**
Amortisation of intangible assets	**343**	**838**	**–**	**–**	**1,181**

2011	Processed foods RMB'000	Chilled and frozen rabbit meat RMB'000	Chilled and frozen chicken meat RMB'000	Other products RMB'000	Total RMB'000
Revenue from external customers	511,416	299,492	420,907	121,582	1,353,397
Reportable segment revenue	511,416	299,492	420,907	121,582	1,353,397
Reportable segment profit	45,580	32,948	2,953	1,776	83,257
Depreciation of property, plant and equipment	13,967	8,179	11,495	3,320	36,961
Amortisation of prepaid premium for land leases	1,202	704	990	286	3,182
Amortisation of intangible assets	4,583	838	–	–	5,421

Notes to the Financial Statements
31 December 2012

6. SEGMENT INFORMATION (CONTINUED)

Reportable segment revenue represented turnover of the Group in the consolidated statement of comprehensive income. A reconciliation between the reportable segment profit and the Group's profit before taxation is set out below:

	2012 RMB'000	2011 RMB'000
Reportable segment profit	**71,554**	83,257
Other income	**31,229**	31,543
Administrative expenses	**(70,128)**	(69,073)
Other operating expenses	**(1,149)**	(871)
Finance costs	**(29,730)**	(33,097)
Share of loss of associates	**(293)**	(443)
Profit before taxation	**1,483**	11,316

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is determined based on the location at which the goods were delivered.

	2012 RMB'000	2011 RMB'000
Local (Country of domicile)		
PRC	**954,674**	867,060
Export (Foreign countries)		
Japan	**309,292**	271,350
Europe	**122,224**	145,575
Others	**103,648**	69,412
	1,489,838	1,353,397

The Group's non-current assets are solely located in the PRC (the country of domicile of the Group).

Notes to the Financial Statements

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7. REVENUE AND OTHER INCOME

Revenue of the Group, which is also the turnover of the Group, represents the net invoiced value of goods sold, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue and other income is as follows:

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	**1,489,838**	1,353,397
Other income		
Interest income on financial assets stated at amortised cost		
– Interest income on bank deposits	**3,064**	3,093
Amortisation of deferred income on government grants (note 32)	**1,537**	891
Government grants related to income*	**12,082**	19,850
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets, net (note 21)	**8,609**	5,223
Others	**5,937**	2,486
	31,229	31,543

* Various government grants have been received mainly from the Finance Bureau of Jiaonan City (膠南市財政局) for the Group's business conducted in those areas. There are no unfulfilled conditions or contingencies related to these grants.

8. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	2012 RMB'000	2011 RMB'000
Cost of inventories recognised as an expense	**1,028,446**	935,048
Depreciation of property, plant and equipment*	**52,238**	43,622
Amortisation of prepaid premium for land leases**	**3,222**	3,182
Amortisation of intangible assets***	**1,181**	5,421
Minimum lease payments under operating leases for production facilities	**4,689**	4,067
Audit fee	**1,624**	1,346
Non-audit fee	**57**	127
Staff costs (including directors' remuneration)	**194,977**	152,371
Retirement scheme contribution	**9,674**	8,492
Total staff costs	**204,651**	160,863
Gain on disposal of property, plant and equipment	**(1,193)**	(213)
Exchange loss, net	**3,422**	3,371

* Depreciation of approximately RMB45,994,000 (2011: RMB36,853,000), approximately RMB195,000 (2011: RMB108,000) and approximately RMB6,049,000 (2011: RMB6,661,000) has been charged to cost of sales, selling and distribution costs and administrative expenses, respectively, for the year ended 31 December 2012.

** Amortisation of prepaid premium for land leases has been charged to cost of sales for the years ended 31 December 2011 and 2012.

*** Amortisation of intangible assets has been charged to cost of sales for the years ended 31 December 2011 and 2012.

Notes to the Financial Statements

31 December 2012

9. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest charges on:		
Bank borrowings wholly repayable within five years	**32,378**	33,097
Less: Amount capitalised (note (i))	**(2,648)**	–
	29,730	33,097

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.04% (2011: Nil) to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
PRC corporate income tax		
Current year provision	**3,952**	3,146
Under-provision in prior years	**184**	–
	4,136	3,146
Hong Kong profits tax		
Overprovision in prior years	**(4,336)**	–
Deferred tax charge/(credit) (note 22)	**1,079**	(578)
Total income tax expense	**879**	2,568

No Hong Kong profits tax has been provided for the year ended 31 December 2012 as the Group did not derive any assessable profit arising in Hong Kong during the year (2011: Nil).

PRC corporate income tax is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof.

Qingdao Kangda Foods Co., Ltd. ("Kangda Foods") is established and operating in the PRC and subject to PRC corporate income tax. According to the New PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods are exempted from PRC corporate income tax. The taxable profits of Kangda Foods arising from profit from business other than agricultural, poultry and primary food processing are subject to corporate income tax at 25% for the year ended 31 December 2012 (2011: 25%).

Under the New PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full corporate income tax exemption or half reduction of corporate income tax on profits derived from such business. Qingdao Kangda Animal Rearing Company Limited, Qingdao Kangda Rabbit Company Limited, Chongqing Juxin Rabbit Co., Limited, Gaomi Kaijia Rearing Co., Limited and Qingdao Kangda Modern Agricultural Technology Development Company Limited that are engaged in qualifying agricultural business, which include breeding and sales of livestock, are entitled to full exemption of corporate income tax during the years ended 31 December 2011 and 2012.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the year (2011: Nil).

Notes to the Financial Statements

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10. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the income tax expense and the accounting profit at applicable tax rates is presented below:

	2012 RMB'000	2011 RMB'000
Profit before taxation	**1,483**	11,316
Tax calculated at the rates applicable to respective subsidiaries	**2,840**	8,723
Tax effect of non-deductible expenses	**269**	91
Tax effect of non-taxable income	**(995)**	(559)
Tax holiday and other tax benefits of PRC subsidiaries	**(1,740)**	(5,149)
Tax effect of temporary differences not recognised	**4,828**	475
Tax effect of utilisation of tax losses previously not recognised	**(1,250)**	(1,013)
Tax effect of utilisation of prior years' tax losses	**1,079**	–
Over-provision in prior years	**(4,152)**	–
Income tax expense	**879**	2,568

11. DIVIDENDS

The board of directors did not recommend any payment of dividends during the year (2011: Nil).

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of RMB4,917,000 (2011: RMB12,240,000), a loss of RMB4,552,000 (2011: RMB6,112,000) has been dealt with in the financial statements of the Company.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB4,917,000 (2011: RMB12,240,000) and on the 432,948,000 (2011: 432,948,000) ordinary shares in issue during the year.

For the years ended 31 December 2011 and 2012, the Company did not have any potential dilutive shares. Accordingly, diluted earnings per share is the same as basic earnings per share.

