China NT Pharma Group Company Limited

中國泰凌醫藥集團有限公司

Stock Code: 01011

2013

Annual Report

Contents

Board of Directors and Board Committees

BOARD OF DIRECTORS

Executive Director	Mr. NG Tit *(Chairman and Chief Executive Officer)*
Non-executive Directors	Ms. CHIN Yu Dr. QIAN Wei Mr. HUNG Leung Mr. WANG Fan
Independent Non-executive Directors	Mr. Patrick SUN Mr. Yue Nien Martin TANG Dr. Lap-Chee TSUI

BOARD COMMITTEES

Audit Committee	Mr. Patrick SUN *(Chairman)* Mr. Yue Nien Martin TANG Dr. Lap-Chee TSUI
Remuneration Committee	Mr. Yue Nien Martin TANG *(Chairman)* Mr. Patrick SUN Mr. NG Tit
Nomination Committee	Mr. NG Tit *(Chairman)* Mr. Patrick SUN Mr. Yue Nien Martin TANG

COMPANY SECRETARY

Ms. MOK Ming Wai

AUDITORS

Crowe Horwath (HK) CPA Limited
Certified Public Accountants

LEGAL ADVISORS AS TO HONG KONG LAW

Freshfields Bruckhaus Deringer

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1505, 15/F
Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN CHINA

3-5/F, Urban City Center
45 Nanchang Road, Shanghai, PRC

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY 1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of Communications Limited
The Bank of East Asia, Limited
Bank of Shanghai Co., Limited
China CITIC Bank Corporation Limited
China Construction Bank Corporation
China Everbright Bank Co., Limited
China Merchants Bank Co., Limited
Shanghai Pudong Development Bank Co., Limited

INVESTOR RELATIONS

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COMPANY'S WEBSITE

http://www.ntpharma.com

STOCK CODE

1011

Financial Highlights

A summary of the main financial data of China NT Pharma Group Company Limited ("NT Pharma" or the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 is set out below:

	For the year ended 31 December		
	2013	2012	**% Change**
	RMB'000	RMB'000	
Turnover	**754,115**	739,132	**2.0%**
Gross profit	**288,968**	271,819	**6.3%**
Loss from operations (Note 1)	**(577,638)**	(1,117,190)	**48.3%**
Loss attributable to equity shareholders of the Company	**(673,458)**	(1,109,316)	**39.3%**
Loss per share (RMB cents)			
Basic	**(62.24)**	(102.53)	**39.3%**
Diluted	**(62.24)**	(102.53)	**39.3%**

Note:

(1) Loss from operations for the year ended 31 December 2013 is stated after business restructuring costs of RMB406,098,000 (2012: RMB676,722,000).

The board of directors (the "Directors") of the Company (the "Board") did not recommend the payment of a final dividend for the year ended 31 December 2013.

Five-Year Financial Summary

RESULTS

	For the year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**754,115**	739,132	2,758,142	2,667,978	2,395,038
Gross profit	**288,968**	271,819	890,646	663,203	479,871
Loss from operations	**(577,638)**	(1,117,190)	365,552	255,537	192,385
Loss before taxation	**(652,841)**	(1,177,288)	307,469	210,158	175,257
Loss for the year	**(673,458)**	(1,109,316)	234,377	129,410	117,170

ASSETS AND LIABILITIES

	At 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**374,591**	397,671	320,073	288,076	234,188
Total current assets	**1,067,055**	1,827,321	3,250,963	2,467,260	1,713,000
Total current liabilities	**922,035**	1,318,945	1,514,494	2,250,398	1,608,307
Net current assets	**145,020**	508,376	1,736,469	216,862	104,693
Total assets less current liabilities	**519,611**	906,047	2,056,542	504,938	338,881
Total non-current liabilities	**310,812**	21,053	1,235	2,661	2,005
Net assets	**208,799**	884,994	2,055,307	502,277	336,876
Total equity attributable to equity shareholders of the Company	**208,799**	884,994	2,040,177	487,147	321,746

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual report of NT Pharma for the year ended 31 December 2013.

2013 represented a challenging year for the Group as it was in the process of recovering from the significant financial losses incurred in the previous year. As described in the 2012 annual report, the Group underwent a major restructuring exercise which involved exiting from the low-margin vaccine business, downsizing its vaccine promotion and sales team and terminating certain dermatological products and the over-the-counter ("OTC") business. The restructuring exercise incurred significant amounts of expenses and charges in relation to staff redundancy and impairments of assets, including accounts receivables, inventories, intangible assets, deposits and performance guarantees. Furthermore, during 2013 the operating environment for the pharmaceutical industry continued to face stringent controls imposed by the Chinese government in areas such as manufacturing standards, pricing levels, tendering methods and drug prescriptions.

Despite the afore-mentioned difficulties, the Group began to see encouraging signs of improvements in 2013. Since the beginning of 2013, following its decision to focus on the higher margin pharmaceutical promotion and sales business, the Group has been devoting its resources to specialized, high-end and high-growth therapeutic areas. The Group has identified oncology, anti-infectives and central nervous system ("CNS") as the specialized areas that meet the criteria for future growth. Each of these therapeutic areas has a "flagship" product. Libod and Fortum are the key products for the oncology and anti-infectives businesses, respectively; whilst Shusi, which is produced by the Group's own factory in Suzhou, is the key product for the CNS business. Libod is an oncology drug manufactured by Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd ("FDZH"). There was a shortage of supply of Libod during 2012 when FDZH upgraded its facilities to meet the new standards of Good Manufacturing Practice (the "GMP"). Since FDZH completed its upgrade and resumed normal production of Libod in the last quarter of 2012, sales of Libod has improved steadily in tandem with the lifting of supply constraints. The revenue of Libod increased by 22.1% for the year ended 31 December 2013 compared with the previous year. Fortum is an antibiotic manufactured by GlaxoSmithKline Plc ("GSK") which benefited from a general increase in demand for branded antibiotics by larger hospitals following the implementation of the strict regulations on the prescription of antibiotics issued by the Chinese Ministry of Health in late 2011. The revenue of Fortum increased by 29.7% for the year ended 31 December 2013 compared with the previous year. Shusi, an atypical antipsychotic drug, is a proprietary product manufactured by the Group. The revenue of Shusi decreased by 16.4% for the year ended 31 December 2013 compared with the previous year due to a relatively high stock level in the distribution channels. Sales of Shusi are expected to improve in 2014 when the stock level is consumed. The Group believes that these therapeutic areas and products will form a solid platform for executing its future growth strategies.

Whilst the pharmaceutical promotion and sales business showed improvements during the year ended 31 December 2013, certain outstanding issues relating to the major restructuring exercise in the previous year continued to adversely impact the financial performance of the Group. Vaccine receivables remained the single most significant outstanding issue. As at 31 December 2013, total vaccine receivables before any impairment provision amounted to RMB602.2 million, as compared with RMB670.4 million as at 31 December 2012. In view of the on-going challenges in the debt collection process, the Group made an additional impairment provision of RMB258.2 million against vaccine receivables as at 31 December 2013. In addition, further impairment provisions of RMB70.2 million and RMB32.0 million were made for the vaccine inventory and vaccine guarantee deposits as at 31 December 2013, respectively. Furthermore, an additional impairment provision of RMB45.7 million was made for the inventories of terminated dermatological products as at 31 December 2013 as significant discounts would be required to sell the remaining inventories of these products.

As a result of the foregoing, the Group reported a net loss of RMB673.5 million for the year ended 31 December 2013, narrowing from a net loss of RMB1,109.3 million for the previous year.

Throughout 2013, the Group has strengthened its internal control and credit control systems and procedures with the aim of enhancing management of working capital and cash flow. The Group has also reduced its headcount by 31.0% during 2013 in order to improve staff output efficiency and generate savings in overheads. The Group will continue to strive to identify opportunities in these areas so as to improve the management of the business.

Going forward, NT Pharma will continue to pursue growth through the expansion of its product portfolio by introducing more quality products in the therapeutic areas described above, as well as evaluating products in other therapeutic areas with high-growth opportunities. In particular, the Group intends to seek out opportunities of acquiring the proprietary rights of promising new drugs to build up its future product pipeline. For instance, during 2013 NT Pharma acquired the intellectual property rights including patents, know-how and trademarks in relation to Xi Di Ke (喜滴克), which is the commercial name of an uroacitides injection formula (尿多酸肽注射劑) and a unique national class 1 new drug approved by the State Food and Drug Administration of China (the "SFDA") for the treatment of malignant lung and breast tumors. The Group believes that the acquisition of Xi Di Ke will complement and expand its oncology product portfolio on a long-term basis. The Group is also endeavoring to build up its own research and development capabilities. Recently, the SFDA has granted approval for the commencement of the phase II clinical trial for the treatment of myelodysplastic syndromes ("MDS"), a new indication for Xi Di Ke; as well as approval for a new indication, the treatment of bipolar affective disorder, for Shusi.

Finally, on behalf of the Board, I would like to thank the Directors and the employees of the Group for their efforts and dedications, and the shareholders and business partners for their support during the year. I remain confident that NT Pharma is well-poised to deliver long-term value to the shareholders.

Ng Tit
Chairman and Chief Executive Officer

Hong Kong, 31 March 2014

Management Discussion and Analysis

1. OVERVIEW

NT Pharma is principally engaged in research and development, manufacturing, sales and distribution of pharmaceutical products, as well as the provision of pharmaceutical marketing and promotion services in the People's Republic of China ("China" or "PRC"). The Group's history dates back to 1995 and the Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "HKSE") on 20 April 2011. NT Pharma has an extensive promotion network covering over 4,400 hospitals in China. The Group possesses manufacturing capabilities through its wholly-owned subsidiary, Suzhou First Pharmaceutical Co., Ltd. ("Suzhou First"), which is certified by the new GMP and has obtained approvals from the SFDA for 176 drug registration licences.

The operating environment for NT Pharma remained highly demanding throughout 2013 as the Group strived to implement its new strategy of focusing on high-margin pharmaceutical promotion and sales, expanding its proprietary product portfolio and developing its own research and development capabilities; while continuing to tackle the residual issues of the major group restructuring exercise carried out in 2012. These issues mainly included outstanding vaccine receivables and inventories of vaccines and terminated pharmaceutical products carried forward from 2012. Based on the Group's assessment of the fair carrying values of these items under prevailing conditions as at 31 December 2013, additional impairment provisions of RMB258.2 million, RMB32.0 million, RMB70.2 million and RMB45.7 million were made against vaccine receivables, vaccine guarantee deposits, inventories of vaccines and inventories of terminated pharmaceutical products, respectively. Nevertheless, the core pharmaceutical promotion and sales business of the Group reported improved financial results for the year ended 31 December 2013. The overall revenue of the Group for the year ended 31 December 2013 increased by RMB15.0 million or 2.0% to RMB754.1 million, as compared with RMB739.1 million for the previous year. The net loss of the Group for the year ended 31 December 2013 amounted to RMB673.5 million, as compared with a net loss of RMB1,109.3 million for the previous year.

2. BUSINESS REVIEW

The Group currently operates three major business segments, namely (1) third-party pharmaceutical promotion and sales, (2) proprietary products production and sales, and (3) third-party vaccines and other pharmaceuticals.

Third-party Pharmaceutical Promotion and Sales

Third-party pharmaceutical promotion and sales represents the core business of the Group since the major restructuring exercise described in the 2012 annual report.

During the year ended 31 December 2013, revenue generated by the third-party pharmaceutical promotion and sales segment increased by RMB139.4 million or 29.1% to RMB618.4 million, as compared with RMB479.0 million for the previous year.

The third-party pharmaceutical promotion and sales segment currently covers products in specialized therapeutic areas comprising oncology, anti-infectives and CNS, of which the top two contributors to revenue are Libod and Fortum, an oncology drug manufactured by FDZH and an antibiotic manufactured by GSK, respectively.

The revenue of Libod increased by RMB21.0 million or 22.1% to RMB116.0 million, accounting for 18.8% of the segment's total sales for the year ended 31 December 2013, as compared with RMB95.0 million or 19.8% of the segment's total sales for the previous year. Libod's manufacturer, FDZH, had experienced certain production capacity constraints during 2012 when it upgraded its facilities to meet the new GMP standards. This upgrade was completed in the last quarter of 2012 and sales of Libod increased during 2013 after normal supply resumed.

The revenue of Fortum increased by RMB81.2 million or 29.7% to RMB354.7 million, accounting for 57.4% of the segment's total sales for the year ended 31 December 2013, as compared with RMB273.5 million or 57.1% of the segment's total sales for the previous year. Although during 2012 Fortum had been impacted by the new regulations restricting the prescription of antibiotics issued by the Chinese Ministry of Health in late 2011, which led to a sharp decline in the total sales of antibiotics in China, the new regulations proved to be an effective means of eliminating generic antibiotic products from the market, as many hospitals actually prefer to use products of known quality and reputation in the face of tighter regulations. As such, the sales of Fortum picked up again on the back of an increase in demand for brand-name antibiotics products during 2013.

The Group underwent a critical review and re-assessment of its existing business lines and product portfolio during the second half of 2012 and as a result terminated the OTC business and several dermatological products at the end of that year. Based on the latest market conditions, the Group believed that significant discounts would be required to sell the remaining inventories of the dermatological products and therefore an additional impairment provision of RMB45.7 million was made as at 31 December 2013 for these inventories. Besides the afore-mentioned, the Group did not have any other material inventory related to the terminated dermatological products as at 31 December 2013.

Due to significantly lower restructuring costs for the segment incurred in 2013, the operating loss of the segment amounted to RMB91.0 million for the year ended 31 December 2013, as compared with an operating loss of RMB511.6 million for the previous year.

The Group will strive to continue to expand the size of its sales network and hospital penetration rate and improve the operational efficiency of the segment with an aim to return its financial results into positive territory. As at 31 December 2013, the Group's sales network comprised over 4,400 hospitals, compared with approximately 4,000 hospitals as at 31 December 2012. At the beginning of 2013, the Group consolidated its distributorship network and reduced credit terms of the distributors in order to lower credit risk and improve working capital management. The Group also enhanced staff output by reducing the number of headcount of the third-party pharmaceutical promotion and sales team throughout 2013. As at 31 December 2013, the segment had approximately 320 employees, including sales, marketing and support staff, as compared with approximately 510 employees as at 31 December 2012.

Proprietary Products Production and Sales

Proprietary products of the Group are produced by Suzhou First and comprise Shusi, an atypical antipsychotic drug, as well as a wide range of other drugs. The total revenue of the proprietary products production and sales segment decreased by RMB22.5 million or 15.1% to RMB126.8 million for the year ended 31 December 2013, as compared with RMB149.3 million for the previous year. Of the total segment revenue, the revenue of Shusi decreased by RMB10.5 million or 16.4% to RMB53.6 million due to relatively high stock level in the distribution channels, accounting for 42.3% of the segment's total sales for the year ended 31 December 2013, as compared with RMB64.1 million or 43.0% of the segment's total sales for the previous year. Sales of Shusi are expected to improve in 2014 when the stock level is consumed. Suzhou First had approximately 210 employees as at 31 December 2013, compared with approximately 240 employees as at 31 December 2012.

Third-Party Vaccines and Other Pharmaceuticals

The third-party vaccines and other pharmaceuticals business segment includes sales from vaccine promotion, vaccine supply chain and pharmaceutical supply chain.