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14. EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE AND HIGHEST PAID INDIVIDUALS

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration disclosed pursuant to Hong Kong Listing Rules and Section 161 of the Hong Kong Companies Ordinance, and paragraph 1207.11 of Chapter 12 of the Listing Manual of SGX-ST is as follows:

	Fees RMB'000	Salaries, allowances and benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Year ended 31 December 2012					
Executive directors and chief executive:					
Gao Yanxu (note (vii))	**–**	**371**	**–**	**–**	**371**
An Fengjun (note (i))	**–**	**312**	**–**	**–**	**312**
Wang Baowang (notes (ii) and (vii))	**–**	**250**	**–**	**–**	**250**
Non-executive directors:					
Gao Sishi	**–**	**–**	**–**	**–**	**–**
Zhang Qi	**–**	**–**	**–**	**–**	**–**
Naoki Yamada	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors:					
Lau Choon Hoong (note (iii))	**27**	**–**	**–**	**–**	**27**
He Dingding (note (iv))	**64**	**–**	**–**	**–**	**64**
Kuik See Juan (note (v))	**159**	**–**	**–**	**–**	**159**
Sim Wee Leong (note (vi))	**210**	**–**	**–**	**–**	**210**
Yu Chung Leung	**180**	**–**	**–**	**–**	**180**
	640	**933**	**–**	**–**	**1,573**
Year ended 31 December 2011					
Executive directors and chief executive:					
Gao Yanxu (note (vii))	–	500	–	–	500
An Fengjun (note (i))	–	500	–	–	500
Non-executive directors:					
Gao Sishi	–	–	–	–	–
Zhang Qi	–	–	–	–	–
Naoki Yamada	–	–	–	–	–
Independent non-executive directors:					
Kuik See Juan (note (v))	233	–	–	–	233
Sim Wee Leong (note (vi))	233	–	–	–	233
Yu Chung Leung	180	–	–	–	180
	646	1,000	–	–	1,646

Notes to the Financial Statements

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14. EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE AND HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

Notes:

(i) An Fengjun resigned as an executive director of the Company on 28 November 2012.

(ii) Wang Baowang was appointed as an executive director of the Company on 28 November 2012.

(iii) Lau Choon Hoong was appointed as an independent non-executive director on 8 November 2012.

(iv) He Dingding was appointed as an independent non-executive director on 25 August 2012.

(v) Kuik See Juan resigned as an independent non-executive director on 25 August 2012.

(vi) Sim Wee Leong resigned as an independent non-executive director on 8 November 2012.

(vii) GaoYanxu resigned as the chief executive officer of the Company on 3 September 2012 and Wang Baowang was appointed as the chief executive officer on the same date.

(b) Five highest paid individuals

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

	2012 RMB'000	2011 RMB'000
Salaries, allowances and other benefits	**685**	625

The number of individuals fell within the following emolument band (excluding the directors):

	2012	2011
Emolument band		
Nil to HK$1,000,000	**1**	1

(c) No emolument was paid by the Group to the directors 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.

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15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Leasehold buildings RMB'000	**Plant and machinery** RMB'000	**Furniture, fixtures and office equipment** RMB'000	**Motor vehicles** RMB'000	**Construction in progress** RMB'000	**Total** RMB'000
At 1 January 2011						
Cost	366,199	225,069	14,312	3,876	45,452	654,908
Accumulated depreciation	(35,368)	(53,085)	(5,596)	(1,673)	–	(95,722)
Net carrying amount	330,831	171,984	8,716	2,203	45,452	559,186
Year ended 31 December 2011						
Opening net carrying amount	330,831	171,984	8,716	2,203	45,452	559,186
Additions	11,122	28,623	2,301	618	37,683	80,347
Transfer in/(out)	54,220	10,815	–	–	(65,035)	–
Disposal	(200)	(193)	(50)	(121)	–	(564)
Depreciation charge	(18,755)	(22,878)	(1,377)	(612)	–	(43,622)
Closing net carrying amount	377,218	188,351	9,590	2,088	18,100	595,347
At 31 December 2011 and 1 January 2012						
Cost	431,228	264,133	16,309	4,325	18,100	734,095
Accumulated depreciation	(54,010)	(75,782)	(6,719)	(2,237)	–	(138,748)
Net carrying amount	377,218	188,351	9,590	2,088	18,100	595,347
Year ended 31 December 2012						
Opening net carrying amount	377,218	188,351	9,590	2,088	18,100	595,347
Additions#	7,777	28,635	1,115	433	40,282	78,242
Transfer in/(out)	24,018	6,300	26	–	(30,344)	–
Disposal	(1,579)	(1,079)	(30)	(430)	–	(3,118)
Depreciation charge	(21,000)	(29,752)	(1,049)	(437)	–	(52,238)
Closing net carrying amount	**386,434**	**192,455**	**9,652**	**1,654**	**28,038**	**618,233**
At 31 December 2012						
Cost	459,841	295,697	17,324	3,756	28,038	804,656
Accumulated depreciation	(73,407)	(103,242)	(7,672)	(2,102)	–	(186,423)
Net carrying amount	**386,434**	**192,455**	**9,652**	**1,654**	**28,038**	**618,233**

All property, plant and equipment held by the Group are located in the PRC.

Including borrowings costs of RMB2,648,000 capitalised during the year (note 9)

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15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB54,631,000 (2011: RMB57,179,000) were pledged against certain of the Group's bank borrowings as at 31 December 2012 (note 30).

	Company Furniture, fixtures and office equipment RMB'000
At 1 January 2011	
Cost	13
Accumulated depreciation	(3)
Net carrying amount	10
Year ended 31 December 2011	
Opening net carrying amount	10
Depreciation charge	(2)
Closing net carrying amount	8
At 31 December 2011 and 1 January 2012	
Cost	13
Accumulated depreciation	(5)
Net carrying amount	8
Year ended 31 December 2012	
Opening net carrying amount	8
Depreciation charge	(3)
Closing net carrying amount	**5**
At 31 December 2012	
Cost	13
Accumulated depreciation	(8)
Net carrying amount	**5**

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16. PREPAID PREMIUM FOR LAND LEASES

	Group		
	Land use rights	Long-term prepaid rentals	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2011			
Cost	75,103	59,795	134,898
Accumulated amortisation	(2,663)	(3,204)	(5,867)
Net carrying amount	72,440	56,591	129,031
Year ended 31 December 2011			
Opening net carrying amount	72,440	56,591	129,031
Amortisation for the year	(1,957)	(1,225)	(3,182)
Closing net carrying amount	70,483	55,366	125,849
At 31 December 2011 and 1 January 2012			
Cost	75,103	59,795	134,898
Accumulated amortisation	(4,620)	(4,429)	(9,049)
Net carrying amount	70,483	55,366	125,849
Year ended 31 December 2012			
Opening net carrying amount	70,483	55,366	125,849
Additions	671	–	671
Amortisation for the year	(1,805)	(1,417)	(3,222)
Closing net carrying amount	**69,349**	**53,949**	**123,298**
At 31 December 2012			
Cost	75,774	59,795	135,569
Accumulated amortisation	(6,425)	(5,846)	(12,271)
Net carrying amount	**69,349**	**53,949**	**123,298**

Long-term prepaid rentals were paid by the Group for leasing of certain farm land in the PRC.

During the year ended 31 December 2007, long-term prepaid rentals of RMB22,150,000 was paid by the Group for leasing of a plot of land in the PRC with a site area of 300 Chinese mu. The Group is in the process of applying for the land use right certificates for this land. During the years ended 31 December 2008 and 2009, land use right certificates of 60 Chinese mu and 78 Chinese mu had been obtained. The directors, based on the opinion from a PRC lawyer, do not expect any legal obstacles for the Group in obtaining the relevant title certificate for the remaining 162 Chinese mu.

The lands are located in the PRC and the terms for land leases are from 30 to 50 years.

Certain of the Group's land use rights with an aggregate carrying amount approximately RMB51,425,000 (2011: RMB24,708,000) were pledged against certain of the Group's bank borrowings as at 31 December 2012 (note 30).

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17. INTANGIBLE ASSETS

	Group		
	Products safety/export licences	**Technical knowhow**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2011			
Cost	10,611	4,190	14,801
Accumulated amortisation	(5,685)	(524)	(6,209)
Net carrying amount	4,926	3,666	8,592
Year ended 31 December 2011			
Opening net carrying amount	4,926	3,666	8,592
Amortisation for the year	(4,583)	(838)	(5,421)
Closing net carrying amount	343	2,828	3,171
At 31 December 2011 and 1 January 2012			
Cost	10,611	4,190	14,801
Accumulated amortisation	(10,268)	(1,362)	(11,630)
Net carrying amount	343	2,828	3,171
Year ended 31 December 2012			
Opening net carrying amount	343	2,828	3,171
Amortisation for the year	(343)	(838)	(1,181)
Closing net carrying amount	**–**	**1,990**	**1,990**
At 31 December 2012			
Cost	10,611	4,190	14,801
Accumulated amortisation	(10,611)	(2,200)	(12,811)
Net carrying amount	**–**	**1,990**	**1,990**

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investments, at cost	**84,144**	84,144

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18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at 31 December 2012 are as follows:

Name of subsidiaries	Place of incorporation/ registration and operations	Nominal value of share/paid-up capital 2012	2011	Percentage of equity attributable to the Company 2012	2011	Principal activities
Directly held:						
美好集團有限公司 Perfect Good Group Ltd. ("Perfect Good")	British Virgin Islands ("BVI")	**US$10,000**	US$10,000	**100**	100	Investment holding
Indirectly held:						
神域集團有限公司 Spiritzone Group Ltd. ("Spiritzone")	BVI	**US$100**	US$100	**100**	100	Investment holding
青島康大食品有限公司 Qingdao Kangda Foods Co., Ltd.#	PRC	**US$20,000,000**	US$20,000,000	**100**	100	Production of food products
青島康大海青食品有限公司 Qingdao Kangda Haiqing Foods Co., Ltd.	PRC	**US$800,000**	US$800,000	**100**	100	Production of food products
青島康大綠寶食品有限公司 Qingdao Kangda Lubao Foods Co., Ltd.	PRC	**US$5,000,000**	US$5,000,000	**100**	100	Investment holding
青島莫爾利食品有限公司 Qingdao Murle Foods Co., Ltd.	PRC	**US$11,000,000**	US$11,000,000	**100**	100	Inactive
青島康大養殖有限公司 Qingdao Kangda Animal Rearing Co., Ltd.	PRC	**RMB3,000,000**	RMB3,000,000	**100**	100	Breeding and sales of livestock and poultry
青島康大兔業發展有限公司 Qingdao Kangda Rabbit Co., Ltd.	PRC	**RMB5,000,000**	RMB5,000,000	**100**	100	Breeding and sales of rabbits
吉林康大食品有限公司 Jilin Kangda Foods Co., Ltd.	PRC	**RMB30,000,000**	RMB30,000,000	**100**	100	Production of food products
青島康大生物科技有限公司 Qingdao Kangda Shengwu Keji Co., Ltd.	PRC	**RMB7,980,000**	RMB7,980,000	**100**	100	Development and sales of rabbits
青島康大歐洲兔業育種有限公司 Qingdao Kangda-Eurolap Rabbit Selection Co., Ltd.	PRC	**RMB13,980,000**	RMB13,980,000	**70**	70	Breeding and sales of rabbits

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18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ registration and operations	Nominal value of share/paid-up capital 2012	2011	Percentage of equity attributable to the Company 2012	2011	Principal activities
青島康大現代農業科技發展有限公司 Qingdao Kangda Modern Agricultural Technology Development Company Limited ("Modern Agricultural")	PRC	**RMB10,000,000**	RMB10,000,000	**100**	100	Planting and selling of vegetables
青島百順食品有限公司 Qingdao Baishun Food Company Limited	PRC	**RMB1,000,000**	RMB1,000,000	**100**	100	Inactive
青島康大分析檢測有限公司 Qingdao Kangda Analysis and Testing Co., Ltd.	PRC	**RMB1,000,000**	RMB1,000,000	**100**	100	Testing and checking on the livestock
青島普德食品有限公司 Qingdao Pu De Food Company Limited ("Pu De")	PRC	**US$4,000,000**	US$4,000,000	**55**	55	Production of food products
吉林康安兔業有限公司 Jilin Kang'an Rabbit Co. Ltd.	PRC	**RMB1,000,000**	RMB1,000,000	**100**	100	Breeding and sales of rabbits
山東凱加食品有限公司Shandong Kaijia Food Company Limited# ("Kaijia Food")	PRC	**RMB100,000,000**	RMB100,000,000	**100**	100	Production of food products
山東凱加國貿有限公司Shandong Kaijia International Trading Co., Ltd. ("Kaijia Trading")	PRC	**RMB4,667,000**	RMB4,667,000	**70**	70	Production of food products
高密凱加養殖有限公司 Gaomi Kaijia Rearing Co., Ltd.	PRC	**RMB39,253,051**	RMB39,253,051	**100**	100	Breeding and sales of livestock and poultry
高密康大六和飼料有限公司Gaomi Kangda Liuhe Feed Co., Ltd.	PRC	**RMB6,000,000**	RMB6,000,000	**51**	51	Trading of feed products
重慶康大聚鑫兔業有限公司 Chongqing Kangda Juxin Rabbit Co., Ltd.	PRC	**RMB6,000,000**	RMB6,000,000	**70**	70	Breeding and sales of rabbits

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18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ registration and operations	Nominal value of share/paid-up capital 2012	2011	Percentage of equity attributable to the Company 2012	2011	Principal activities
吉林康大擔保有限公司 Jilin Kangda Guarantee Co., Ltd	PRC	**RMB20,000,000**	RMB20,000,000	**90**	90	Guarantee servicing
青島康萊爾皮草有限公司 Qingdao Klair Fur Co., Ltd.	PRC	**RMB1,000,000**	RMB1,000,000	**100**	100	Inactive
吉林康都飼料有限公司 Jilin Kangdu Feeds Co., Ltd.	PRC	**RMB2,000,000**	RMB2,000,000	**100**	100	Feed processing
萊蕪康大飼料有限公司 Laiwu Kangda Feeds Co., Ltd.	PRC	**RMB3,000,000**	RMB3,000,000	**100**	100	Sales of feed products
吉林康美兔業有限公司 Jilin Kangmei Rabbit Co., Ltd.	PRC	**RMB8,500,000**	RMB8,500,000	**51**	51	Breeding and sales of rabbits

These significant subsidiaries are audited by BDO Limited for the purpose of the Group's consolidation.