With a view to enhancing competitiveness and improving cash flow, the Group began to restructure its business model in the second quarter of 2012 by exiting from its low-margin vaccine business, downsizing its vaccine promotion and sales team and focusing on its pharmaceutical manufacturing, promotion and sales business which has higher margins and returns. As a result, revenue from the third-party vaccines and other pharmaceuticals business segment decreased by RMB102.0 million or 92.0% to RMB8.8 million for the year ended 31 December 2013, as compared with RMB110.8 million for the previous year. The restructuring exercise also incurred total costs of RMB360.4 million which comprised further impairment provisions of vaccine receivables, inventories and guarantee deposits as at 31 December 2013, compared with restructuring costs of RMB516.4 million as at 31 December 2012. As such the operating loss of the segment decreased by RMB86.9 million or 17.6% to RMB407.7 million for the year ended 31 December 2013, as compared with an operating loss of RMB494.6 million for the previous year. The above restructuring costs and operating loss for the third-party vaccines and other pharmaceuticals segment included further impairment loss on trade receivables in relation to the vaccine business. Since deciding to exit from the low-margin vaccine business in the second quarter of 2012 and downsize the vaccine sales and promotion team, the Group has devoted considerable resources to collecting trade receivables related to the vaccine business. However, other than the difficulties encountered in the debt collection process as described in the 2012 annual report, new issues arose during 2013 making the process even more challenging. In particular, China faced a general tightening of liquidity in the second half of 2013 and the government reined in funding for the local Centers for Disease Control and Prevention ("CDCs"), the principal debtors of the Group. Furthermore, although the Group has engaged several specialized debt collection agents and initiated legal proceedings against a number of debtors, the outcome of these actions has thus far been less effective than anticipated. The Group performed further individual credit evaluations on each vaccine debtor's background, financial strengths, repayment status and other specific circumstances as at 31 December 2013 and made additional specific provision accordingly. As a result, the Group incurred an additional impairment provision for vaccine receivables of RMB258.2 million for the year ended 31 December 2013. The net vaccine receivables after impairment no longer constituted a material item on the statement of financial position as at 31 December 2013.

In addition to impairment of accounts receivables, the business restructuring cost for the third-party vaccines and other pharmaceuticals segment for the year ended 31 December 2013 also included impairment provisions for vaccine inventory and for guarantee deposits of RMB70.2 million and RMB32.0 million, respectively. The inventory related to the residual vaccine business which pertained to the Group fulfilling certain contractual procurement obligations with the supplier. As at 31 December 2013, based on the Group's assessment, the selling price of the related vaccine product would most likely need to be significantly discounted for it to be competitive in the market; an additional impairment provision of RMB70.2 million was therefore made for the inventory as at 31 December 2013. Furthermore, an impairment provision of RMB32.0 million was made against the guarantee deposits for the related business. Besides the afore-mentioned, as at 31 December 2013, the Group did not have any other inventory or deposit related to the vaccine promotion and distribution business. As at 31 December 2013, the segment had approximately 30 employees, as compared with approximately 50 employees as at 31 December 2012.

3. PROSPECTS AND OUTLOOK OF THE GROUP

The Chinese government continues to commit resources to and invest in the healthcare sector as part of its long-term healthcare reform plan. Although more stringent regulations may create short-term operating pressures, NT Pharma believes that a better regulated market will ultimately bring opportunities to healthcare companies in China and enable the healthcare industry in China to maintain its growth in the long term. The Group believes that the growth of the healthcare industry in China is supported by a combination of favourable factors, including the size of an increasingly ageing population, the Chinese government's commitment to improving access to healthcare services and better affordability from rising disposable income.

With the Chinese government's continual reforms in the healthcare sector, NT Pharma has redefined its long term growth strategies in accordance with the changing landscape of the industry. In order to enhance the Group's competitiveness and to improve cash flow, NT Pharma implemented a major restructuring of its business units and product lines in 2012, which involved exiting from its vaccine business, downsizing its vaccine promotion and sales team, as well as terminating the underperforming OTC business and dermatological products. Going forward, NT Pharma will continue to refine and reinforce its new strategy of focusing on the pharmaceutical promotion and sales business which includes both third-party and proprietary products, as well as developing its own research and development capabilities. Whilst the Group believes that the existing specialized therapeutic areas of oncology, anti-infectives and CNS will deliver sustainable growth in the long-run, it will also actively identify other specialized, high-end and high-growth therapeutic areas to expand the business. Since the beginning of 2013, NT Pharma has recruited several new senior executives, including a clinical research director who has substantial industry experience with both multi-national and domestic pharmaceutical companies, in order to strengthen the Group's capabilities of evaluating the commercial viability and clinical qualities of new products.

Under the Group's new strategic focus, NT Pharma is particularly interested in searching for opportunities to acquire new proprietary products to enrich its product portfolio. On 20 June 2013, the Group completed the acquisition of the intellectual property rights (including patents, know-how and trademarks) in relation to Xi Di Ke for a consideration of RMB30.5 million from Hefei Yongsheng Pharmaceutical Co. Ltd. Xi Di Ke is a unique national class 1 new drug approved by the SFDA for the treatment of malignant lung and breast tumors. The Group is also actively developing its own research and development capabilities. In the beginning of 2014, the SFDA granted approval for the Group to commence phase II clinical trials for the treatment of MDS, a new indication, for Xi Di Ke. In line with NT Pharma's new strategic focus, the Group believes that the acquisition of Xi Di Ke will not only complement its existing proprietary product portfolio but will also strengthen its product pipeline with Xi Di Ke's potential to treat MDS in the future. The Group launched Xi Di Ke in the market in the second half of 2013. NT Pharma believes that the successful marketing of Xi Di Ke will provide long-term growth for the Group in view of the increasing prevalence of cancer in China.

NT Pharma will continue to strengthen its internal control and credit control systems and procedures so as to improve management of working capital and cash flow. At the same time, the Group will closely monitor the trends of the Chinese pharmaceutical market and the directions of related government policies. NT Pharma remains confident in its ability to overcome these challenges and will continue to bolster its competitive position in the Chinese pharmaceutical market.

4. HUMAN RESOURCES

As at 31 December 2013, the Group had 640 full-time employees (2012: 927 employees). For the year ended 31 December 2013, the Group's total cost on remuneration, welfare and social security amounted to RMB128.2 million (2012: RMB157.1 million).

The remuneration structure of the Group is based on employee performance, local consumption level and prevailing conditions in the human resources market. Directors' remuneration is determined with reference to each Director's experience, responsibilities and prevailing market standards.

5. FINANCIAL REVIEW

Revenue

Total revenue for the year ended 31 December 2013 increased by RMB15.0 million or 2.0% to RMB754.1 million, as compared to RMB739.1 million for the year ended 31 December 2012. The increase was primarily due to the increase in revenue from the third-party pharmaceutical promotion and sales business.

The following table sets forth a breakdown of the Group's revenue by reportable segment for the year ended 31 December 2013:

Breakdown of Reportable Segment Revenue

	For the year ended 31 December				
	2013		2012		
	Revenue RMB'000	**% of total revenue**	Revenue RMB'000	% of total revenue	**% Change**
Third-party pharmaceutical promotion and sales	**618,439**	**82.0%**	478,977	64.8%	**29.1%**
Proprietary products production and sales	**126,836**	**16.8%**	149,326	20.2%	**(15.1)%**
Third-party vaccines and other pharmaceuticals	**8,840**	**1.2%**	110,829	15.0%	**(92.0)%**
Total	**754,115**	**100.0%**	739,132	100.0%	**2.0%**

Revenue from third-party pharmaceutical promotion and sales increased by RMB139.4 million or 29.1% to RMB618.4 million, accounting for 82.0% of total revenue in 2013, as compared with RMB479.0 million or 64.8% of the Group's total revenue for the year ended 31 December 2012. As previously mentioned in this report, the increase in revenue from third-party pharmaceutical promotion and sales was primarily due to an increase in sales of the Group's key products.

Revenue from proprietary products production and sales decreased by RMB22.5 million or 15.1% to RMB126.8 million, accounting for 16.8% of total revenue in 2013, as compared with RMB149.3 million or 20.2% of the Group's total revenue for the year ended 31 December 2012. The decrease in revenue from proprietary products production and sales was primarily due to the decrease in sales of Shusi.

Revenue from third-party vaccines and other pharmaceuticals decreased by RMB102.0 million or 92.0% to RMB8.8 million, accounting for 1.2% of total revenue in 2013, as compared with RMB110.8 million or 15.0% of the Group's total revenue for the year ended 31 December 2012. The decrease in revenue from third-party vaccines and other pharmaceuticals was primarily due to the Group's decision to gradually exit from the vaccine business as well as to downsize its vaccine promotion and sales team.

Cost of Sales

Cost of sales decreased by RMB2.2 million or 0.5% to RMB465.1 million for the year ended 31 December 2013, as compared to RMB467.3 million for the year ended 31 December 2012.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB17.2 million or 6.3% to RMB289.0 million for the year ended 31 December 2013, as compared to RMB271.8 million for the year ended 31 December 2012.

Gross profit margin increased by 1.5 percentage points to 38.3% for the year ended 31 December 2013 as compared to 36.8% for the year ended 31 December 2012.

Segment Operating Loss

Total segment operating loss amounted to RMB480.1 million for the year ended 31 December 2013 as compared to the total segment operating loss of RMB977.8 million for the year ended 31 December 2012.

The following table sets forth a breakdown of the Group's operating (loss) profit by reportable segment for the year ended 31 December 2013:

Breakdown of Reportable Segment Operating (Loss) Profit

	For the year ended 31 December		
	2013	2012	**% Change**
	RMB'000	RMB'000	
Third-party pharmaceutical promotion and sales	**(91,029)**	(511,555)	**82.2%**
Proprietary products production and sales	**18,638**	28,346	**(34.3)%**
Third-party vaccines and other pharmaceuticals	**(407,710)**	(494,556)	**17.6%**
Total	**(480,101)**	(977,765)	**50.9%**

The operating loss of the third-party pharmaceutical promotion and sales segment and of the third-party vaccines and other pharmaceuticals segment for the year ended 31 December 2013 was stated after business restructuring costs of RMB45.7 million and RMB360.4 million respectively. A breakdown of such costs is set forth in the table below:

	Third-party pharmaceutical promotion and sales RMB'000	Third-party vaccines and other pharmaceuticals RMB'000	Total RMB'000
Business restructuring costs:			
Write-down of inventories	(45,665)	(70,216)	(115,881)
Impairment of trade receivables	–	(258,223)	(258,223)
Impairment of deposits and prepayment	–	(31,994)	(31,994)
Total	(45,665)	(360,433)	(406,098)

Finance Costs

The Group's finance costs consist of interest on bank borrowings and bank charges. Finance costs increased by RMB15.1 million or 25.1% to RMB75.2 million for the year ended 31 December 2013, as compared to RMB60.1 million for the year ended 31 December 2012. The increase was mainly due to an increase in long-term debt during the year.

Taxation

Income tax expense was RMB20.6 million for the year ended 31 December 2013 as compared to an income tax credit of RMB68.0 million for the year ended 31 December 2012.

Loss Attributable to Equity Shareholders of the Company

Loss attributable to equity shareholders of the Company for the year ended 31 December 2013 narrowed by RMB435.8 million or 39.3% from a loss of RMB1,109.3 million for the year ended 31 December 2012 to RMB673.5 million, primarily due to significantly lower charges and provisions in respect of the business restructuring described in the foregoing sections of this report, as well as lower selling and distribution expenses.

Basic Loss Per Share

Basic loss per share was RMB62.24 cents for the year ended 31 December 2013, as compared to basic loss per share of RMB102.53 cents for the year ended 31 December 2012.

Capital Expenditure

Total capital expenditure decreased by RMB47.7 million or 72.8% to RMB17.8 million for the year ended 31 December 2013, as compared to RMB65.5 million for the year ended 31 December 2012. The capital expenditure was mainly used for the purchase of production machinery by Suzhou First and intangible assets.

Use of Proceeds from Listing

The shares of the Company were listed on the HKSE on 20 April 2011. The net proceeds received by the Company from the listing amounted to approximately RMB933.8 million. In the listing prospectus of the Company dated 8 April 2011 (the "Prospectus"), it was stated that approximately 25% of the net proceeds would be used for upgrading and expanding its infrastructure, including further investments in the advanced cold-chain technology and equipment. However, as the Group decided to gradually exit from the vaccine business, there would be no further investment in cold-chain technology and equipment. As a result, the Group intends to apply the unutilized amount from "upgrading and expanding its infrastructure, including further investments in the advanced cold-chain technology and equipment" in other areas of development including expanding product portfolio, purchasing imported pharmaceutical products and general working capital.

As at 31 December 2013, the balance of unutilized proceeds amounted to RMB174.8 million and the use of proceeds can be summarized as follows.

	As at 31 December 2013 RMB'000
Expanding distribution network and promotion teams	**98,120**
Infrastructure, IT and logistic	**28,855**
Product portfolio expansion	**214,532**
Purchasing imported vaccines or pharmaceutical products and general working capital	**372,454**
Loan settlement	**45,000**
Total	**758,961**

6. LIQUIDITY AND FINANCIAL RESOURCES

General Policies

The primary objective of the Group's capital management is to maintain the ability to continue as a going concern so that the Group can continue to provide returns for shareholders of the Company and benefits for other stakeholders by pricing products commensurately with the level of risk and by securing access to financing at a reasonable cost. The Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Group is exposed to currency risks primarily through sales and purchases made by the Group's Hong Kong and PRC subsidiaries that are denominated in U.S. dollars, Pounds Sterling and Hong Kong dollars. In addition, certain bank loans are denominated in U.S. dollars and Hong Kong dollars. During the year ended 31 December 2013, the Group recorded a net exchange loss of RMB0.5 million, as compared to a net exchange loss of RMB10.9 million for the year ended 31 December 2012. Presently, the Group does not employ any financial instruments for hedging against the foreign exchange exposure.

Interest Rate Exposure

The Group's interest rate risk arises primarily from bank loans, other loans unsecured debenture and bank balances. Borrowings at variable rates expose the Group to cash flow interest rate risk. Presently, the Group does not employ any financial instruments to hedge against the interest rate exposure.

Group Debt and Liquidity

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Total debt	**(625,030)**	(546,170)
Cash and cash equivalents	**489,302**	648,478
Net (debt) cash	**(135,728)**	102,308

The maturity profile of the Group's borrowings is set out as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Repayable:		
Within 1 year or on demand	**315,089**	526,170
After more than 1 year	**309,941**	20,000
	625,030	546,170

In February 2013, the Group's PRC subsidiary, NT Pharma (Jiangsu) Co., Ltd. (泰凌醫藥（江蘇）有限公司), issued RMB300,000,000 local SME Private Debt, which is regulated and approved by the Shanghai Stock Exchange. The coupon interest rate of the debt is 9.5% per annum. The debt has a maturity period of three years with the debt holder having an option to redeem the debt at face value after two years. The debt is guaranteed by a company controlled by city-level government in the PRC.

Debt-to-Assets Ratio

The Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Group's ability to continue as a going concern.

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Total debt	**625,030**	546,170
Total assets	**1,441,646**	2,224,992
Debt-to-assets ratio	**43.4%**	24.5%

Charges on the Group's Assets

As at 31 December 2013, bank deposits of the Group of RMB260.1 million (31 December 2012: RMB402.4 million) were pledged to the banks to secure certain bank loans and bills payable amounting to a total of RMB459.7 million (31 December 2012: RMB831.7 million). As at 31 December 2013, certain banking facilities of the Group were also secured by the Group's fixed assets, inventories and trade and other receivables which amounted to RMB40.7 million (2012: RMB114.8 million).

Capital Commitments

Capital commitments outstanding at 31 December 2013 not provided for were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Contracted for	**86,300**	9,113

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 1 year	**8,667**	11,033
After 1 year but within 5 years	**2,092**	8,781
	10,759	19,814

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Contingent liabilities

As at 31 December 2013, the Group had no material contingent liabilities.

Corporate Governance Report

The Board is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework for the Company to formulate its business strategies and policies, and manage and lower the associated risks through effective internal control procedures. It will also enhance the transparency of the Company and strengthen the accountability to its shareholders and creditors.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and certain recommended best practices. The Company has complied with all the applicable code provisions in the Code throughout the year ended 31 December 2013, save as disclosed below:

(i) Code provision A.2.1 of the Code, which stipulates that the roles of chairman and chief executive officer should be separated. The chairman and the chief executive officer of the Company is Mr. Ng Tit. Nevertheless, the Board considers that this structure will not impair the balance of power and the authority of the Board.