The remaining subsidiaries are reviewed by BDO Limited for the purpose of the Group's consolidation.

19. INTEREST IN ASSOCIATES

	2012 RMB'000	2011 RMB'000
Share of net assets	**3,166**	3,459

Particulars of the associates as at 31 December 2012 are as follows:

Name of associates	Form of business structure	Place of registration and operations	Particulars of paid up capital 2012	2011	Percentage of ownership interest held 2012	2011	Principal activities
青島肉食得食品有限公司 Qingdao Meat Master Co., Ltd	Co-operative joint venture	PRC	**USD400,000**	USD400,000	**25%**	25%	Wholesaling of processed food products
吉林康大兔業有限公司 Jilin Kangda Rabbit Co., Ltd	Co-operative joint venture	PRC	**RMB10,000,000**	RMB10,000,000	**35%**	35%	Breeding and sale of rabbits for medicinal uses and trading of rabbits

The associates have a reporting date of 31 December.

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19. INTEREST IN ASSOCIATES (CONTINUED)

The aggregate amounts of financial information as extracted from the management accounts of the associates are as follows:

	2012 **RMB'000**	2011 RMB'000
Assets	**16,785**	15,818
Liabilities	**7,049**	5,330
Revenue	**24,707**	16,771
Loss	**752**	1,315

The Group has not incurred any contingent liabilities or other commitments relating to its investments in the associates.

20. GOODWILL

Goodwill acquired in business combinations are allocated to Kaijia Food and Kaijia Trading (together as "Kaijia Group"), Modern Agricultural and Pu De, cash-generating units of the Group.

The recoverable amounts of the cash-generating units are determined from value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. In addition, the cash flows projection of the cash-generating-unit of Kaijia Group is extrapolated for another 5 years using a growth rate of 3% (2011: 10%) per annum. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash-generating units. The growth rates, budgeted gross margin and turnover are determined based on the past performance and management's expectation of market development.

The rate used to discount the forecast cash flows from Kaijia Group, Modern Agricultural and Pu De are 7.4% (2011: 8%) per annum.

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21. BIOLOGICAL ASSETS

	Group					
	Breeder rabbits RMB'000	**Progeny rabbits** RMB'000	**Breeder chickens** RMB'000	**Hatchable eggs and progeny chickens** RMB'000	**Vegetables** RMB'000	**Total** RMB'000
At 1 January 2011	21,550	7,563	6,103	12,549	1,486	49,251
Increase due to purchases/raising	56,620	171,958	115,758	309,227	5,665	659,228
Gains/(Losses) arising from changes in fair value less estimated point-of-sale costs, net	4,356	1,603	(3,441)	2,509	196	5,223
Decrease due to consumption	–	(166,775)	–	(309,292)	(145)	(476,212)
Decrease due to sales	(63,408)	–	(104,603)	–	(5,160)	(173,171)
At 31 December 2011 and 1 January 2012	19,118	14,349	13,817	14,993	2,042	64,319
Increase due to purchases/raising	65,639	106,517	46,860	328,413	3,062	550,491
Gains/(Losses) arising from changes in fair value less estimated point-of-sale costs, net	7,550	784	1,194	(1,335)	416	8,609
Decrease due to consumption	–	(109,477)	–	(325,334)	–	(434,811)
Decrease due to sales	(65,598)	–	(48,853)	–	(4,892)	(119,343)
At 31 December 2012	**26,709**	**12,173**	**13,018**	**16,737**	**628**	**69,265**

The progeny rabbits, hatchable eggs and progeny chickens and vegetables are raised for sale and consumption in production. The breeder rabbits and chickens are held to produce further progeny rabbits and hatchable eggs and progeny chickens.

Biological assets as at 31 December 2012 and 2011 are stated at fair values less estimated point-of-sale costs and are analysed as follows:

	Group	
	2012 **RMB'000**	2011 RMB'000
Non-current portion	**39,727**	32,935
Current portion	**29,538**	31,384
	69,265	64,319

In accordance with the valuation reports issued by a firm of independent professional valuers, the fair value less estimated point-of-sale costs of the livestock and poultry is determined with reference to the market-determined prices of items with similar size, species and age. The valuation methodology is in compliance with IAS 41 to determine the fair values of biological assets in their present location and condition.

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21. BIOLOGICAL ASSETS (CONTINUED)

Significant assumptions used by the professional valuers in their valuations are as follows:

(a) There will be no material change in existing political, legal, technological, fiscal or economic condition which may adversely affect the business of the Group; and

(b) The Group will have sufficient capacity for future expansion and facilities and systems of the Group will be operated efficiently.

The fair value of vegetables is determined by the directors with reference to market-determined prices with similar size, species and age.

The physical quantity of rabbits, chickens, eggs and vegetables as at 31 December 2012 and 2011 are analysed as follows:

	Group	
	2012 Number of Rabbits/ Chickens/Eggs/ Vegetables	2011 Number of Rabbits/ Chickens/Eggs/ Vegetables
Progeny rabbits	**449,687**	394,349
Breeder rabbits	**202,717**	79,301
	652,404	473,650
Progeny chickens	**1,248,593**	934,671
Breeder chickens	**191,572**	594,314
	1,440,165	1,528,985
Hatchable eggs	**2,283,925**	1,376,975
Vegetables (in tonnes)	**2,040**	4,793

22. DEFERRED TAX ASSETS

Deferred taxation is calculated in full on temporary differences under the liability method using the principal tax rate of 25% (2011: 25%).

The movements on the deferred tax assets are as follows:

	Group	
	2012 RMB'000	2011 RMB'000
At 1 January	**14,549**	13,971
Deferred taxation (charged)/credited to profit or loss (note 10)	**(1,079)**	578
At 31 December	**13,470**	14,549

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22. DEFERRED TAX ASSETS (CONTINUED)

The principal components of the deferred tax assets/(liabilities) are as follows:

	Fair value adjustment on property, plant and equipment, intangible assets and land use rights upon business combination	Loss available for offsetting against future taxable profits	Deferred government grants	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	(13,595)	24,995	2,571	13,971
Recognised in profit or loss	2,024	(1,511)	65	578
At 31 December 2011 and 1 January 2012	(11,571)	23,484	2,636	14,549
Recognised in profit or loss	965	(2,454)	410	(1,079)
At 31 December 2012	**(10,606)**	**21,030**	**3,046**	**13,470**

As at 31 December 2012, the Group had unused tax losses of RMB128.8 million (2011: RMB116.2 million) available for offset against future profits. Deferred tax assets have been recognised in respect of tax losses of RMB84.1 million (2011: RMB93.9 million). No deferred tax asset has been recognised in respect of the remaining tax losses (2011: Nil) as it is not probable that future taxable profits will be available against which these tax losses can be utilised. Tax losses of RMB128.8 million (2011: RMB46.3 million) will be expired at various dates up to and including 2017.