The Board currently comprises one executive Director, four non-executive Directors and three independent non-executive Directors, with independent non-executive Directors representing approximately 37.5% of the Board, which is higher than one third of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board. Mr. Ng is the main founder of the Group and he is responsible for the overall strategic planning and management of the Group. He has played an important role during the Group's expansion. Mr. Ng has extensive experience in the pharmaceutical industry, having been engaged in the pharmaceutical business for close to 20 years. At present, the Board believes that it is beneficial to the management and development of the Group's businesses for Mr. Ng to be both the chairman and chief executive officer as it helps to facilitate the Board's decision-making.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry to the Directors, it is confirmed that all Directors have complied with the standards as stipulated in the Model Code throughout the year ended 31 December 2013.

NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2013, the Board at all times met Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise and the number of independent non-executive Directors representing at least one third of the Board.

The Company has received annual confirmations from each of the three independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all existing independent non-executive Directors are independent parties in accordance with the independence guidelines set out in the Listing Rules and are free of any relationship that could materially interfere with the exercise of their independent judgments.

THE BOARD

Responsibilities

The Board is responsible for achieving corporate goals, formulating development strategy, reviewing the organizational structure, and monitoring business activities and performance of management so as to protect and maximize the interests of the Company and the shareholders as a whole. Matters relating to the daily operations of the Group are delegated to management. During the year under review, the Board considered and approved the annual budget and its performance under management supervision together with the business reports from management. The Board also reviewed and approved the final results for the year ended 31 December 2013 and other critical business operations. The Board also assessed the internal control and the financial matters of the Group.

Board Composition

The Board currently comprises eight members, including:

Executive Director
Mr. Ng Tit *(Chairman and Chief Executive Officer)*

Non-executive Directors
Ms. Chin Yu
Dr. Qian Wei
Mr. Hung Leung
Mr. Wang Fan

Independent Non-executive Directors
Mr. Patrick Sun
Mr. Yue Nien Martin Tang
Dr. Lap-Chee Tsui

As at the date of this annual report, the Board comprises eight Directors, including one executive Director, four non-executive Directors and three independent non-executive Directors.

The members of the Board possess diverse and rich industry backgrounds with appropriate professional qualifications. Please refer to the section headed – "Directors and Senior Management" for their profiles.

To the best knowledge of the Board, save as disclosed in the section headed "Directors and Senior Management", there is no financial, business, or other material/relevant relationship among members of the Board. Board members are free to exercise their independent judgment.

Under code provision A.4.1 of the Code contained in Appendix 14 of the Listing Rules, non-executive Directors should be appointed for a specific term, subject to re-election. The non-executive Directors are each appointed for terms ranging from one year to three years, subject to re-election when appropriate by the Company in general meeting.

Board Diversity Policy

To demonstrate the Company's continued commitment to high standards of corporate governance, the Board adopted a Board Diversity Policy in August 2013 to comply with the code provision A.5.6 of the Code on board diversity. The policy is as follows:

Purpose

This policy aims to set out the approach to achieve diversity on the Board.

Vision

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

Policy Statement

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merit, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Review of this Policy

The Board will review this policy on a regular basis to ensure its continued effectiveness.

Board Meetings

The Board conducts meetings on a regular basis and on an ad hoc basis, whenever required. The Company will convene at least four regular meetings every year. In 2013, the Company convened four Board meetings. The attendance records of the Board meetings held during the year are set out below:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Executive Director		
Mr. Ng Tit *(Chairman and Chief Executive Officer)*	4/4	100%
Non-Executive Directors		
Ms. Chin Yu	4/4	100%
Dr. Qian Wei	3/4	75%
Mr. Hung Leung	3/4	75%
Mr. Wang Fan	4/4	100%
Independent Non-Executive Directors		
Mr. Yue Nien Martin Tang	4/4	100%
Mr. Patrick Sun	4/4	100%
Dr. Lap-Chee Tsui	4/4	100%

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board committee meetings, reasonable notice is generally given. The agendas and accompanying Board papers were given to all Directors in a timely manner.

All Directors have full and timely access to all relevant information with the advice of the company secretary, to ensure that Board procedures and all applicable rules and regulations are followed. Upon making request to the Board, all Directors may obtain independent professional advice at the Company's expense for carrying out their functions.

The minutes of all Board committee meetings are kept by the Company at its Hong Kong office. Draft and final versions of the minutes are normally circulated to the Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

Training for Directors

For each newly appointed Director, he/she will be provided with an induction course so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

During the year ended 31 December 2013, the Company organized one training session on the topic of inside information for Directors and management of the Company to attend.

A summary of the training attendance record of the Directors for the year ended 31 December 2013 is as follows:

	Inside Information
Executive Director	
Mr. Ng Tit	✓
Non-executive Directors	
Ms. Chin Yu	✓
Dr. Qian Wei	✓
Mr. Hung Leung	✓
Mr. Wang Fan	✓
Independent Non-executive Directors	
Mr. Patrick Sun	✓
Mr. Yue Nien Martin Tang	✓
Dr. Lap-CheeTsui	✓

Directors' and Senior Officers' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to indemnify the Directors and senior officers for their liabilities arising out of corporate activities. For the year ended 31 December 2013, no claim has been made against the Directors and senior officers.

Board Committees

The Board has set up three Board committees, namely, the audit committee, the remuneration committee and the nomination committee (collectively the "Board Committees"), for overseeing particular aspects of the Company's affairs.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

AUDIT COMMITTEE

The Board established the audit committee on 26 March 2011, with written terms of reference in compliance with the Listing Rules. It is chaired by Mr. Patrick Sun and comprises two other members, namely Mr. Yue Nien Martin Tang and Dr. Lap-Chee Tsui, all of whom are independent non-executive Directors.

The primary duties of the audit committee are to make recommendations to the Board on the appointment and removal of the external auditors, review the financial statements, oversee and provide material advice in respect of the financial reporting system, oversee the internal control procedures and perform the corporate governance duties of the Company.

The audit committee is responsible for performing the corporate governance duties including:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
5. to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

During the year ended 31 December 2013, the audit committee convened three meetings:

Name of Directors	**Meeting attendance/ number of meetings**	**Attendance rate (%)**
Mr. Patrick Sun *(Chairman)*	3/3	100%
Mr. Yue Nien Martin Tang	3/3	100%
Dr. Lap-Chee Tsui	3/3	100%

During the year ended 31 December 2013 and up to the date of this report, the audit committee together with the management of the Company reviewed the corporate governance code, the accounting principles and practices adopted by the Group and discussed the Group's internal control and financial reporting matters, including a review of the annual results for the year ended 31 December 2013 and the interim results for the six months ended 30 June 2013, with recommendation to the Board for approval. The audit committee has also recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Crowe Horwath (HK) CPA Limited be re-appointed as the external auditors of the Company.

REMUNERATION COMMITTEE

The Board established the remuneration committee on 26 March 2011, with written terms of reference in compliance with the Listing Rules. Mr. Yue Nien Martin Tang, an independent non-executive Director, is the chairman of the remuneration committee. Mr. Patrick Sun, an independent non-executive Director, and Mr. Ng Tit, an executive Director, are the other two members of the remuneration committee.

The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of Directors and senior management, as well as the retirement scheme and the performance assessment system and bonus and commission policies of the Company.

The remuneration of Directors is based on their skills, knowledge and, performance of the Company, industry benchmarks, and prevailing market conditions.

No Director or senior executive will be involved in any discussion in connection with his or her own remuneration. The remuneration committee may also consult with the chairman on its proposals relating to the remuneration of other executives and Directors and has access to professional advice if required. The main objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high caliber team which is essential to the success of the Company.

During the year ended 31 December 2013, the remuneration committee convened three meetings:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Mr. Yue Nien Martin Tang *(Chairman)*	3/3	100%
Mr. Patrick Sun	3/3	100%
Mr. Ng Tit	2/3	67%

During the year under review, the remuneration committee has reviewed the remuneration policy and structure of the executive Directors and senior management of the Company, and offered advice on the same to the Board.

NOMINATION COMMITTEE

The Board established the nomination committee on 26 March 2011, with written terms of reference in compliance with the Listing Rules. It is chaired by Mr. Ng Tit, an executive Director, and comprises two other members, namely Mr. Patrick Sun and Mr. Yue Nien Martin Tang, both of whom are independent non-executive Directors.

The primary functions of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The duties of the nomination committee also include reviewing the structure, number and composition of the Board; submitting proposals to the Board on the appointment of the chief executive officer; reviewing the independence of the independent non-executive Directors and submitting proposals to the Board. The authority and duties of the nomination committee are clearly sets out in its terms of reference.

During the year ended 31 December 2013, the nomination committee convened one meeting:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Mr. Ng Tit *(Chairman)*	1/1	100%
Mr. Patrick Sun	1/1	100%
Mr. Yue Nien Martin Tang	1/1	100%

During the year under review, the nomination committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, conducted performance evaluations to assess whether the non-executive Directors have spent enough time in fulfilling their duties, assessed the independence of independent non-executive Directors, and kept under review the leadership needs of the organization, both executive and non-executive, with a view to ensuring the continued ability of the organization to compete effectively in the marketplace.

Before appointments are made by the Board, the nomination committee will evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the nomination committee will (where applicable and appropriate):

1. Use open advertising or the services of external advisers to facilitate the search;
2. Consider candidates from a wide range of backgrounds; and
3. Consider candidates on merit and against objective criteria, taking into account the amount of time required to be devoted to the position.

ACCOUNTABILITY

The Directors acknowledge their responsibility to present a balanced, clear and understandable set of consolidated financial statements in each of the annual and interim reports. If the Directors were aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in this Corporate Governance Report.

INTERNAL AUDIT

The Internal Audit ("IA") of the Group is designed to help the Group protect its assets and information. The presence of IA empowers the Group to implement best business practices in challenging business environments. The Group's IA covers a number of in-house procedures and policies including, among others, the relevant financial, operational and compliance controls and risk management procedures. IA carries out systematic independent reviews of all business units and subsidiaries in the Group on an ongoing basis. The frequency of review of individual business unit or subsidiary is determined after an assessment of the risks involved. The audit committee endorses the internal audit plan annually. IA has unrestricted access to all parts of the business, and direct access to any level of management including the chairman, or the chairman of the audit committee, as it considers necessary. The audit result is discussed and agreed with the management of the Group subsequent to each review. A summary of major audit findings together with the actions to be taken by the Group's management for rectifying the control weaknesses is also submitted to the audit committee. The implementation of the remedial actions will then be followed up and the implementation progress will be reported to the audit committee each time it meets.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness. The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material mis-statement or loss and management rather than elimination of risks associated with its business activities. During the year 2013, the Board, through the audit committee, reviewed the effectiveness of the Group's internal control system covering all material controls and risk management functions. The review is conducted annually in accordance with the requirement of the Code. In accordance with the Code requirements, the audit committee also reviewed and was satisfied with the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget for the year ended 31 December 2013. In addition, IA conducts regular and independent reviews of the effectiveness of the Group's internal control system. The audit committee reviews the findings and opinion of IA on the effectiveness of the Group's internal control system and reports to the Board on such reviews. To ensure the highest standard of integrity in our businesses, the Group has adopted a "Code of Conduct" defining the ethical standards expected of all employees. Training courses on the "Code of Conduct" are held regularly for all employees.

The Board is not aware of any significant internal control weaknesses nor significant breach of limits or risk management policies.

INDEPENDENT AUDITORS' REMUNERATION

The Company has appointed Crowe Horwath (HK) CPA Limited as the new auditors of the Company with effect from 10 January 2014 to fill the casual vacancy following the resignation of KPMG and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

During the year ended 31 December 2013, the remunerations paid or payable to the Group's auditors in respect of their audit and non-audit services are as follows:

	For the year ended 31 December 2013
	RMB'000
Audit service	**3,149**
Non-audit services	**23**

COMMUNICATION WITH SHAREHOLDERS

The Company believes that the annual general meeting is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Group's performance. Separate resolutions are proposed for each substantially separate issue at the annual general meeting. In accordance with the Listing Rules, voting by poll is mandatory at all general meetings except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedure or administrative matter to be voted on by a show of hands. The poll results are posted on the websites of "HKExnews" and the Group respectively on the same day of the general meeting.

During the year ended 31 December 2013, an annual general meeting of the Company was held on 21 June 2013 and the attendance record of the Directors is set out below:

	Meeting attendance/number of meetings
Executive Director	
Mr. Ng Tit	1/1
Non-executive Directors	
Ms. Chin Yu	1/1
Dr. Qian Wei (Note 1)	0/1
Mr. Hung Leung (Note 1)	0/1
Mr. Wang Fan (Note 1)	0/1
Independent Non-executive Directors	
Mr. Patrick Sun	1/1
Mr. Yue Nien Martin Tang	1/1
Dr. Lap-Chee Tsui	1/1

Note:

1) Due to other business commitments, Dr. Qian Wei, Mr. Hung Leung and Mr. Wang Fan were unable to attend the annual general meeting of the Company held on 21 June 2013.

FAIR DISCLOSURE

The Company uses its best endeavors to distribute material information about the Group to all interested parties as widely as possible. Information about the Group can be found on the Company's website including descriptions of each business and the interim and annual reports of the Company.

INVESTOR RELATIONS

The Company proactively promotes investor relations and communications by setting up regular meetings between the Company's management and institutional shareholders and analysts. The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In all cases, great care has been taken to ensure that no inside information is disclosed selectively.

The Board is committed to providing clear and full performance information to the Company's shareholders through the publication of interim and annual reports. In addition to dispatching circulars, notices, and financial reports to the Company's shareholders, additional information is available to the shareholders and investors on the Group's website. The Company values feedback from the shareholders regarding its effort to promote transparency and foster investor relationships. Comments and suggestions are welcomed and can be addressed to the investor relations department of the Company by post or by email.

During the year ended 31 December 2013, there was no significant change in the Company's constitutional documents.

FINANCIAL REPORTING

The Directors of the Company acknowledge their responsibility for preparing the financial statements which give a true and fair view of the Group's affairs and of its results and cash flows for the year 2013 in accordance with Hong Kong Financial Reporting Standards, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. The Directors of the Company endeavor to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. The adoption of new or amended accounting standards that became effective during the year has not had a significant impact on the Group's results of operations and financial position except for those disclosed in note 2(c) to the financial statements on pages 58 and 59 of this report. The responsibilities of the external auditors with respect to the audit of financial statements are set out in the Independent Auditor's Report on pages 46 to 48 of this report.

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

COMPANY SECRETARY

The Company engages Ms. Mok Ming Wai, Director of KCS Hong Kong Limited (凱譽香港有限公司), as its company secretary. Her primary corporate contact person at the Company is Mr. Wang Chong Guang Charles, Chief Financial Officer.

In compliance with Rule 3.29 of the Listing Rules, Ms. Mok, has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2013.

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting and Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the amended and restated articles of association of the Company. Pursuant to article 58 of the amended and restated articles of association of the Company, general meetings shall be convened on the written requisition of any one or more members of the Company to the Directors or secretary of the Company deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves may convene the general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

If a member, who is entitled to attend and vote at the relevant general meeting, wishes to nominate a person (not being the nominating member) to stand for election as a Director, he or she should lodge at the principal place of business of the Company in Hong Kong or at the registered office of the Company notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his or her willingness to be so elected and including such person's biographical details and written consent to the publication of his/her personal data. The minimum length of the period, during which such notice(s) are given, shall be at least seven days and that (if the notice(s) are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior the date of such general meeting.

Enquiries to the Board

Enquiries may be put to the Board through the Company's principal place of business in Hong Kong at Unit 1505, 15/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (Email: ir@ntpharma.com).

Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. Ng Tit (吳鐵先生), aged 50, co-founder of the Group, is chairman and has been the chief executive officer since 1995. Mr. Ng was appointed as the Company's executive Director on 1 March 2010. Mr. Ng is responsible for the overall strategic planning and management of the Group. He has extensive experience in the pharmaceutical industry, having been engaged in the pharmaceutical business for over 17 years. Prior to establishing the Group in 1995, Mr. Ng was the deputy general manager of Guiyang Miracle Plaza Hotel (貴陽神奇金築大酒店) from 1988 to 1991. Mr. Ng obtained his bachelor of philosophy from Guizhou University in 1986. In 2007, Mr. Ng obtained an Executive Master of Business Administration ("EMBA") from Fudan University (復旦大學), and was also awarded the Outstanding Dissertation Award by the Department of Management, Fudan University. Mr. Ng is a member of the Tenth Jiangsu Committee of the Chinese People's Political Consultative Conference of the PRC. He is the spouse of Ms. Chin and the brother-in-law of Dr. Qian, who are both non-executive Directors.