Deferred tax liabilities of RMB21,108,000 (2011: RMB22,322,000) as at 31 December 2012 have not been recognised for the withholding and other taxation that would be payable on the unremitted earnings of certain subsidiaries in the PRC, of RMB211,077,000 at 31 December 2012 (2011: RMB223,215,000) as such amounts will be permanently reinvested.

23. INVENTORIES

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**52,480**	77,396
Finished goods	**100,689**	114,156
	153,169	191,552

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24. TRADE RECEIVABLES

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

The ageing analysis of trade receivables based on invoice dates as at the reporting date is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within 30 days	**69,447**	71,086
31 – 60 days	**12,683**	17,025
61 –90 days	**4,687**	3,460
91 – 120 days	**258**	1,062
Over 120 days	**1,046**	9,959
	88,121	102,592

Before accepting any new customer, the Group will assess the potential customer's credit quality and set credit limits for that customer. Limits attributed to customers are reviewed once a year. Further details on the Group's credit policy are set out in note 36.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly or the trade receivables are written-off against the allowance account if impairment losses on that trade receivables have been recorded in the allowance account previously. No allowance was made for the years ended 31 December 2011 and 2012.

The ageing analysis of trade receivables that are not impaired is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**71,798**	85,561
Not more than 3 months past due	**15,278**	7,662
3 to 6 months past due	**551**	5,566
6 to 12 months past due	**494**	3,803
	88,121	102,592

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there were no recent history of default.

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24. TRADE RECEIVABLES (CONTINUED)

Trade receivables that were past due but not impaired related to a number of 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 has 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.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region is:

	Group	
	2012	2011
	RMB'000	RMB'000
PRC	**47,956**	59,730
Japan	**14,581**	13,219
Europe	**24,694**	29,329
Others	**890**	314
	88,121	102,592

Certain of the Group's trade receivables of RMB42,000,000 (2011: Nil) were pledged against certain of the Group's bank borrowings as at 31 December 2012 (note 30).

25. PREPAYMENTS, OTHER RECEIVABLES AND DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**31,097**	19,899	**11**	11
Other receivables and deposits#	**26,251**	33,950	**84**	84
	57,348	53,849	**95**	95

The balances mainly represent rental deposits and advance payment to various suppliers.

26. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due are unsecured, interest free and repayable on demand.

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27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Short-term deposits	**93,000**	53,015	**–**	–
Cash and bank balances	**329,102**	262,090	**5,419**	113,521
	422,102	315,105	**5,419**	113,521
Deposits pledged for bank loans (note 30)	**(51,403)**	(4,171)	**–**	–
	370,699	310,934	**5,419**	113,521

The Group had cash and bank balances and pledged deposits denominated in RMB amounting to approximately RMB410,999,000 as at 31 December 2012 (2011: RMB190,609,000) which were deposited with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

The bank balances earn interest at floating rates based on daily bank deposit rates. The short-term deposits are made for varying periods between one week and one month and earn interest at 1.49% (2011: 1.45%) per annum as at 31 December 2012.

28. TRADE AND BILLS PAYABLES

Trade payables are non-interest bearing and are normally settled on terms of 60 days.

	Group	
	2012	2011
	RMB'000	RMB'000
Trade payables	**126,707**	107,682
Bills payables	**49,000**	27,541
	175,707	135,223

The ageing analysis of trade payables as at the reporting date is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within 60 days	**143,788**	96,612
61 –90 days	**9,595**	20,297
91 – 120 days	**6,665**	4,822
Over 120 days	**15,659**	13,492
	175,707	135,223

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29. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued liabilities	**33,637**	30,526	**468**	586
Other payables#	**49,944**	55,882	**–**	–
	83,581	86,408	**468**	586

The balances mainly represent receipt in advance from customers and payables of certain construction costs.

30. INTEREST– BEARING BANK BORROWINGS

	Group	
	2012	2011
	RMB'000	RMB'000
Classified as current liabilities		
Interest-bearing bank borrowings	**589,000**	500,430

As at 31 December 2012, the Group's interest-bearing borrowings were repayable as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Portion of term loans from banks due for repayment within one year	**589,000**	500,430

Total secured interest-bearing bank borrowings are approximately RMB325,000,000 (2011: RMB205,000,000) as at 31 December 2012.

As at 31 December 2011 and 2012, the Group's interest-bearing bank borrowings are guaranteed by a related party of the Group and secured against pledge of certain of the Group's property, plant and equipment (note 15), land use rights (note 16), trade receivables (note 24) and pledged deposits (note 27).

The Group's interest-bearing bank borrowings bear interests ranging from 6.00% to 7.87% (2011: 4.38% to 7.6%) per annum as at 31 December 2012.

31. AMOUNT DUE TO A RELATED PARTY

As at 31 December 2012, the related party is a company in which Mr. Gao Sishi and Mr. Gao Yanxu, directors of the Company, have beneficial interest.

As at 31 December 2011, the related party was a company in which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. Zhang Qi and Mr. An Fengjun, directors of the Company, had beneficial interest.

As at 31 December 2012, the amount due is unsecured, interest free and repayable on demand.

As at 31 December 2011, the amount due was unsecured, interest free and repayable on demand except for an amount of RMB80,000,000 which was unsecured, interest free and repayable within a year.

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32. DEFERRED GOVERNMENT GRANTS

	Group 2012 RMB'000	2011 RMB'000
At the beginning of the year	**13,915**	11,806
Additions	**3,760**	3,000
Recognised as income during the year (note 7)	**(1,537)**	(891)
At the end of the year	**16,138**	13,915
Portion classified as current liabilities	**(1,537)**	(891)
Non-current portion	**14,601**	13,024

During the year, the Group received certain government subsidies with an aggregate amount of RMB3,760,000 (2011: RMB3,000,000). The grants were mainly received from the Finance Bureau of Jiaonan City（胶南市財政局）for the purpose of acquiring production facilities and information system. Since the Group fulfilled the conditions attaching to the government grants, the Group recognised the government grants as deferred income over the expected useful lives of the relevant assets of 10 to 20 years.

33. SHARE CAPITAL

Ordinary shares of HK$0.25 each	**Number of shares** '000	**Amount** HK$'000
Authorised:		
At 31 December 2011 and 2012	**2,000,000**	**500,000**
Issued and fully paid:		
At 31 December 2011 and 2012	**432,948**	**108,237**

The issued and fully paid share capital is equivalent to approximately RMB112,176,000 as at 31 December 2011 and 2012.

34. RESERVES

(a) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of a restructuring exercise of the Group in 2006.

The merger reserve of the Company represents the difference between the net tangible asset value of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of the Group's restructuring exercise in 2006.