NON-EXECUTIVE DIRECTORS

Ms. Chin Yu (錢余女士), aged 50, co-founder of the Group. Ms. Chin was appointed as the Company's non-executive Director on 1 March 2010. Prior to the establishment of the Group, Ms. Chin worked in the Securities Department of Bank of Communications, Guiyang Branch from 1987 to 1993. Ms. Chin graduated from Guiyang Accounting Higher Certification College (貴陽會計專業學校) in 1989 and obtained Accountant Certificate (會計證) in 1992. Ms. Chin is the spouse of Mr. Ng, the chairman and chief executive officer, and the sister of Dr. Qian, a non-executive Director.

Dr. Qian Wei (錢唯博士), aged 57, was appointed as a non-executive Director on 1 March 2010. Dr. Qian is currently a professor of Department of Electrical and Computer Engineering, University of Texas at EL Paso. Dr. Qian was appointed as Allen Henry Professor of Electrical Engineering in the Engineering College, Florida Institute of Technology in 2009. He had previously been an associate professor of Department of Interdisciplinary Oncology at Moffitt Cancer Center, College of Medicine, University of South Florida from 2001 to 2007. Dr. Qian obtained a bachelor's degree in electrical engineering in 1982 and a master degree in electrical engineering in 1985, both from Nanjing University of Post and Telecommunications (南京郵電學院). He also obtained a doctorate degree in engineering from Southeast University (東南大學) in 1990. Dr. Qian is the brother of Ms. Chin, a non-executive Director and the brother-in-law of Mr. Ng, the chairman and chief executive officer.

Mr. Hung Leung (洪亮先生), aged 39, was appointed as a non-executive Director with effect from 30 September 2012. Mr. Hung is an executive director at TPG Growth Capital (Asia) Limited ("TPG") with over 15 years' experience in investment banking and direct investments in Greater China. Since joining TPG in May 2006, Mr. Hung has led a number of investments in China. Prior to joining TPG, Mr. Hung was deputy general manager of business development and executive assistant to the chief executive officer of TOM Group Limited (stock code: 2383), a Chinese language media conglomerate listed on the Main Board of HKSE, where he was responsible for leading and executing media and internet related investments and partnership transactions across Greater China. Mr. Hung started his career in investment banking with Barclays Capital where he took part in the financing and structuring of certain landmark infrastructure deals and pioneer private equity investments for healthcare and internet/broadband companies in China. Mr. Hung holds a bachelor of science degree in business administration (magna cum laude) from the University of Southern California. TPG is a substantial shareholder of the Company in the shares and underlying shares of the Company as recorded in the register to be kept by the Company under Section 336 of Part XV of the Securities and Futures Ordinance.

Mr. Wang Fan (王凡先生), aged 56, was appointed as the Group's non-executive Director on 13 September 2012. Mr. Wang is the director and senior partner of Jiangsu C&T Partners Law Firm. He is also the sixth vice-chairman and executive director of the National Lawyers Association of China, chairman of the Jiangsu Lawyers Association and director of the Jiangsu-Singapore Cooperative Council. Mr. Wang is also an arbitrator of the China International Trade Arbitration Commission (Shanghai) and Nanjing Arbitration Commission, as well as a guest professor at the law schools of Nanjing University, Nanjing Audit University and Renmin University of China. Mr. Wang graduated from the Southwest University of Political Science and Law with a bachelor's degree in law in 1982. Mr. Wang was a military prosecutor from 1982 to 1993 and has been a lawyer in private practice since 1993.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Patrick Sun (辛定華先生), aged 55, was initially appointed as an independent non-executive Director on 1 March 2010 for a term of one year and was subsequently re-appointed on 7 March 2011 after expiry of his term of office. He has been an independent non-executive director of Solomon Systech (International) Limited (stock code: 2878), a company listed on the HKSE, from February 2004 (and its chairman from January 2007), an independent non-executive director of China Railway Group Limited (stock code: 390), a company listed on the HKSE, from August 2007, an independent non-executive director of Trinity Limited (stock code: 891), a company listed on the HKSE, from October 2008, an independent non-executive director of Sihuan Pharmaceutical Holdings Group Ltd. (stock code: 460), a company listed on the HKSE, from October 2010 and an independent director of China CNR Corporation Limited (stock code: 601299), a company listed on the Shanghai Stock Exchange, from February 2012. Prior to that, Mr. Sun was group executive director and head of investment banking for Greater China of Jardine Fleming Holdings Limited between 1996 and 2000, the senior country officer and head of investment banking for Hong Kong J.P. Morgan from 2000 to 2002, and an executive director of SW Kingsway Capital Holdings Limited (stock code: 188), a company listed on the HKSE, between September 2004 and May 2006. He was an executive director and chief executive officer of Value Convergence Holdings Limited (stock code: 821), a company listed on the HKSE, from August 2006 to October 2009. He was a member of the Takeovers & Mergers Panel and the Takeovers Appeal Committee of Securities and Futures Commission, Hong Kong, Deputy Convenor of the Listing Committee of the HKSE and a council member of the HKSE. He also served as Honorary Chief Executive Officer of The Chamber of Hong Kong Listed Companies Limited. Currently, he is the Chairman of The Chamber of Hong Kong Listed Companies. Mr. Sun graduated from the Wharton School of the University of Pennsylvania, the United States, with a bachelor of science in economics degree in 1981. Mr. Sun also completed the Stanford Executive Program of Stanford Business School, the United States, in 2000. Mr. Sun has been a fellow, since April 1992, of the Association of Chartered Certified Accountants (formerly the Chartered Association of Certified Accountants), the United Kingdom, and a fellow of the Hong Kong Institute of Certified Public Accountants (formerly the Hong Kong Society of Accountants) since November 2009.

Mr. Yue Nien Martin Tang (唐裕年先生), aged 64, was initially appointed as an independent non-executive Director on 1 March 2010 for a term of one year and was subsequently re-appointed as an independent non-executive Director on 7 March 2011 after expiry of his term of office. Mr. Tang is also an independent non-executive director of Li & Fung Limited (stock code: 494), a company listed on the HKSE, an independent non-executive director of CEI Contract Manufacturing Limited (stock code: CEI), a company listed on the Singapore Stock Exchange, a director of HK Wuxi Trade Association Limited and a director of ER 2 Holdings Limited. Mr. Tang has extensive recruiting expertise in the public and private sectors, including banking and commerce. Prior to joining the Board, Mr. Tang worked at Spencer Stuart & Associates, a global executive search consulting firm, for 16 years and retired as chairman, Asia in November 2008. Currently, Mr. Tang is a trustee emeritus and Presidential Councillor of Cornell University and a member of the MIT Corporation (2004 to 2009 and 2010 to 2015). He is Vice Chairman of the Council of the Hong Kong University of Science & Technology and a trustee of the Institute of International Education (IIE) in New York. He is a member of the Executive Committee of Junior Achievement Hong Kong and a trustee member of the World Wide Fund for Nature – Hong Kong. Mr. Tang obtained his bachelor of science degree from Cornell University in 1970 and a master's degree of science in Management from the Massachusetts Institute of Technology in 1972.

Dr. Lap-Chee Tsui (徐立之博士), aged 63, was appointed as an independent non-executive Director on 1 April 2010 and was subsequently re-appointed on 1 April 2011. He is the fourteenth Vice-Chancellor of the University of Hong Kong. Prior to his current appointment in 2002, Dr. Tsui was a member of the Research Institute at The Hospital for Sick Children in Toronto, Canada since 1981, rising to Geneticist-in-Chief of the Hospital in 1996 and Head of the Genetics and Genomic Biology Program in 1998; he also held academic appointments at the University of Toronto since 1983, was awarded the title of University Professor in 1994 and has held an Emeritus status since 2006. He was also the President of the Human Genome Organization from 2000 to 2002. Dr. Tsui has received numerous awards for his work, including the Royal Society of Canada Centennial Award in 1989, Gairdner International Award in 1990, Cresson Medal of Franklin Institute in 1992, XII Sanremo International Award for Genetic Research in 1993, the Distinguished Scientist Award from the Medical Research Council, Canada in 2000, Killam Prize of Canada Council in 2002 and the European Cystic Fibrosis Society Award in 2009. He was elected as Fellow of the Royal Society of Canada in 1990, Fellow of the Royal Society of London in 1991, Member of Academia Sinica in 1992, Foreign Associate of the National Academy of Sciences of the US in 2004, and, Foreign Member of the Chinese Academy of Sciences in 2009. Dr. Tsui obtained a bachelor's and master's degree in biology from The Chinese University of Hong Kong in 1972 and 1974 respectively. He also obtained a doctorate degree in biological sciences from the University of Pittsburgh in 1979.

SENIOR MANAGEMENT

Mr. Wang Chong Guang Charles (王重光先生), Chief Financial Officer

Mr. Wang, aged 48, joined the Group in July 2012. He is responsible for the overall financial management and control, accounting, auditing, corporate finance, listing rules compliance and investor relations of the Group. Mr. Wang has more than 20 years of experience in financial management, corporate finance and merger and acquisitions. He joined the Group from Trauson Holdings Company Limited, a manufacturer and distributor of orthopaedic devices in the PRC, a company which was listed on the HKSE, where he had served as the chief financial officer since November 2010. Prior to that, he served as the chief financial officer of Tongjitang Chinese Medicines Company, a pharmaceutical manufacturer and distributor in the PRC which was listed on the New York Stock Exchange, for approximately two years. Prior to that, Mr. Wang served for more than nine years as the chief financial officer of a leading medical services group in the Asia-Pacific region. Mr. Wang had also previously worked for professional accountancy firms in both England and Hong Kong, as well as for the Asia-Pacific headquarters of an industrial conglomerate listed on the London Stock Exchange. Mr. Wang received his bachelor's degree in economics and accountancy from Leeds University in the United Kingdom in 1988 and has been a member of the Institute of Chartered Accountants of England and Wales since 1991.

Mr. Xu Bing (許冰先生), General Manager of NT Pharma (Jiangsu) Co., Limited

Mr. Xu, aged 43, joined the Group in 2007 and has served in various roles including regional sales manager and sales director. He is currently the general manager of one of the Group's wholly-owned subsidiaries, NT Pharma (Jiangsu) Co., Limited, which is the principal entity for the pharmaceutical sales and promotion business of the Group. Mr. Xu has over 18 years of experience in pharmaceutical sales and marketing. Prior to joining the Group, Mr. Xu held sales and marketing positions in a number of local and multi-national companies including Shanghai Institute of Pharmaceutical Industry and Eli Lilly and Company. Mr. Xu obtained his bachelor's degree in applied chemistry from the East China University of Science and Technology in 1992 as well as his bachelor's degree in pharmacy from the Second Military Medical University in 2004.

Mr. Wu Weizhong (吳為忠先生), Director of Suzhou First

Mr. Wu, aged 44, was appointed as the General Manager of Suzhou First, a subsidiary of the Company, in 2006. He is responsible for the overall operation of the Group's manufacturing facilities. Mr. Wu has over 18 years of experience in pharmaceutical manufacturing. Prior to joining the Group, Mr. Wu worked at various positions including engineer, assistant manager and deputy factory manager of Suzhou No. 4 Pharmaceutical Factory from 1992 to 2000. From 2000 to 2005, he was the factory manager of Suzhou First, Mr. Wu obtained a bachelor's degree in Chemical Engineering from Dalian University of Technology in 1992. He also obtained an EMBA from Fudan University in 2004.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Group is mainly engaged in research and development, manufacturing, sales and distribution of pharmaceutical products, as well as the provision of pharmaceutical marketing and promotion services in China.

FINANCIAL RESULTS

The loss of the Group for the year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 49 to 124 of this report.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 5 of this report. This summary does not form part of the audited consolidated financial statements.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2013.

TRANSFER TO RESERVES

Loss attributable to equity shareholders of RMB673.5 million (2012: loss attributable to equity shareholders of RMB1,109.3 million) have been transferred to reserves, and other movements in reserves during the year are set out in the consolidated statement of changes in equity.

FIXED ASSETS

Details of the movements of fixed assets during the year are set out in note 14 to the financial statements.

BORROWINGS AND PLEDGED ASSETS

Particulars of the Group's borrowings and pledged assets are set out in note 25 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29(c) to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the aggregate amount of revenue and purchases attributable to the Group's five largest customers and suppliers represented 58.6% and 93.2% of the Group's total revenue and purchases respectively.

During the year under review, the largest customer accounted for approximately 36.4% of the total revenue and the largest supplier accounted for approximately 34.8% of the total purchases of the Group.

As far as the Company is aware, neither the Directors, their associates, nor those substantial shareholders who are interested in more than 5% of the shares or underlying shares of the Company had any interest in the five largest customers and suppliers of the Group.

DIRECTORS

The Directors who held office during the year ended 31 December 2013 and up to the date of this report are:

Executive Director

Mr. NG Tit *(Chairman and Chief Executive Officer)*

Non-executive Directors

Ms. CHIN Yu
Dr. QIAN Wei
Mr. HUNG Leung
Mr. WANG Fan

Independent Non-executive Directors

Mr. Patrick SUN
Mr. Yue Nien Martin TANG
Dr. Lap-Chee TSUI

Mr. Yue Nien Martin TANG, Mr. Patrick SUN and Dr. Lap-Chee TSUI will retire from office as Directors by rotation at the forthcoming annual general meeting. All of them, being eligible have offered themselves for re-election pursuant to the articles of association of the Company.

Biographical details of the Directors of the Company are set out on pages 32 to 34 of this report.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and the Company still considers such Directors to be independent.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a share option scheme ("Pre-IPO Share Option Scheme") on 7 April 2011. Under the Pre-IPO Share Option Scheme, the Company granted 50,027,881 options before the listing of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company. Up to 31 December 2013, no further option has been granted pursuant to the Pre-IPO Share Option Scheme. A summary of the principal terms and conditions of the Pre-IPO Share Option Scheme is set out in the section headed "Pre-IPO Share Option Scheme" in Appendix VIII of the Prospectus of the Company. A total number of 6,309,067 options were lapsed during the year ended 31 December 2013.

As at 31 December 2013, options to subscribe for an aggregate of 14,272,068 shares of the Company were outstanding and these options relate to the options granted to the following grantees.

Employees of the Company Working under Continuous Contracts other than the Directors

				Number of share options				
	Date of grant	Option period	Exercise price	Balance as at 1/1/2013	Exercised during the year	Lapsed/ cancelled during the year	Balance as at 31/12/2012	Approximate percentage to the issued share capital
Employees	18/9/2009	18/9/2009–18/9/2019	US$0.20	12,395,075	–	4,161,939	8,233,136 (Note 1)	0.76%
	28/1/2010	28/1/2010–28/1/2020	US$0.20	6,262,720	–	1,623,788	4,638,932 (Note 2)	0.43%
	1/3/2010	1/3/2010–1/3/2020	US$0.20	100,000	–	100,000	– (Note 3)	0.00%
	1/7/2010	1/7/2010–1/7/2020	US$0.20	423,340	–	423,340	– (Note 4)	0.00%
	1/9/2010	1/9/2010–1/9/2020	US$0.20	800,000	–	–	800,000 (Note 5)	0.07%
	1/11/2010	1/11/2010–1/11/2020	US$0.20	–	–	–	– (Note 6)	0.00%
	17/12/2010	17/12/2010–17/12/2020	HK$3.178 (Note 8)	600,000	–	–	600,000 (Note 7)	0.06%

Notes:

1) The options are vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 18/9/2010, 18/9/2011 and 18/9/2012, respectively.

2) The options are vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 28/1/2011, 28/1/2012 and 28/1/2013, respectively.

3) The options are vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 1/3/2011, 1/3/2012 and 1/3/2013, respectively.

4) The options are vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 1/7/2011, 1/7/2012 and 1/7/2013, respectively.

5) The options are vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 1/9/2011, 1/9/2012 and 1/9/2013, respectively.