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34. RESERVES (CONTINUED)

(b) Capital redemption reserve

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

(c) Other reserves

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation determined in accordance with the accounting regulations in the PRC to the other reserve until the reserve balance reaches 50% of the respective registered capital of the PRC subsidiaries. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital of the PRC subsidiaries.

During the previous years, the subsidiaries of the Company established in the PRC has discretionarily transferred 5% of its profit after taxation prepared in accordance with the accounting regulations in the PRC to the public welfare reserve. The use of the public welfare reserve is restricted to capital expenditure for employees' facilities. This public welfare reserve is non-distributable except upon liquidation of the PRC subsidiaries. No public welfare reserve had been provided during the years ended 31 December 2011 and 2012.

35. COMMITMENTS

(a) Operating lease commitments

Except for the prepaid premium for land leases (note 16), the Group leases certain of its land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 10 to 30 years.

The total future minimum lease payments under non-cancellable operating leases, which the Group is a lessee, are as follows:

As lessee

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**8,714**	3,830	**–**	–
In the second to fifth years	**45,093**	10,383	**–**	–
After the fifth year	**55,121**	5,899	**–**	–
	108,928	20,112	**–**	–

(b) Capital commitments

Capital commitments not provided for in the financial statements were as follows:

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted but not provided for in respect of:				
Purchase of property, plant, equipment and land	**13,134**	12,039	**–**	–

Notes to the Financial Statements
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36. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks included market risk (including currency risk and interest risk), credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the board of directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to the financial risk, including principally changes in interest rates and currency exchange rates.

Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Categories of financial assets and liabilities

The categories of financial assets and financial liabilities included in the statements of financial position and the headings in which they are included are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
– Trade receivables	**88,121**	102,592
– Other receivables	**17,029**	28,720
– Cash and bank balances (including pledged deposits)	**422,102**	315,105
	527,252	446,417
Financial liabilities		
At amortised cost		
– Trade and bills payables	**175,707**	135,223
– Accruals and other payables	**83,581**	86,408
– Interest-bearing bank borrowings	**589,000**	500,430
– Amount due to a related party	**38,891**	86,527
	887,179	808,588

	Company	
	2012	2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
– Amounts due from subsidiaries	**237,117**	133,682
– Cash and bank balances	**5,419**	113,521
	242,536	247,203
Financial liabilities		
At amortised cost		
– Accrued liabilities	**468**	586

Notes to the Financial Statements
31 December 2012

36. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows both loans issued at fixed and floating interest rates. Exposure to floating interest rate presents when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no unduly exposures to significant interest rate movements and rates are approximately fixed when necessary. The policies to manage interest rate risk have been followed by the Group since prior years.

(i) Interest rate profile

The following tables detail the interest rate profile of the Group's financial instruments at the reporting date:

	Group			
	Weighted average effective interest rate		Carrying amount	
	2012	2011	**2012**	2011
	%	%	**RMB'000**	RMB'000
Variable rate instruments				
Financial assets				
Bank balances	**0.39%**	0.23%	**277,439**	257,004
Financial liabilities				
Interest-bearing bank borrowings	**7.39%**	7.54%	**200,000**	44,287
Fixed rate instruments				
Financial assets				
Time deposits	**1.49%**	1.49%	**93,000**	53,014
Financial liabilities				
Interest-bearing bank borrowings	**6.66%**	6.52%	**389,000**	456,143

	Company			
	Weighted average effective interest rate		Carrying amount	
	2012	2011	**2012**	2011
	%	%	**RMB'000**	RMB'000
Variable rate instruments				
Financial assets				
Bank balances	**0.01%**	0.01%	**5,414**	113,516

Notes to the Financial Statements
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36. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis

The following tables illustrate the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates of +0.5% and – 0.5% (2011: +0.5% and – 0.5%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

	Group			
	2012		2011	
	RMB'000		RMB'000	
	+0.5%	**-0.5%**	+ 0.5%	-0.5%
Effect on profit for the year and retained earnings	**300**	**(300)**	931	(931)

	Company			
	2012		2011	
	RMB'000		RMB'000	
	+0.5%	**-0.5%**	+ 0.5%	-0.5%
Effect on loss for the year and accumulated losses	**27**	**(27)**	568	(568)

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its business.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. The credit policy has been followed by the Group since prior years.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Notes to the Financial Statements

31 December 2012

36. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(d) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the Group entities to which they related. The currencies giving rise to this risk are mainly Euro, United States dollars and Japanese Yen.

The Group reviews its foreign currency exposures regularly and does not consider its foreign exchange risk to be significant. The policy to manage foreign currency risk has been followed by the Group since prior years.

(i) Foreign currency risk exposure

The following tables detail the Group's exposures at the reporting date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which the Group entities relate:

			Group 2012		
	USD RMB'000	**EURO RMB'000**	**JPY RMB'000**	**SGD RMB'000**	**HK$ RMB'000**
Financial assets					
Trade receivables	**29,337**	**8,087**	**1,812**	**–**	**–**
Cash and bank balances	**10,385**	**583**	**–**	**27**	**108**
	39,722	**8,670**	**1,812**	**27**	**108**
Financial liabilities					
Trade payables	**6,868**	**–**	**719**	**–**	**–**

			Group 2011		
	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HK$ RMB'000
Financial assets					
Trade receivables	21,706	17,648	3,457	–	–
Cash and bank balances	119,439	4,943	–	23	55
	141,145	22,591	3,457	23	55
Financial liabilities					
Trade payables	12,010	–	–	–	–

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36. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(d) Foreign currency risk (Continued)

(i) Foreign currency risk exposure (Continued)

	Company 2012		
	USD RMB'000	**SGD RMB'000**	**HK$ RMB'000**
Financial assets			
Cash and bank balances	**5,408**	**8**	**3**

	Company 2011		
	USD RMB'000	SGD RMB'000	HK$ RMB'000
Financial assets			
Cash and bank balances	113,512	5	4

Apart from the above, all the Group's financial assets and liabilities are denominated in RMB.

(ii) Foreign currency sensitivity analysis

The following table indicates the approximate change in the Group's profit for the year and equity in response to a 5% appreciation in the Group's functional currencies against the respective foreign currencies. There is no impact on other components of consolidated equity in response to the general increase in the following foreign currency rates.