6) The options are vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 1/11/2011, 1/11/2012 and 1/11/2013, respectively.

7) The options are vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 17/12/2011, 17/12/2012 and 17/12/2013, respectively.

8) The exercise price of the options is 70% of the Company's offer price at the initial public offering.

SHARE AWARD SCHEME

With effect from 6 March 2014, the share award scheme (the "Share Award Scheme") of the Company, which was adopted on 11 January 2012, was terminated. No share had been granted nor held by the trustee under the Share Award Scheme since its adoption.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in place during the year ended 31 December 2013.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, during the year under review, neither the Company nor any of its subsidiaries were party to any arrangement which would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. Save as disclosed in this report, none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the shares or debentures of the Company or any other corporate body or had exercised any such right.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION POLICY

The Group's remuneration policy is to compensate its employees based on their performance, qualifications and the Group's operational results.

The emoluments of the Directors and senior management are determined by the remuneration committee with reference to the Group's operational results, their individual performance and prevailing market conditions.

The Company was not aware of any arrangement under which a Director has waived or agreed to waive any emoluments. Details of the remuneration of the Directors are set out in note 9 to the financial statements.

COMPLIANCE OF THE NON-COMPETITION UNDERTAKING

As disclosed in the Prospectus, Mr. Ng Tit, Ms. Chin Yu and Golden Base Investment Limited ("Golden Base") (together, the "Controlling Shareholders") have entered into a non-competition undertaking agreement dated 4 April 2011 in favor of the Company (the "Non-competition Undertaking"), pursuant to which each of them has undertaken to the Company that he/she/it will not, and will procure that his/her/its associates (except any members of the Group) will not, during the restricted period, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business in China or elsewhere in the world which is or may be in competition with our business, and any other business which any member of the Group may undertake from time to time after the listing of the Company's shares.

Each of the Controlling Shareholders had confirmed its/his/her compliance with the Non-Competition Undertaking for the year.

The independent non-executive Directors have reviewed the Controlling Shareholders' compliance with the Non-Competition Undertaking. The independent non-executive Directors confirmed, to the best of their knowledge, that the Controlling Shareholders did not breach the terms of the Non-Competition Undertaking.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 HKSE under the Model Code contained in Appendix 10 to the Listing Rules, were as follows:

1) Long Positions in the Ordinary Shares of the Company

	Number of shares of the Company				Approximate total percentage of interest in
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	the Company
Ng Tit	500,000 (Note 1)	–	505,062,500 (Note 2)	–	46.72%
Chin Yu	500,000 (Note 1)	–	505,062,500 (Note 2)	–	46.72%

Notes:

1) Jointly owned by Mr. Ng Tit and his spouse, Ms. Chin Yu.

2) An aggregate of 505,062,500 shares is beneficially owned by Golden Base. Mr. Ng Tit and Ms. Chin Yu are the controlling shareholders of Golden Base.

2) Long Positions in the Underlying Shares of the Company

Save as disclosed above, as at 31 December 2013, none of the Directors nor the chief executive of the Company or their associates (including their spouses and children under 18 years of age) had any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations, recorded in the register required to be kept under Section 352 of the SFO or required to be notified to the Company and the HKSE under the Model Code contained in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2013, the interests and short positions of the substantial shareholders of the Company (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO were as follows:

Name	Nature of interest	Number of shares (long positions)	Approximate percentage of interest in the Company
Golden Base	Beneficial owner	505,062,500	46.68%
Bonderman David (Note 1)	Deemed interest, interest of controlled company	219,822,000	20.32%
Coulter James G. (Note 1)	Deemed interest, interest of controlled company	219,822,000	20.32%
TPG Group Holdings (SBS) Advisors, Inc. (Note 1)	Deemed interest, interest of controlled company	219,822,000	20.32%
TPG Group Holdings (SBS), L.P. (Note 1)	Deemed interest, interest of controlled company	219,822,000	20.32%
TPG Holdings I, L.P. (Note 1)	Deemed interest, interest of controlled company	219,822,000	20.32%
TPG Holdings I-A, LLC (Note 1)	Deemed interest, interest of controlled company	219,822,000	20.32%
TPG Star GenPar Advisors, LLC. (Note 1)	Deemed interest, interest of controlled company	146,549,000	13.54%
TPG Star GenPar. L.P. (Note 1)	Deemed interest, interest of controlled company	146,549,000	13.54%
TPG Star Jaguar Ltd. (Note 1)	Beneficial owner	146,549,000	13.54%
TPG Star. L.P. (Note 1)	Deemed interest, interest of controlled company	146,549,000	13.54%

Name	Nature of interest	Number of shares (long positions)	Approximate percentage of interest in the Company
TPG Biotech III Jaguar Ltd. (Note 1)	Beneficial owner	73,273,000	6.77%
TPG Biotechnology GenPar III Advisors, LLC (Note 1)	Deemed interest, interest of controlled company	73,273,000	6.77%
TPG Biotechnology GenPar III, L.P. (Note 1)	Deemed interest, interest of controlled company	73,273,000	6.77%
TPG Biotechnology Partners III, L.P. (Note 1)	Deemed interest, interest of controlled company	73,273,000	6.77%

Note:

1) Such shares refer to the same batch of shares.

Save as disclosed above, as at 31 December 2013, the Company had not been notified by any other parties (other than the Directors and chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2013.

CHANGES IN THE BOARD OF DIRECTORS

There were no changes in the Board since the date of the Company's 2013 interim report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2013.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 33 to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules but are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33 of the Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and to the best knowledge of the Board, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules and certain recommended best practices. The Company has complied with all the applicable code provisions in the CG Code throughout the year ended 31 December 2013 except for the deviation from code provision A.2.1 of the CG Code, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Tit assumes both the roles of chairman and chief executive officer of the Company. Nevertheless, the division of responsibilities between the two roles are clearly defined. On the whole, the role of chairman is that of monitoring the duties and performance of the Board, whereas the role of chief executive officer is that of managing the Company's business. The Board believes that at the current stage of development of the Company, vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board currently comprises one executive Director, four non-executive Directors and three independent non-executive Directors, with the independent non-executive Directors representing approximately 37.5% of the Board,which is higher than one third of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. On specific enquiries made, all Directors have confirmed that they have complied with the standards as stipulated in the Model Code throughout the year ended 31 December 2013.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors. The Company considers each of the independent non-executive Directors to be independent.

AUDITORS

KPMG, who acted as the auditors of the Company for last financial year resigned as the auditors of the Company on 10 January 2014. Crowe Horwath (HK) CPA Limited was appointed as the new auditors of the Company on 10 January 2014 to fill the causal vacancy and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

The consolidated financial statements set out in this report were audited by Crowe Horwath (HK) CPA Limited, who will retire and being eligible, offered themselves for re-election. A resolution for the re-appointment of Crowe Horwath (HK) CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

Ng Tit
Chairman

Hong Kong, 31 March 2014

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

Independent auditor's report to the shareholders of
China NT Pharma Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China NT Pharma Group Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 124, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 the 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.

Basis for qualified opinion

On 28 March 2013, the predecessor auditor issued a report on the consolidated financial statements of the Group for the year ended 31 December 2012 which contained a qualification on their inability to evaluate the appropriateness of management's assessment and basis of judgement on the recoverability of trade receivables of the Group's vaccine business under restructuring as more fully disclosed in Note 1 and Note 13(c) to the consolidated financial statements, for which an impairment provision of RMB343,933,000 was made against the total trade receivable of RMB670,414,000. As a result, they were unable to satisfy themselves regarding the valuation of the trade receivable balance related to the vaccine business as at 31 December 2012 of RMB326,481,000.

At 31 December 2013, as further disclosed in Note 20 to the consolidated financial statements, the Group had fully impaired all those outstanding trade receivable balances of the vaccine business, which were brought forward from 31 December 2012, by making an additional impairment provision of RMB258,223,000 charged to the consolidated income statement for the year ended 31 December 2013.

Since we are unable to obtain sufficient information to evaluate the appropriateness of management's assessment and basis of judgement on the recoverability of trade receivables of the Group's vaccine business as at 31 December 2012, we are unable to assess whether or not the impairment provisions charged to the consolidated income statement for the year ended 31 December 2012 and 2013 are appropriate. Any adjustments to account for the impairment provision made in last year ended 31 December 2012 would have a consequential effect on the results of the Group for the current year ended 31 December 2013.

Qualified opinion

In our opinion, except for the effects of such adjustment, if any, on the results of the Group as might have been determined to be necessary had we been able to satisfy ourselves as to the matter set out in the basis for qualified opinion paragraph above, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matter

The consolidated financial statements for the year ended 31 December 2012 were audited by another auditor who expressed a qualified opinion on 28 March 2013 on matter as set out in the above basis for qualified opinion paragraph.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2014

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	4	**754,115**	739,132
Cost of sales		**(465,147)**	(467,313)
Gross profit		**288,968**	271,819
Other revenue	5	**25,258**	8,776
Other net loss	6	**(17,053)**	(11,940)
Fair value loss on embedded derivatives of unsecured debenture	26(b)	**(1,691)**	–
Selling and distribution expenses		**(375,807)**	(579,826)
Administrative expenses		**(91,215)**	(129,297)
Business restructuring costs	13(c)	**(406,098)**	(676,722)
Loss from operations		**(577,638)**	(1,117,190)
Finance costs	7(a)	**(75,203)**	(60,098)
Loss before taxation	7	**(652,841)**	(1,177,288)
Income tax (expense)/credit	8(a)	**(20,617)**	67,972
Loss for the year		**(673,458)**	(1,109,316)
Attributable to:			
Equity holders of the Company		**(673,458)**	(1,109,316)
Non-controlling interests		**–**	–
Loss for the year		**(673,458)**	(1,109,316)
Loss per share	12		
Basic		**(62.24) cents**	(102.53) cents
Diluted		**(62.24) cents**	(102.53) cents

The notes on pages 57 to 124 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013
(Expressed in Renminbi)

	2013 RMB'000	2012 RMB'000
Loss for the year	**(673,458)**	(1,109,316)
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC")	**(2,941)**	2,508
Total comprehensive income for the year	**(676,399)**	(1,106,808)
Attributable to:		
Equity shareholders of the Company	**(676,399)**	(1,106,808)
Non-controlling interests	**–**	–
Total comprehensive income for the year	**(676,399)**	(1,106,808)

The notes on pages 57 to 124 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013

(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Fixed assets			
– Property, plant and equipment	14	**189,189**	233,749
– Interests in leasehold land held for own use under operating leases	14	**14,818**	30,950
		204,007	264,699
Intangible assets	15	**44,821**	23,014
Prepayments	16	**16,000**	21,560
Goodwill	17	**–**	–
Deferred tax assets	27(b)	**109,763**	88,398
		374,591	397,671
Current assets			
Inventories	19	**132,409**	242,920
Trade and other receivables	20	**298,230**	935,923
Designated loans	21	**147,114**	–
Pledged bank deposits	22	**260,063**	402,448
Cash at banks and in hand	23	**229,239**	246,030
		1,067,055	1,827,321
Current liabilities			
Trade and other payables	24	**576,116**	781,299
Bank loans	25	**285,457**	526,170
Unsecured debentures	26	**29,632**	–
Current taxation	27(a)	**30,830**	11,476
		922,035	1,318,945
Net current assets		**145,020**	508,376

The notes on pages 57 to 124 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

At 31 December 2013

(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Total assets less current liabilities		**519,611**	906,047
Non-current liabilities			
Unsecured debentures	26	**309,941**	20,000
Deferred tax liabilities	27(b)	**871**	1,053
NET ASSETS		**208,799**	884,994
CAPITAL AND RESERVES			
Share capital	29(c)	**1**	1
Reserves		**208,798**	884,993
Total equity attributable to equity holders of the Company		**208,799**	884,994
Non-controlling interests		**–**	–
TOTAL EQUITY		**208,799**	884,994

Approved and authorised for issue by the board of directors on 31 March 2014.

Ng Tit
Chairman and Chief Executive Officer

Chin Yu
Director

The notes on pages 57 to 124 form part of these financial statements.

Statement of Financial Position

At 31 December 2013

(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Interests in subsidiaries	18	**123,842**	776,785
Current assets			
Other receivables	20	**541**	463
Cash at banks and in hand	23	**48,909**	69,478
		49,450	69,941
Net current assets		**49,450**	69,941
NET ASSETS		**173,292**	846,726
CAPITAL AND RESERVES	29(a)		
Share capital		**1**	1
Reserves		**173,291**	846,725
TOTAL EQUITY		**173,292**	846,726

Approved and authorised for issue by the board of directors on 31 March 2014.

Ng Tit
Chairman and Chief Executive Officer

Chin Yu
Director

The notes on pages 57 to 124 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(Expressed in Renminbi)

	Attributable to equity holders of the Company										
	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d)(i))	Exchange reserve RMB'000 (Note 29(d)(ii))	Statutory reserve RMB'000 (Note 29(d)(iii))	Merger reserve RMB'000 (Note 29(d)(iv))	Other reserve RMB'000 (Note 29(d)(v))	Capital reserve RMB'000 (Note 29(d)(vi))	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2012	1	933,786	39,744	88,003	8,256	383,379	38,950	548,058	2,040,177	15,130	2,055,307
Loss for the year	–	–	–	–	–	–	–	(1,109,316)	(1,109,316)	–	(1,109,316)
Other comprehensive income	–	–	2,508	–	–	–	–	–	2,508	–	2,508
Total comprehensive income	–	–	2,508	–	–	–	–	(1,109,316)	(1,106,808)	–	(1,106,808)
Acquisition of non-controlling interests (Note 18(ii))	–	–	–	–	–	(44,870)	–	–	(44,870)	(15,130)	(60,000)
Equity-settled share-based transactions	–	–	–	–	–	–	(3,553)	–	(3,553)	–	(3,553)
Share options exercised	–	86	–	–	–	–	(38)	–	48	–	48
Forfeiture of vested share options	–	–	–	–	–	–	(12,292)	12,292	–	–	–
Appropriation to statutory reserve	–	–	–	203	–	–	–	(203)	–	–	–
Balance at 31 December 2012	1	933,872	42,252	88,206	8,256	338,509	23,067	(549,169)	884,994	–	884,994
Balance at 1 January 2013	1	933,872	42,252	88,206	8,256	338,509	23,067	(549,169)	884,994	–	884,994
Loss for the year	–	–	–	–	–	–	–	(673,458)	(673,458)	–	(673,458)
Other comprehensive income	–	–	(2,941)	–	–	–	–	–	(2,941)	–	(2,941)
Total comprehensive income	–	–	(2,941)	–	–	–	–	(673,458)	(676,399)	–	(676,399)
Equity-settled share-based transactions	–	–	–	–	–	–	204	–	204	–	204
Forfeiture of vested share options	–	–	–	–	–	–	(8,416)	8,416	–	–	–
Balance at 31 December 2013	1	933,872	39,311	88,206	8,256	338,509	14,855	(1,214,211)	208,799	–	208,799

The notes on pages 57 to 124 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 RMB'000
Operating activities			
Loss before taxation		**(652,841)**	(1,177,288)
Adjustments for:			
Depreciation	7(c)	**17,681**	17,501
Amortisation of lease prepayments	7(c)	**689**	763
Amortisation of intangible assets	7(c)	**8,712**	9,360
Impairment of intangible assets	15	**–**	17,000
Impairment of goodwill	17	**–**	1,250
Write-down of inventories	19(b)	**160,168**	120,619
Impairment of trade receivables	20(b)	**264,863**	433,423
Reversal of impairment for trade receivables	20(b)	**(22,185)**	–
Fair value loss on embedded derivatives of unsecured debenture	26(b)	**1,691**	–
Impairment of deposits and prepayments	20(d)	**31,994**	141,963
Finance costs	7(a)	**75,203**	60,098
Bank interest income	5	**(9,852)**	(6,426)
Interest income on designated loans		**(12,114)**	–
Net loss on disposal of property, plant and equipment	6	**16,555**	1,041
Equity-settled share-based payment expenses	7(b)	**204**	(3,553)
Net foreign exchange loss		**648**	2,390
Changes in working capital:			
Increase in inventories		**(49,657)**	(7,865)
Decrease in trade and other receivables		**331,873**	681,043
Decrease in trade and other payables		**(174,683)**	(115,236)
Increase in pledged bank deposits for issuing bills payable		**(4,615)**	(110,345)
Cash (used in)/generated from operations		**(15,666)**	65,738
Tax paid			
– Hong Kong Profits Tax paid		**–**	(8,467)
– PRC Income Tax paid		**(22,814)**	(64,113)
Net cash used in operating activities		**(38,480)**	(6,842)

The notes on pages 57 to 124 form part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Investing activities			
Payment for purchases of property, plant and equipment		**(8,324)**	(43,354)
Payment of purchase of lease prepayments		**(801)**	–
Payment for purchase of intangible assets		**(8,992)**	(548)
Proceeds from disposal of property, plant and equipment		**34,037**	–
Interest received		**9,852**	6,426
Prepayment for establishment of an associate/acquisition of intangible asset	16	**(16,000)**	(21,560)
Increase in designated loans	21	**(135,000)**	–
Net cash used in investing activities		**(125,228)**	(59,036)
Financing activities			
Proceeds from new bank loans		**53,301**	1,016,351
Proceeds from issuance of unsecured debenture	26	**288,250**	20,000
Repayment of bank loans		**(294,014)**	(1,016,434)
Payment for acquisition of non-controlling interests	18(ii)	**–**	(60,000)
Interest paid		**(45,571)**	(59,098)
Proceeds from issuance of shares pursuant to share option scheme		**–**	54
Proceeds from factoring bank accepted bills derived from intra-group transactions	24(a)	**–**	217,080
Decrease/(increase) in pledged bank deposits as collateral for bank loans		**147,000**	(180,000)
Net cash generated from/(used in) financing activities		**148,966**	(62,047)
Net decrease in cash and cash equivalents		**(14,742)**	(127,925)
Cash and cash equivalents at 1 January		**246,030**	373,755
Effect of foreign exchange rate changes		**(2,049)**	200
Cash and cash equivalents at 31 December	23	**229,239**	246,030

The notes on pages 57 to 124 form part of these financial statements.