	Group 2012				
	USD RMB'000	**EURO RMB'000**	**JPY RMB'000**	**SGD RMB'000**	**HK$ RMB'000**
Effect on profit for the year and retained earnings	**(1,232)**	**(325)**	**(41)**	**(1)**	**(4)**

	Group 2011				
	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HK$ RMB'000
Effect on profit for the year and retained earnings	(4,850)	(847)	(126)	(1)	(2)

Notes to the Financial Statements

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36. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(d) Foreign currency risk (Continued)

(ii) Foreign currency sensitivity analysis (Continued)

	Company					
	2012			2011		
	USD	**SGD**	**HK$**	USD	SGD	HK$
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Effect on loss for the year and accumulated losses	**270**	**–**	**–**	5,676	–	–

A weakening of the above foreign currencies against RMB at each reporting date would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(e) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

As disclosed in note 3(b) to the financial statements, the Group's current liabilities has exceeded its current assets by RMB139.3 million as at 31 December 2012. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its obligations as they fall due, and on its ability to obtain external financing. Further details are set out in note 3(b) to the financial statements. Subsequent to year end date, the Group successfully renewed bank borrowings of RMB50 million upon maturity of these bank borrowings. In addition, subsequent to year end date, the Group obtained written confirmation from one of the Group's major bankers to confirm to renew certain bank borrowings, in aggregate of up to RMB170,000,000, to the Group for another year upon the maturity of the bank borrowings. The directors of the Company have also carried out a detailed review of the cash flow projection of the Group for the next 12 months from the reporting date. The directors are of the opinion that the assumptions which are included in the cash flow projection are reasonable. Based on above, the directors have determined that adequate liquidity exists to finance its working capital and financing activities of the Group for that period.

The cash flow management of all operating entities is centralised, including the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor current and expected 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.

Specifically, for bank borrowings which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for bank borrowings is prepared based on the scheduled repayment dates.

	Group	
	2012	2011
	Within 1 year	Within 1 year
	RMB'000	RMB'000
Bank borrowings	**606,918**	533,510

The liquidity policy has been followed by the Group since prior years.

Notes to the Financial Statements

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36. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(e) Liquidity risk (Continued)

As at 31 December 2012 and 2011, the maturity analysis of the Group's financial assets, based on the contracted undiscounted maturity, and the maturity profile of the Group's financial liabilities, based on the contracted undiscounted payments, are summarised below:

	Group			
	2012		2011	
	Within 6 months RMB'000	**6 to 12 months RMB'000**	Within 6 months RMB'000	6 to 12 months RMB'000
Non-derivative financial assets:				
Trade receivables	**88,121**	**–**	102,592	–
Other receivables	**17,029**	**–**	28,720	–
Cash and bank balances (including pledged deposits)	**422,102**	**–**	315,105	–
	527,252	**–**	446,417	–
Non-derivative financial liabilities:				
Interest-bearing bank borrowings	**359,979**	**246,939**	408,810	124,700
Trade and bills payables	**175,707**	**–**	135,223	–
Accrued liabilities and other payables	**83,581**	**–**	86,408	–
Amount due to a related party	**38,891**	**–**	86,527	–
	658,158	**246,939**	716,968	124,700

	Company			
	2012		2011	
	Within 6 months RMB'000	**6 to 12 months RMB'000**	Within 6 months RMB'000	6 to 12 months RMB'000
Non-derivative financial assets:				
Amounts due from subsidiaries	**237,117**	**–**	133,682	–
Cash and bank balances	**5,419**	**–**	113,521	–
	242,536	**–**	247,203	–
Non-derivative financial liabilities:				
Accrued liabilities and other payables	**468**	**–**	586	–

(f) Fair value

The fair value of the Group's financial assets and liabilities as at 31 December 2012 are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

37. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

Notes to the Financial Statements

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37. CAPITAL MANAGEMENT (CONTINUED)

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are calculated as the sum of bank borrowings and amount due to a related party as shown in the consolidated statement of financial position. Total capital is calculated as total equity attributable to the Company's owners, as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

	2012 RMB'000	2011 RMB'000
Interest-bearing bank borrowings	**589,000**	500,430
Amount due to a related party	**38,891**	86,527
Total debts	**627,891**	586,957
Equity attributable to the Company's owners	**670,122**	665,205
Total debts to equity ratio	**94%**	88%

Subsidiaries of the Group established in the PRC are required to contribute and maintain a non-distributable statutory reserve fund whose utilisation is subject to certain restrictions as set out in the relevant regulations in the PRC. These externally imposed capital requirements have been complied with by the Group for the years ended 31 December 2011 and 2012.

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

	Notes	**2012 RMB'000**	2011 RMB'000
Sales to related parties	(i)	**584**	632
Rental expenses paid to related parties	(ii)	**27**	344
Guarantees given by a related party in connection with bank loans granted to the Group	(iii)	**150,000**	100,000

(b) Key management personnel compensation

	2012 RMB'000	2011 RMB'000
Short term employee benefits of directors and other members of key management	**2,332**	2,397

Notes:

(i) Sales to related parties were made to related parties of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi have beneficial interest. These sales were made in the ordinary course of business with reference to the terms negotiated between the Group and these related parties.

(ii) Rental expenses paid to related parties, of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi were shareholders and/or directors, were made according to the terms of the lease agreements.

(iii) The Group's bank loans (note 30) were guaranteed by a related party, of which Mr. Gao Sishi and Mr. Gao Yanxu were also shareholders and directors.

Statistics of Shareholdings as at 14 March 2013

Authorised share capital:	HK$500,000,000
Issued and fully paid up capital:	HK$108,237,000
No. of issued shares:	432,948,000 Ordinary shares
Class of shares:	Ordinary share of HK$0.25 each
Voting rights:	One vote per share
Treasury Shares:	Nil

DISTRIBUTION OF SHAREHOLDINGS (SINGAPORE REGISTER)

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	–	0.00	–	0.00
1,000 – 10,000	534	47.42	3,870,000	9.75
10,001 – 1,000,000	590	52.40	28,206,000	71.03
1,000,001 and above	2	0.18	7,633,000	19.22
Total	1,126	100.00	39,709,000	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 14 MARCH 2013

No.	Name	No. of Shares	%
1	PHILLIP SECURITIES PTE LTD	5,011,000	12.62
2	DBS VICKERS SECURITIES (S) PTE LTD	2,622,000	6.60
3	TEH KIU CHEONG	1,000,000	2.52
4	MAYBANK KIM ENG SECURITIES PTE LTD	746,000	1.88
5	LOW WOO SWEE @ LOH SWEE TECK	646,000	1.63
6	TAN ENG CHUA EDWIN	576,000	1.45
7	PATRICK TAN CHOON HOCK	575,000	1.45
8	KOH YEOW KOON	500,000	1.26
9	SERENE LEE SIEW KIN	415,000	1.04
10	OCBC SECURITIES PRIVATE LTD	405,000	1.02
11	TAN MENG HOR	400,000	1.01
12	CIMB SECURITIES (SINGAPORE) PTE LTD	353,000	0.89
13	HSBC (SINGAPORE) NOMINEES PTE LTD	353,000	0.89
14	LIM & TAN SECURITIES PTE LTD	345,000	0.87
15	CITIBANK CONSUMER NOMINEES PTE LTD	300,000	0.75
16	TAN CHENG HWEE	300,000	0.75
17	TAN TIEN SENG	300,000	0.75
18	LEE POH CHEONG	230,000	0.58
19	UOB KAY HIAN PTE LTD	193,000	0.49
20	CHIAM TEE CHYE	182,000	0.46
		15,452,000	38.91