1. PRINCIPAL ACTIVITIES OF REPORTING ENTITY

The Company was incorporated in the Cayman Islands on 1 March 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 33 of 1961, as consolidated and revised) of the Cayman Islands.

The Group is principally engaged in research and development, manufacturing, sales and distribution of pharmaceutical and vaccine products and the provision of marketing and promotion services to suppliers in PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in the PRC, in which the majority of the group entities operate (i.e. the functional currency of group entities).

With a view to enhancing the Group's competitiveness and improving its cash flow, the Group has been restructuring its business model since 2012. In the second quarter of 2012, the Group decided to gradually exit from the low-margin vaccine business and downsized its vaccine sales and promotion team. In the last quarter of 2012, the Group further decided to terminate the OTC business and dermatological product line in light of a continuing decrease in gross margins of these products and challenging operating environment. During the year, the Group focused on promoting and distributing third-party and self-produced proprietary pharmaceutical products with higher margins and investment returns. The financial impact of the business restructuring is summarised in note 13(c).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 include the financial position and results of operation of the Company and its subsidiaries.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis, except for the embedded derivatives on unsecured debenture, which is stated at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

The preparation of the financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

Amendments to HKAS 1	Presentation of financial statements – Presentation of items of other comprehensive income
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Revised HKAS 19	Employee benefits
Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1- Presentation of financial statements-Presentation of items of other comprehensive income.

The amendments require the entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

HKFRS 10- Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation-Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12- Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 18.

HKFRS 13- Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 30(e). The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented. These amendments do not have any material impact on the results of operations and financial position of the Group for the years presented.

Amendments to HKFRS 7- Disclosures- Offsetting financial assets and financial liabilities

The amendments include new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments are set off in accordance with HKAS 32.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

Amendments to HKFRS 7- Disclosures- Offsetting financial assets and financial liabilities (Continued)

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (note 2(j)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2(j)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (note 2(j)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

–	Plant and machinery	5 – 20 years
–	Leasehold improvements	Over the term of lease
–	Furniture, fixtures and office equipment	3 – 5 years
–	Motor vehicles	3 – 5 years

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(g) Construction in progress

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated in the consolidated statement of financial position at cost less impairment losses (note 2(j)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent that these are regarded as an adjustment to borrowing costs (note 2(v)).

Construction in progress is not depreciated until such time as the assets are completed and substantially ready for their intended use.

(h) Intangible assets (other than goodwill)

(i) Trademarks

Trademarks that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(j)). Amortisation of trademarks is charged to profit or loss on a straight line basis over a period of 10 years.

(ii) New medicine protection rights

New medicine protection rights that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(j)). Amortisation of new medicine protection rights is charged to profit or loss on a straight line basis over the rights protection period.

(iii) Good Supply Practices ("GSP") licences

GSP licences that are acquired by the Group with indefinite useful lives are stated in the consolidated statement of financial position at cost less impairment losses (note 2(j)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (other than goodwill) (Continued)

(iv) Exclusive agency rights

Exclusive agency rights that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(j)). Amortisation of exclusive agency rights is charged to profit or loss on a straight line basis over the agency period ranging from 4 to 10 years.

(v) Club memberships

Club memberships that are acquired by the Group are stated in the consolidated statement of financial position at cost less impairment losses (note 2(j)).

(vi) Computer software

Computer software that is acquired by the Group is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(j)). Computer software is amortised over its estimated useful life of 5 to 10 years.

(vii) Intellectual property rights

Intellectual property rights that are acquired by the Group is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(j)). Amortisation of intellectual property rights is charged to profit or loss on a straight line basis over a period of 6 years.

Both the period and basis of amortisation of all intangible assets are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives as set out above.

(i) Leased assets

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Leased assets (Continued)

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(j) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the impairment loss is determined and recognised as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and trade and other receivables (Continued)

– For trade and other receivables carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– construction in progress;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (notes 2(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions under which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax

Income tax expense comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

(i) in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

(ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either

– the same taxable entity; or

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

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service income

Service income is recognised when the relevant services are rendered.

(iii) Subsidy income

Subsidy income from government is recognised in the statement of financial position initially when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Subsidy income that compensates the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with a functional currency other than Renminbi, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

(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 employees of either the Group or an entity related to the Group.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. Notes 15, 17 and 28 contain information about the assumptions and their risk factors relating to impairment of intangible assets and goodwill and the valuation of share options granted. Other key sources of estimation uncertainty in the preparation of the financial statements are as follows:

(a) Impairment of non-current assets

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected cash flows to be generated by the asset are discounted to their present value. Estimation of future cash flows requires significant judgement relating to the future level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions relating to projections of sales volumes, sales revenue and amount of operating costs.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Depreciation and amortisation

Fixed assets are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Both the useful lives and method of amortisation are reviewed annually. Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

(c) Allowance for bad and doubtful debts

The Group evaluates whether there is any objective evidence that trade and other receivables are impaired as a result of the inability of the customers to make the required payments. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at an initial recognition of these assets), where the effect of discounting is material. The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. The assessment is then made collectively for financial assets carried at amortised cost which are not individually significant but share similar credit risk characteristics, and have not been individually assessed as impaired. Future cash flows of financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective asset group, and ageing profile of the collective asset group.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Allowance for bad and doubtful debts (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature.

Net realisable value could change significantly as a result of changes in customer preferences and competitor actions in response to market conditions. Management reassesses these estimates at the end of each reporting period.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for deductible temporary differences and tax losses only to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. As a result, management's judgement is required to assess the probability of future taxable profits. Management reassesses these estimates at the end of each reporting period.

(f) Functional currency

The Company is carrying out its operating activities and making management decisions in Hong Kong and has significant degree of autonomy from its foreign subsidiaries in the way its business is managed. In the opinion of the directors of the Company, the functional currency of the Company is Hong Kong dollars.

4. TURNOVER AND REVENUE

The principal activities of the Group are research and development, manufacturing, sales and distribution of pharmaceutical and vaccine products and provision of marketing and promotion services to suppliers.

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax, commercial discounts and sales returns). The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2013	2012
	RMB'000	RMB'000
Sales of pharmaceutical and vaccine products	613,931	665,319
Service income	140,184	73,813
	754,115	739,132

Sales of pharmaceutical and vaccine products are derived from selling pharmaceutical and vaccine products through the Group's three reportable segments as discussed in note 13, whereas service income represents fees received/receivable from the provision of marketing and promotion services by the Group.

5. OTHER REVENUE

	2013	2012
	RMB'000	RMB'000
Interest income on designated loans	12,114	–
Bank interest income	9,852	6,426
Government subsidy income	2,614	2,126
Sundry income	678	224
	25,258	8,776

6. OTHER NET LOSS

	2013	2012
	RMB'000	RMB'000
Net loss on disposal of property, plant and equipment	(16,555)	(1,041)
Net exchange loss	(498)	(10,899)
	(17,053)	(11,940)

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	2013	2012
	RMB'000	RMB'000
Interest on bank and other borrowings	**70,324**	52,218
Bank charges	**4,879**	7,880
Total finance costs	**75,203**	60,098

(b) Staff costs

	2013	2012
	RMB'000	RMB'000
Contributions to defined contribution retirement plans	**24,505**	22,079
Salaries, wages and other benefits	**103,489**	138,576
Equity-settled share-based payment expenses	**204**	(3,553)
	128,198	157,102

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement schemes (the "Schemes") organised by the relevant local authorities whereby the PRC subsidiaries are required to make contributions to the Schemes at rates which range from 13.5% to 22% (2012: 13.5% to 22%) of the eligible employees' salaries during the year. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% (2012: 5%) of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (2012: HK$20,000). Contributions to the MPF scheme vest immediately.

The Group has no other material obligation for payment of pension benefits beyond the annual contributions described above.

7. LOSS BEFORE TAXATION (CONTINUED)

(c) Other items

	Note	2013 RMB'000	2012 RMB'000
Depreciation of property, plant and equipment	14	**17,681**	17,501
Amortisation of lease prepayments	14	**689**	763
Amortisation of intangible assets	15	**8,712**	9,360
Asset impairment losses:			
– exclusive agency right	15	**–**	17,000
– goodwill	17	**–**	1,250
– inventories	19(b)	**160,168**	120,619
– trade debtors	20(b)	**264,863**	433,423
– deposits and prepayments	20(d)	**31,994**	141,963
Auditors' remuneration:			
– audit services			
– provision for the year		**1,440**	2,980
– under provision in prior year		**1,709**	–
– non-audit services		**23**	71
Operating lease charges in respect of properties		**12,162**	13,270
Cost of inventories sold	19(b)	**465,147**	434,000
Reversal of impairment for trade debtors	20(b)	**(22,185)**	–

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2013 RMB'000	2012 RMB'000
Current tax – PRC Income Tax		
Provision for the year	**45,111**	3,172
Over provision in respect of prior years	**(2,947)**	(4,755)
	42,164	(1,583)
Deferred tax		
Origination and reversal of temporary differences	**(21,547)**	(66,389)
Income tax expense/(credit)	**20,617**	(67,972)

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

(b) Reconciliation between actual income tax expense/(credit) and loss before taxation at applicable tax rates:

	2013 RMB'000	2012 RMB'000
Loss before taxation	**(652,841)**	(1,177,288)
Notional tax on loss before taxation, calculated at the tax rates applicable rates in the jurisdictions concerned (notes (i) and (ii))	**(157,841)**	(292,695)
Tax effect of non-deductible expenses	**37,431**	11,366
Tax effect of non-taxable income	**(12)**	(89)
Tax effect of unused tax losses not recognised	**110,620**	141,650
Tax effect of other temporary differences not recognised	**24,399**	65,601
Tax effect of derecognising prior years' tax losses in the current year	**–**	10,950
Reversal of previously recognized deferred tax assets	**8,967**	–
Over provision in respect of prior years	**(2,947)**	(4,755)
Actual income tax expense/(credit)	**20,617**	(67,972)

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) The Company's subsidiaries in the Hong Kong Special Administrative Region are subject to Hong Kong Profits Tax at tax rate of 16.5% (2012: 16.5%). No income tax provision is made for the Hong Kong subsidiaries for the year ended 31 December 2013, as these subsidiaries either derived no income subject to Hong Kong Profits Tax or sustained tax losses for Hong Kong Profits Tax purposes.

The Company's subsidiaries in PRC are subject to a statutory income tax rate of 25% (2012: 25%).

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2013

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses (note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Ng Tit	–	3,866	1,446	–	–	5,312
Non-executive directors						
Chin Yu	–	–	–	–	–	–
Qian Wei	–	–	–	–	–	–
Wang Fan ^	188	–	–	–	–	188
Hung Leung ^	–	–	–	–	–	–
Independent non-executive directors						
Patrick Sun	197	–	–	–	–	197
Yue Nien Martin Tang	197	–	–	–	–	197
Lap-Chee Tsui	197	–	–	–	–	197
Total	779	3,866	1,446	–	–	6,091

9. DIRECTORS' REMUNERATION (CONTINUED)

Year ended 31 December 2012

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses (note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Ng Tit	–	4,000	–	11	–	4,011
Ng Yuk Keung *	338	540	1,490	5	(2,616)	(243)
Non-executive directors						
Chin Yu	–	–	–	–	–	–
Qian Wei	–	–	–	–	–	–
Stephen Cheuk Kin Law *	–	–	–	–	–	–
Wang Fan ^	65	–	–	–	–	65
Hung Leung ^	–	–	–	–	–	–
Independent non-executive directors						
Patrick Sun	203	–	–	–	–	203
Yue Nien Martin Tang	203	–	–	–	–	203
Lap-Chee Tsui	203	–	–	–	–	203
Total	1,012	4,540	1,490	16	(2,616)	4,442

* Mr. Ng Yuk Keung resigned on 1 July 2012 and Mr. Stephen Cheuk Kin Law resigned on 30 September 2012.

^ Mr. Wang Fan and Mr. Hung Leung were appointed as non-executive directors on 13 September 2012 and 30 September 2012 respectively.

Note: These represent the estimated value of share options granted to the directors on the date of grant. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(ii).

During the years ended 31 December 2013 and 2012, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 1 Director (2012: 2 Directors) of the Company for the year ended 31 December 2013, whose emoluments are disclosed in note 9. The emoluments in respect of the remaining 4 individuals (2012: 3 individuals) are as follows:

	2013	2012
	RMB'000	RMB'000
Salaries and other emoluments	**6,173**	5,026
Retirement scheme contributions	**147**	177
Equity-settled share-based payment expenses	**–**	626
	6,320	5,829

The above individuals' emoluments are within the following bands:

	2013	2012
	Number of individuals	Number of individuals
HK$500,001 to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$2,500,000	**2**	2

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of RMB672,132,000 (2012: loss of RMB460,574,000) which has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to the equity shareholders of the Company for the year ended 31 December 2013 of RMB673,458,000 (2012: RMB1,109,316,000) and the weighted average number of ordinary shares of the Company in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	2013 **Number of shares** **'000**	2012 Number of shares '000
At 1 January	**1,081,957**	1,081,917
Effect of shares issued upon exercise of share options	**–**	30
At 31 December	**1,081,957**	1,081,947

(b) Diluted loss per share

No adjustment for share options was made in calculating diluted loss per share for both years as the conversion of share options would result in decrease in loss per share. Accordingly, the diluted loss per share is the same as basic loss per share for both years.

13. SEGMENT REPORTING

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments:

– Third-party pharmaceutical promotion and sales: turnover is derived from selling and marketing third-party manufactured pharmaceutical products to customers and providing marketing and promotion services.

– Proprietary products production and sales: turnover is derived from production and sales of NT branded products and generic drugs through the Company's subsidiary, Suzhou First Pharmaceutical Co., Ltd.

– Third-party vaccines and other pharmaceuticals: this segment includes sales from vaccine promotion, vaccine supply chain and pharmaceutical supply chain. For supply chain business, the turnover is derived from supply chain services for pharmaceutical/vaccine products sold through the Group's supply chain network. Promotion activities of such products are carried out by suppliers but not the Group.