Statistics of Shareholdings as at 14 March 2013

Authorised share capital:	HK$500,000,000
Issued and fully paid up capital:	HK$108,237,000
No. of issued shares:	432,948,000 Ordinary shares
Class of shares:	Ordinary share of HK$0.25 each
Voting rights:	One vote per share
Treasury Shares:	Nil

DISTRIBUTION OF SHAREHOLDINGS (HONG KONG REGISTER)

Size of Shareholdings	No of Shareholders	%	No of Shares	%
1 – 999	–	0.00	–	0.00
1,000 – 10,000	7	16.67	37,900	0.01
10,001 – 1,000,000	33	78.57	5,222,100	1.33
1,000,001 and above	2	4.76	387,979,000	98.66
Total	42	100.00	393,239,000	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 14 MARCH 2013

No.	Name	No. of Shares	%
1	SUN HUNG KAI INVESTMENT SERVICES LTD	166,760,000	42.41
2	PHILLIP SECURITIES (HONG KONG) LTD	72,282,000	18.38
3	VICTORY SECURITIES CO LTD	40,530,000	10.31
4	DBS VICKERS (HONG KONG) LTD	40,261,000	10.24
5	NOMURA SECURITIES (HK) LTD	27,837,000	7.08
6	DAIWA CAPITAL MARKETS HONG KONG LTD	22,326,000	5.68
7	YUANTA SECURITIES (HONG KONG) CO LTD	13,718,000	3.49
8	BANK OF CHINA (HONG KONG) LTD	1,560,000	0.40
9	THE HONGKONG AND SHANGHAI BANKING	1,438,000	0.37
10	CHIEF SECURITIES LTD	1,267,000	0.32
11	TOPMORE SECURITIES LTD	1,000,000	0.25
12	BOCI SECURITIES LTD	828,000	0.21
13	KGI SECURITIES (HONG KONG) LTD	706,000	0.18
14	BUSINESS SECURITIES LTD	384,000	0.10
15	TOYO SECURITIES ASIA LTD	284,000	0.07
16	BOOM.COM LTD	276,000	0.07
17	CHINA MERCHANTS BANK CO LTD	212,000	0.05
18	CHINA MERCHANTS SECURITIES (HK) CO LTD	180,000	0.05
19	ICBC (ASIA) SECURITIES LTD	160,000	0.04
20	REALINK FINANCIAL TRADE LTD	124,000	0.03
		392,133,000	99.73

Statistics of Shareholdings as at 14 March 2013

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	No. of Shares			
Substantial Shareholders	**Direct Interest**	**(%)**	**Deemed Interest**	**(%)**
Gao Sishi	166,740,000	38.51%	–	–
Zensho Holdings Co., Ltd	47,715,000	11.02%	–	–
Proven Choice Group Limited	27,980,000	6.46%	–	–
Huang Quan	–	–	27,980,000	6.46%
Wang Baowang	21,641,400	5.00%	–	–

Note:

1. Proven Choice Group Limited is an investment company incorporated in the BVI. It is wholly-owned by Mr. Huang Quan who is not related to any or the Directors or Shareholders.

PERCENTAGE OF SHAREHOLDING IN PUBLIC HANDS

Approximately 35.95% of the Company's issued shares are held in the hands of the public as at 14 March 2012. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST and the Hong Kong Listing Rules.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of CHINA KANGDA FOOD COMPANY LIMITED (the "**Company**") will be held at The Library, Basement 2, International Grand Standford Hong Kong, 70 Mody Road, Tsimshatsui East Kowloon on Tuesday, 30 April 2013 at 10.00 am for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company for the year ended 31 December 2012 together with the Auditors' Report thereon.

(Resolution 1)

2. To re-elect the following Directors retiring pursuant to Bye-law 86(1) & 85(6) of the Company's Byelaws:

Mr Zhang Qi	(Retiring under Bye-Law 86(1))	**(Resolution 2)**
Mr He Dingding	(Retiring under Bye-Law 85(6))	**(Resolution 3)**
Mr Lau Choon Hoong	(Retiring under Bye-Law 85(6))	**(Resolution 4)**
Mr Wang Baowang	(Retiring under Bye-Law 85(6))	**(Resolution 5)**

Mr Zhang Qi will, upon re-election as a Director of the Company, remain a member of the Audit Committee and will be considered non-independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Mr He Dingding will, upon re-election as a Director of the Company, remain as Chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee respectively. Mr He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Mr Lau Choon Hoong will, upon re-election as a Director of the Company, remain as Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee respectively. Mr Lau will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

3. To approve the payment of Directors' fees of S$130,000 (equivalent to RMB640,000) for the year ended 31 December 2012 (2011: S$132,000) (equivalent to RMB646,000).

(Resolution 6)

4. To re-appoint BDO Limited ("**BDO**") as auditors of the Company to satisfy the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited and to re-appoint BDO LLP, ("**BDO LLP**") as auditors to act jointly with BDO for the purpose of compliance with Rule 712 of the Listing Manual of the Singapore Exchange Securities Trading Limited and to authorise the Directors to fix their remuneration.

(Resolution 7)

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

Notice of Annual General Meeting

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as Ordinary Resolution:

6. SHARE ISSUE MANDATE

That authority be given to the Directors of the Company to issue shares ("**Shares**") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit provided that:

(a) the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty percent (50%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty percent (20%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company;

(b) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) of the Company as at the date of the passing of this Resolution, after adjusting for:

(i) new shares arising from the conversion or exercise of convertible securities;

(ii) new shares arising from exercising share options or vesting of Share awards outstanding or subsisting at the time this Resolution is passed; and

(iii) any subsequent bonus issue, consolidation or subdivision of shares;

(c) Such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities.

See Explanatory Notes (i) and (ii)

(Resolution 8)

By Order of the Board

Fong William
Company Secretary

5 April 2013

Notice of Annual General Meeting

Explanatory Notes to Resolutions to be passed –

(i) The Ordinary Resolution 8 proposed in item 6 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to twenty percent (20%) may be issued other than on a pro rata basis.

(ii) IMPORTANT: Notwithstanding the passing of the Ordinary Resolution 8 proposed in item 6 above, the Company shall from time to time comply with the relevant requirements under the Hong Kong Listing Rules in relation to issuance of securities, in particular, Rules 7.19, 13.36 and 13.36(5) thereof.

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

2. A member who wishes to appoint a proxy should complete the attached Shareholder Proxy Form. Thereafter, the proxy form must be lodged at the office of the Company's branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Shareholders), or the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited, at 63 Cantonment Road, Singapore 089758 (for Singapore Shareholders), not less than forty-eight (48) hours before the time appointed for the meeting.

3. If the member is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. A Depositor (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore) (the "**Singapore Companies Act**") whose name appears in the Depository Register (as defined in Section 130A of the Singapore Companies Act) of the Company and who is unable to attend personally but wishes to appoint a nominee to attend and vote on his behalf, or if such Depositor is a corporation, should complete the depositor proxy form under seal or the hand of its duly authorised officer or attorney and lodge the same at the office of the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited, at 63 Cantonment Road, Singapore 089758 not later than 48 hours before the time appointed for the meeting.