The Group's revenue and profit/loss are derived from sales in the PRC and the principal operating assets employed by the Group are located in the PRC, except that an office property with net book value of RMB25,303,000 as at 31 December 2013 (2012: RMB26,756,400) is located in Hong Kong. Accordingly, no geographical information has been presented.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred specifically by those segments.

The measure used for reporting segment profit/loss is "operating profit/loss" which is the profit/loss from operations adjusted for items not specifically attributed to individual segments, such as other revenue, other net income/loss, head office or corporate administration expenses.

13. SEGMENT REPORTING (CONTINUED)

(a) Segment results (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

	Third-party pharmaceutical promotion and sales		Proprietary products production and sales		Third-party vaccines and other pharmaceuticals		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Reportable segment revenue	**618,439**	478,977	**126,836**	149,326	**8,840**	110,829	**754,115**	739,132
Cost of sales	**(387,995)**	(330,784)	**(65,010)**	(76,702)	**(12,142)**	(59,827)	**(465,147)**	(467,313)
Reportable segment gross profit	**230,444**	148,193	**61,826**	72,624	**(3,302)**	51,002	**288,968**	271,819
Reportable segment operating (loss)/profit	**(91,029)**	(511,555)	**18,638**	28,346	**(407,710)**	(494,556)	**(480,101)**	(977,765)
Depreciation and amortisation for the year	**5,127**	8,597	**13,523**	10,284	**958**	253	**19,608**	19,134

(b) Reconciliations of reportable segment revenue and profit or loss

	2013	2012
	RMB'000	RMB'000
Revenue		
Reportable segment total revenue and consolidated revenue	**754,115**	739,132
Loss		
Reportable segment operating loss	**(480,101)**	(977,765)
Unallocated head office and corporate expenses	**(104,051)**	(136,261)
Fair value loss on embedded derivatives of unsecured debenture	**(1,691)**	–
Other revenue	**25,258**	8,776
Other net loss	**(17,053)**	(11,940)
Finance costs	**(75,203)**	(60,098)
Consolidated loss before taxation	**(652,841)**	(1,177,288)

13. SEGMENT REPORTING (CONTINUED)

(c) Business restructuring costs

As described in note 1, the Group has undergone a major business restructuring exercise commencing the second quarter of 2012. The restructuring exercise continued to impact the financial results of the Group for the year ended 31 December 2013. A summary of financial impact is summarised as follows:

	Third-party pharmaceutical promotion and sales		Third-party vaccines and other pharmaceuticals		Total	
	2013	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**618,439**	478,977	**8,840**	110,829	**627,279**	589,806
Cost of sales	**(387,995)**	(330,784)	**(12,142)**	(59,827)	**(400,137)**	(390,611)
Reportable segment gross profit	**230,444**	148,193	**(3,302)**	51,002	**227,142**	199,195
Other operating expenses	**(275,808)**	(499,455)	**(43,975)**	(29,129)	**(319,783)**	(528,584)
Business restructuring costs						
– impairment of intangible assets (note 15)	**–**	(17,000)	**–**	–	**–**	(17,000)
– impairment of goodwill (note 17)	**–**	–	**–**	(1,250)	**–**	(1,250)
– write-down of inventories (note 19(b))	**(45,665)**	(20,917)	**(70,216)**	(84,844)	**(115,881)**	(105,761)
– impairment of trade receivables (note 20(b))	**–**	–	**(258,223)**	(399,650)	**(258,223)**	(399,650)
– impairment of deposits and prepayments (note 20(d))	**–**	(121,771)	**(31,994)**	(20,192)	**(31,994)**	(141,963)
– staff redundancy expenses	**–**	(605)	**–**	(10,493)	**–**	(11,098)
Sub-total	**(45,665)**	(160,293)	**(360,433)**	(516,429)	**(406,098)**	(676,722)
Total operating loss	**(91,029)**	(511,555)	**(407,710)**	(494,556)	**(498,739)**	(1,006,111)

13. SEGMENT REPORTING (CONTINUED)

(c) Business restructuring costs (Continued)

The above restructuring costs and operating loss for the third-party vaccine and other pharmaceuticals segment included RMB258,223,000 (2012: RMB399,650,000) of impairment loss on trade receivables related to the vaccine business. Since deciding to gradually exit from the low-margin vaccine business in the second quarter of 2012 and downsize the vaccine sales and promotion team, the Group has devoted considerable resources to collect the trade receivables related to the vaccine business. A dedicated team was formed to focus on chasing debts from vaccine customers all across China. To enhance the effectiveness of debt collection efforts, the Group also engaged a pharmaceutical logistics company in China as an agent to collect some of the receivable balances.

However, the Group encountered a lot more difficulties than anticipated in the debt collection process, especially since the second half of 2012 when the Group started to discontinue the distribution and promotion agreements for an increasing number of vaccine products and ceased to conduct vaccine promotional activities. The Group's decision of exiting from the vaccine business and ceasing to conduct promotional activities has left the customers with a sense of higher business risks and as a result many of them delayed payments or even defaulted on their payment obligations. Traditionally, Centers for Disease Control and Prevention ("CDCs") have been slow-payers due to their own needs to obtain funding but regular debt repayments were received from the CDCs in prior years. However, the cessation of business relationships with the CDCs exacerbated the challenges of debt collection. Particularly, many CDCs are located in remote rural areas with less sophisticated record keeping, which made it hard for the Group to follow up regularly or reconcile the outstanding balances with them after the cessation of business relationship. Therefore, a further impairment on accounts receivable of RMB258,223,000 was provided for the year ended 31 December 2013.

In addition to impairment of accounts receivables, the business restructuring exercise for the third party vaccine and other pharmaceuticals segment led to further write-downs, including expired inventories of RMB70,216,000 (2012: RMB84,844,000), unrecoverable deposits of RMB31,994,000 (2012: RMB20,192,000).

(d) Information from major customer

For the year ended 31 December 2013, revenue from third-party pharmaceutical promotion and sales with one (2012: none) customer had exceeded 10% of the Group's revenue. Revenue from this customer amounted to RMB274,697,000 (2012: Nil) for the year ended 31 December 2013.

14. FIXED ASSETS

The Group

	Buildings held for own use	Plant and machinery	Leasehold improvements	Furniture, fixture and office equipment	Motor vehicles	Construction in progress	Sub-total	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:									
At 1 January 2012	147,302	47,172	15,130	7,364	6,457	29,637	253,062	33,706	286,768
Exchange adjustments	(91)	–	–	–	–	–	(91)	–	(91)
Additions	28,659	1,248	2,849	917	1,162	3,849	38,684	–	38,684
Disposals	–	(614)	(1,094)	(927)	(821)	–	(3,456)	–	(3,456)
At 31 December 2012	175,870	47,806	16,885	7,354	6,798	33,486	288,199	33,706	321,905
Accumulated depreciation and amortisation:									
At 1 January 2012	12,068	11,895	8,027	3,725	3,651	–	39,366	1,993	41,359
Exchange adjustments	(2)	–	–	–	–	–	(2)	–	(2)
Charge for the year	7,608	4,199	3,341	1,117	1,236	–	17,501	763	18,264
Written back on disposal	–	(382)	(618)	(711)	(704)	–	(2,415)	–	(2,415)
At 31 December 2012	19,674	15,712	10,750	4,131	4,183	–	54,450	2,756	57,206
Net book value:									
At 31 December 2012	**156,196**	**32,094**	**6,135**	**3,223**	**2,615**	**33,486**	**233,749**	**30,950**	**264,699**

14. FIXED ASSETS (CONTINUED)

The Group (continued)

	Buildings held for own use RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture, fixture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:									
At 1 January 2013	175,870	47,806	16,885	7,354	6,798	33,486	288,199	33,706	321,905
Exchange adjustments	(862)	–	(37)	(17)	(53)	–	(969)	–	(969)
Additions	1,177	1,599	241	454	472	4,381	8,324	801	9,125
Disposals	–	(1,597)	–	(51)	(636)	(33,910)	(36,194)	(17,527)	(53,721)
At 31 December 2013	176,185	47,808	17,089	7,740	6,581	3,957	259,360	16,980	276,340
Accumulated depreciation and amortisation:									
At 1 January 2013	19,674	15,712	10,750	4,131	4,183	–	54,450	2,756	57,206
Exchange adjustments	(45)	–	(6)	(10)	(53)	–	(114)	–	(114)
Charge for the year	8,600	3,900	3,739	849	593	–	17,681	689	18,370
Written back on disposal	–	(1,391)	–	(11)	(444)	–	(1,846)	(1,283)	(3,129)
At 31 December 2013	28,229	18,221	14,483	4,959	4,279	–	70,171	2,162	72,333
Net book value:									
At 31 December 2013	**147,956**	**29,587**	**2,606**	**2,781**	**2,302**	**3,957**	**189,189**	**14,818**	**204,007**

(a) Interests in leasehold land held for own use under operating leases represent land use rights under medium term leases in the PRC. As at 31 December 2013, the remaining periods of the land use rights ranged from 37 to 44 years.

(b) As at 31 December 2013, certain banking facilities of the Group were secured by an office property of the Group held for own use with a net book value amounting of RMB25,303,000 (2012: RMB26,756,000). Such property is located in Hong Kong under medium-term land lease (note 25).

15. INTANGIBLE ASSETS

The Group

	Trademarks RMB'000	New medicine protection rights RMB'000	GSP licence RMB'000	Exclusive agency rights RMB'000	Club memberships RMB'000	Computer software RMB'000	Intellectual property rights RMB'000	Total RMB'000
Cost:								
At 1 January 2012	7,283	9,330	7,030	50,000	1,126	4,946	–	79,715
Additions	–	–	–	–	–	548	–	548
At 31 December 2012 & 1 January 2013	7,283	9,330	7,030	50,000	1,126	5,494	–	80,263
Additions	–	–	–	–	–	52	30,500	30,552
Exchange adjustments	–	–	–	–	(33)	–	–	(33)
At 31 December 2013	7,283	9,330	7,030	50,000	1,093	5,546	30,500	110,782
Accumulated amortisation and impairment								
At 1 January 2012	4,368	9,330	–	14,167	–	3,024	–	30,889
Charge for the year	728	–	–	8,000	–	632	–	9,360
Impairment	–	–	–	17,000	–	–	–	17,000
At 31 December 2012 & 1 January 2013	5,096	9,330	–	39,167	–	3,656	–	57,249
Charge for the year	730	–	–	5,000	–	574	2,408	8,712
At 31 December 2013	5,826	9,330	–	44,167	–	4,230	2,408	65,961
Net book value:								
At 31 December 2013	1,457	–	7,030	5,833	1,093	1,316	28,092	44,821
At 31 December 2012	2,187	–	7,030	10,833	1,126	1,838	–	23,014

15. INTANGIBLE ASSETS (CONTINUED)

The Group (Continued)

(a) GSP licence represents protection right of Good Supply Practice Licence issued by Food and Drugs Administration held by Shanghai Tongzhou with indefinite useful life. Management has assessed the recoverable amount of GSP licence and determined that the GSP licence had not been impaired as at 31 December 2013. The directors are of the opinion that the carrying amount of the GSP licence will be recovered through the future sales of pharmaceutical products to the associate to be established under the agreement made with Sinopharm Group Co., Ltd. dated 23 August 2013.

(b) Exclusive agency rights represent agency fees of RMB30 million and RMB20 million prepaid to suppliers to secure the PRC distribution rights of 10 years and 4 years for two pharmaceutical products, respectively. These exclusive agency rights were amortised on a straight-line basis over their respective useful lives, being the period of agency rights. By the end of 2012, the Group decided to terminate a herbal dermatological product as a consequence of surging raw materials cost and relinquished the exclusive agency right. A full impairment loss of RMB17,000,000 was provided accordingly for the remaining book value of the exclusive agency right, and is charged to business restructuring costs.

(c) Club memberships represent the rights granted to use the club facilities over an indefinite period of time. Accordingly, no amortisation has been charged to profit or loss during the years ended 31 December 2013 and 2012.

(d) Intellectual property rights represent patents, know-how and trademarks in relation to Xi Di Ke. Xi Di Ke is the commercial name of an uroacitides injection formula and a unique national class 1 new drug approved by the SFDA for the treatment of malignant lung and breast tumors. The directors are of the opinion that the carrying amount of the intellectual property rights will be recovered through expanding sales of the Group's product portfolio.

(e) The amortisation charges during the years ended 31 December 2013 and 2012 are included in "selling and distribution expenses" for RMB8,138,000 (2012: RMB8,728,000) and "administrative expenses" for RMB574,000 (2012: RMB632,000) in the consolidated income statement.

16. PREPAYMENTS

The balance as at 31 December 2013 represents prepayment for establishment of an associate (2012: the balance represented prepayment to acquire an intangible asset).

17. GOODWILL

The goodwill of RMB1,250,000 was derived from prior year business acquisitions of NT Tongzhou (BJ) Pharma Co., Ltd. and NT Tongzhou Pharma (SH) Co., Ltd. and was allocated to the vaccine promotion and sales business segment in previous years. In 2012, in light of the business decision to gradually exit from the vaccine business, the directors are of the opinion that no significant future benefits are expected to be generated from the asset. A full impairment of the goodwill was therefore provided.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**401,605**	414,171
Amounts due from subsidiaries (note (a))	**815,996**	821,216
Impairment loss (note (b))	**(1,093,759)**	(458,602)
	123,842	776,785

Notes:

(a) The amounts due from subsidiaries are unsecured, interest-free and are accounted for as equity contribution by the Company to provide for capital for these subsidiaries as they will not be demanded for repayment.

(b) In light of significant losses made by certain subsidiaries which operated vaccine businesses, the directors determined that objective evidence of impairment existed as at 31 December 2013. An impairment loss of RMB635,157,000 (2012: RMB458,602,000) is provided for the year ended 31 December 2013.

Details of the Company's subsidiaries as at 31 December 2013 are as follows:

Name of company	Place of establishment/ incorporation	Particulars of issued and paid up/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
NT Pharma (Group) Co., Ltd.	BVI	9 shares of US$1 each	100%	100%	–	Investment holding
Kimford Investment Limited ("Kimford")	BVI	1 share of US$1	100%	–	100%	Investment holding
Goldwise Resources Limited	BVI	1 share of US$1	100%	–	100%	Investment holding
Tai Ning Pharmaceutical (Investment) Company Limited	BVI	1 share of US$1	100%	–	100%	Investment holding
Farbo Investment Limited	BVI	1 share of US$1	100%	–	100%	Investment holding
Humford Limited	BVI	1 share of US$1	100%	–	100%	Investment holding

(Expressed in Renminbi unless otherwise indicated)

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of establishment/ incorporation	Particulars of issued and paid up/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
NTP (China) Investment Co., Limited	Hong Kong	15,000,000 shares of HK$1 each	100%	–	100%	Investment holding
NT Pharma (HK) Limited	Hong Kong	2 shares of HK$1 each	100%	–	100%	Trading of prescription medicines
NT Pharma (SH) Co., Ltd. (泰凌醫藥貿易(上海)有限公司) (note (i))	PRC	Registered capital of US$2,000,000	100%	–	100%	Sales of prescription medicines
NT Tongzhou (BJ) Pharma Co., Ltd. (泰凌同舟(北京)醫藥有限公司) (note (i))	PRC	Registered capital of RMB10,000,000	100%	–	100%	Sales of prescription medicines and vaccines
Guangdong NT Pharma Co., Ltd. (廣東泰凌醫藥有限公司) (note (i))	PRC	Registered capital of RMB20,000,000	100%	–	100%	Sales of prescription medicines and vaccines
NT Tongzhou Pharma Consulting (SH) Co., Ltd. (泰凌同舟醫藥諮詢(上海)有限公司) (note (i))	PRC	Registered capital of US$3,370,000	100%	–	100%	Provision of logistics and consulting services
Hainan NT Biologicals Co., Ltd. (海南泰凌生物製品有限公司) (note (i))	PRC	Registered capital of RMB100,000,000	100%	–	100%	Sales of vaccines
NT Tongzhou Pharma (SH) Co., Ltd. (泰凌同舟醫藥(上海)有限公司) (note (i))	PRC	Registered capital of RMB50,000,000	100%	–	100%	Sales of prescription medicines and vaccines

(Expressed in Renminbi unless otherwise indicated)

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of establishment/ incorporation	Particulars of issued and paid up/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Suzhou First Pharmaceutical Co., Ltd. ("Suzhou First Pharma") (蘇州第壹醫藥有限公司) (notes (i) and (ii))	PRC	Registered capital of RMB55,625,000	100%	–	100%	Manufacturing of prescription medicines
NT Pharma (China) Co., Ltd. (泰凌醫藥(中國)有限公司) (note (i))	PRC	Registered capital of US$30,000,000	100%	–	100%	Dormant
NT Pharma (Jiangsu) Co., Ltd. (泰凌醫藥(江蘇)有限公司) (note (i))	PRC	Registered capital of RMB276,600,000	100%	–	100%	Sales of prescription medicines and vaccines
NT Pharma Information Consulting (SH) Co., Ltd. (泰凌醫藥信息諮詢(上海)有限公司) (note (i))	PRC	Registered capital of US$500,000	100%	–	100%	Provision of consulting services
NT (Jiangsu) Biotechnology Co., Ltd. (泰凌(江蘇)生物科技有限公司) (note (i) and (iii))	PRC	Registered capital of US$100,000,000	100%	–	100%	Investment holding
NTP (China) Investment Co., Ltd. (泰凌(中國)投資有限公司) (note (i))	PRC	Registered capital of US$30,000,000	100%	–	100%	Provision of consulting services
Jiangsu NT Biopharma Co., Ltd. (泰凌生物制藥江蘇有限公司) (note (i))	PRC	Registered capital of RMB100,000,000	100%	–	100%	Research and development of prescription medicines and vaccines

Notes:

(i) The English translation of the company names is for reference only. The official names of these entities are in Chinese.

(ii) Suzhou First Pharma, previously a 80% owned subsidiary of the Group, was established by Kimford together with Suzhou Pharmaceutical (Group) Co., Ltd. (蘇州醫藥集團有限公司) on 23 December 2005. In July 2012, the Group acquired the remaining 20% equity interest in Suzhou First Pharma for a cash consideration of RMB60,000,000. After the acquisition of non-controlling interests, Suzhou First Pharma has become a wholly owned subsidiary of the Group.

(iii) NT Pharma (China) Investment Co., Ltd. (泰凌(中國)醫藥投資有限公司) was renamed as NT (Jiangsu) Biotechnology Co., Ltd. (泰凌(江蘇)生物科技有限公司) in 2012. Its registered capital was increased from USD 30,070,000 to USD100,000,000.

(iv) The Group has no subsidiaries which have material non-controlling interests for the year ended 31 December 2013 and 2012.

19. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	The Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**11,109**	10,064
Work in progress	**2,339**	1,906
Finished goods	**118,961**	230,900
Low value consumables	**–**	50
	132,409	242,920

As at 31 December 2012, certain banking facilities of the Group were secured by the Group's inventories amounting to RMB13,450,000 (note 25).

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2013	2012
	RMB'000	RMB'000
Cost of inventories sold	**465,147**	434,000
Write-down of inventory in normal course of business	**44,287**	14,858
Write-down of inventory due to business restructuring	**115,881**	105,761
	625,315	554,619

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivable	**718,423**	1,092,312	**–**	–
Less: Allowance for doubtful debts (note (b))	**(620,384)**	(377,706)	**–**	–
	98,039	714,606	**–**	–
Deposits, prepayments and other receivables (note (d))	**200,191**	221,317	**541**	463
	298,230	935,923	**541**	463

As at 31 December 2013, RMB46,000,000 (2012: RMB40,882,000) of the Group's deposits, prepayments and other receivables were expected to be recovered or recognised as expenses after more than one year. All of the remaining trade and other receivables are expected to be recovered or recognised as expenses within one year.

As at 31 December 2013, certain banking facilities of the Group were secured by the Group's trade and other receivables amounting to RMB15,400,000 (2012: RMB74,569,000) (note 25).

(a) Ageing analysis

Ageing analysis of trade debtors and bills receivable (net of allowance for doubtful debts), based on the billing date of invoice, is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 3 months	**21,778**	278,536
More than 3 months but within 6 months	**13,383**	58,635
More than 6 months but within 1 year	**13,411**	96,268
More than 1 year but within 2 years	**49,467**	277,625
More than 2 years	**–**	3,542
	98,039	714,606

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis (Continued)

Ageing analysis of trade debtors and bills receivable (net of allowance for doubtful debts), based on payment due date, is as follows:

	The Group		
	2013	**2013**	**2013**
	Non-vaccine	**Vaccine**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Not past due	**15,478**	**–**	**15,478**
Less than 3 months past due	**21,362**	**–**	**21,362**
More than 3 months but less than 6 months past due	**11,404**	**–**	**11,404**
More than 6 months but less than 1 year past due	**33,268**	**–**	**33,268**
More than 1 year but less than 2 years past due	**16,527**	**–**	**16,527**
	98,039	**–**	**98,039**

	The Group		
	2012	2012	2012
	Non-vaccine	Vaccine	Total
	RMB'000	RMB'000	RMB'000
Not past due	213,218	16,848	230,066
Less than 3 months past due	89,942	9,498	99,440
More than 3 months but less than 6 months past due	28,792	26,861	55,653
More than 6 months but less than 1 year past due	51,479	183,062	234,541
More than 1 year but less than 2 years past due	4,694	90,212	94,906
	388,125	326,481	714,606

Trade debtors are normally due within 30 to 240 days from the date of billing. Further details of the Group's credit policy are set out in note 30(a).

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade debtors

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**377,706**	39,665
Impairment loss recognised during the year		
– Vaccine	**258,223**	399,650
– Non-vaccine	**6,640**	33,773
	264,863	433,423
Reversal of impairment	**(22,185)**	–
Uncollectible amount written off	**–**	(95,382)
At 31 December	**620,384**	377,706

Impairment losses in respect of trade debtors and bills receivable was 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 debtors and bills receivable directly (note 2(j)(i)).

In respect of non-vaccine business related trade receivables, allowance for doubtful debts of RMB18,228,000 (2012: RMB33,773,000) was recognised against the gross receivable balance of RMB116,267,000 (2012: RMB421,898,000) as at 31 December 2013.

As at 31 December 2013, the Group performed an individual credit evaluation on all vaccine debtors. These evaluations considered the debtor's background, financial strengths, repayment status during and after 2012, and other specific circumstances with the debtors. As a result of the evaluation exercise based on the information available and current circumstances at 31 December 2013, the Group recorded impairment provision of RMB602,156,000 (2012: RMB343,933,000) against the gross receivables balance from customers of the vaccine business which were overdue for more than one year and brought forward from 31 December 2012, by charging an additional impairment provision of RMB258,223,000 to the consolidated income statement for the year ended 31 December 2013.

As at 31 December 2013, the Group's trade debtors and bill receivables of RMB620,384,000 (2012: RMB377,706,000) were individually determined to be impaired. The individually impaired receivables are mostly related to the vaccine business for reasons disclosed in note 13(c). Consequently, specific allowance for doubtful debts of RMB264,863,000 (2012: RMB433,423,000) was recognised to the consolidated income statement for the year ended 31 December 2013.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**15,477**	201,961
Less than 3 months past due	**13,735**	82,296
More than 3 months but less than 6 months past due	**10,531**	32,333
More than 6 months past due	**38,463**	268,859
	62,729	383,488
	78,206	585,449

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired included balances of RMB62,729,000 (2012: RMB143,511,000) and Nil (2012: RMB239,977,000) in respect of non-vaccine and vaccine businesses, respectively. These non-vaccine receivables relate to a number of independent customers that have demonstrated a consistent track record of repayment 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 any significant change in their credit quality and the balances are still considered to be fully recoverable. The non-vaccine receivables that were past due but not impaired represent management's assessment of the recoverability of the individual balances based on information available and current circumstances.

The Group does not hold any collateral over non-vaccine and vaccine related receivable balances.

(d) Impairment of deposits, prepayments and other receivables

As at 31 December 2013, the balance of deposits and prepayments was net of a provision for impairment of 31,994,000 (2012: RMB141,963,000) due to business restructuring (note 13(c)).

21. DESIGNATED LOANS

As at 31 December 2013, designated loans of RMB147,114,000 (2012: nil) represented the aggregate amount of loans made to Taizhou East China Medical City Holding Group., Ltd, an independent third party, by the Group through the Bank of Shanghai Co., Limited. The loans have a maturity date of 31 December 2014 and an interest rate of 10.97% per annum.

22. PLEDGED BANK DEPOSITS

Bank deposits of the Group of RMB260,063,000 (2012: RMB402,448,000) were pledged to banks to secure certain bank loans and bank accepted bills amounting to RMB352,734,000 (2012: RMB831,699,514) as at 31 December 2013 (note 25).

23. CASH AT BANKS AND IN HAND

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**229,239**	246,030	**48,909**	69,478

As at 31 December 2013, the Group's cash and bank balances placed with banks in the PRC amounted to RMB155,198,000 (2012: RMB169,736,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**81,472**	124,707	**–**	–
Bills payable	**352,734**	484,829	**–**	–
Total trade creditors and bills payable	**434,206**	609,536	**–**	–
Receipts in advance from customers	**21,917**	33,774	**–**	–
Fixed assets purchase payables	**–**	8,627	**–**	–
Accrued promotion expenses	**72,760**	83,113	**–**	–
Accrued staff costs	**11,906**	10,095	**–**	–
VAT payable	**1,034**	5,488	**–**	–
Other payables and accruals	**34,293**	30,666	**–**	–
	576,116	781,299	**–**	–

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

(a) As at 31 December 2012, the balance of bills payable included undue bank accepted bills issued for intra-group transactions amounting to RMB217,080,000, which were factored to banks.

(b) Aging analysis of trade creditors and bills payable based on the billing date of invoice is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 3 months or on demand	**14,398**	538,031
More than 3 months but within 6 months	**352,807**	2,565
More than 6 months but within 1 year	**523**	4,340
More than 1 year	**66,478**	64,600
	434,206	609,536

25. BANK LOANS

As at 31 December 2013, the bank loans comprised:

	The Group	
	2013	2012
	RMB'000	RMB'000
Bank loans-repayable within 1 year or on demand		
– Secured	**106,957**	346,870
– Unsecured	**178,500**	179,300
	285,457	526,170

At 31 December 2013, the Group had banking facilities of RMB570,542,000 (2012: RMB807,517,531), which were utilised to the extent of RMB106,957,000 (2012: RMB346,870,244). The banking facilities were secured by certain assets of the Group as set out below:

	The Group	
	2013	2012
	RMB'000	RMB'000
Fixed assets	**25,303**	26,756
Inventories	**–**	13,450
Trade and other receivables	**15,400**	74,569
Pledged bank deposits	**260,063**	180,000
	300,766	294,775

As at 31 December 2013, certain banking facilities of the Group amounting to RMB300,000,000 (2012: RMB400,000,000) were guaranteed by a company controlled by city-level government in the PRC.

As at 31 December 2013, there is no financial covenant related to the above banking facilities.

Details of the Group's interest rate risk are set out in note 30(c).

26. UNSECURED DEBENTURES

(a) In April 2012, Suzhou First Pharma joined a "Small and Medium Enterprises of Suzhou Industrial Park Collective Bonds Issuance" project sponsored by a Chinese commercial bank. Under this project, Suzhou First Pharma issued an unsecured debenture of RMB20,000,000 with a maturity period of three years from 27 April 2012 to 26 April 2015. The debenture carries a fixed annual interest rate of 7.5%. The interest is payable annually on 26 April.

(b) In February 2013, the Group's PRC subsidiary, NT Pharma (Jiangsu) Co., Ltd., issued a RMB300,000,000 local SME Private Debt, which is regulated and approved by Shanghai Stock Exchange. The coupon interest rate of the debt is 9.5% per annum. The debt has a maturity period of three years with the debt holder having an option to redeem the debt at face value after two years. The debt is guaranteed by a company controlled by municipal-level government in the PRC.

The movements of the liability and derivatives components of the unsecured debenture during the year are set out below:

	The Group		
	Embedded derivatives at fair value through profit or loss RMB'000	**Liability component at amortised cost basis RMB'000**	**Total RMB'000**
At 1 January 2013	–	–	–
Proceeds received	**1,573**	**286,677**	**288,250**
Interest charged to profit or loss	–	**29,632**	**29,632**
Change in fair value	**1,691**	–	**1,691**
At 31 December 2013	**3,264**	**316,309**	**319,573**
Analysed as:			
As non-current liabilities	**3,264**	**286,677**	**289,941**
As current liabilities	–	**29,632**	**29,632**
	3,264	**316,309**	**319,573**

27. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2013	2012
	RMB'000	RMB'000
Provision for Hong Kong Profits Tax	**2,417**	2,413
Provision for PRC income tax	**28,413**	9,063
	30,830	11,476

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of assets arising from acquisition of business	**Provisions for asset impairment**	**Tax losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	(2,486)	12,492	10,950	20,956
Credited to profit or loss	1,433	75,906	(10,950)	66,389
At 31 December 2012	(1,053)	88,398	–	87,345
At 1 January 2013	(1,053)	88,398	–	87,345
Credited to profit or loss	182	21,365	–	21,547
At 31 December 2013	(871)	109,763	–	108,892

27. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION(CONTINUED)

(b) Deferred tax assets and liabilities recognised:(Continued)

Reconciliation to the consolidated statement of financial position

	The Group	
	2013	2012
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**109,763**	88,398
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(871)**	(1,053)
	108,892	87,345

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group did not recognise deferred tax assets in respect of unused tax losses of certain subsidiaries amounting to RMB1,113,922,000 (2012: RMB640,693,000) and other temporary differences amounting to RMB541,967,000 (2012: RMB262,406,000) as at 31 December 2013. The directors consider it is not probable that future taxable profits will be available to utilise these deferred tax assets. The tax losses will expire in following years:

	The Group	
	2013	2012
	RMB'000	RMB'000
2013	**–**	6,787
2014	**3,600**	3,600
2015	**43,026**	43,026
2016	**14,561**	14,561
2017	**572,719**	572,719
2018	**480,016**	–
	1,113,922	640,693

27. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION(CONTINUED)

(d) Deferred tax liabilities not recognised

No deferred tax liabilities in respect of undistributed profits of PRC subsidiaries have been provided as the Group controls the dividend policy of these subsidiaries and has no plans to distribute profits that are subject to PRC dividend withholding tax in the foreseeable future.

As at 31 December 2013, the aggregate amounts of undistributed profits of the Group's PRC subsidiaries in respect of which the Group did not provide for dividend withholding tax were approximately RMB167,347,000 (2012: RMB198,864,000).

28. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

NT Pharma Holdings Company Limited ("NT Holdings") operated a share option scheme which was adopted on 18 September 2009 ("2009 Share Option Scheme"). Under the scheme, certain employees of the Group may be granted share options to acquire the shares in NT Holdings. The options vest after one to three years from the date of grant and are exercisable within ten years after the date of grant. Each option gives the holder the right to subscribe for one ordinary share in NT Holdings.

On 7 April 2011, the directors of NT Holdings terminated the 2009 Share Option Scheme and the directors of the Company adopted the Pre-IPO Share Option Scheme under which each option gives the holder the right to subscribe for one ordinary share in the Company. Under the Pre-IPO Share Option Scheme, each grantee of options under the 2009 Share Option Scheme exchanged his/her options under the 2009 Share Option Scheme for options under the Pre-IPO Share Option Scheme on a 2 for 1 basis. The exercise price payable by the grantees for each option granted under the Pre-IPO Share Option Scheme is double the exercise price payable by the grantees for their respective options granted under the 2009 Share Option Scheme (save for those options which have an exercise price of 70% of the price at which the Company offered its shares for subscription in the public offering on 20 April 2011 (the "Offer Price")). All other terms of the Pre-IPO Share Option Scheme are identical to the 2009 Share Option Scheme. The exchange of the share options was considered a modification to the 2009 Share Option Scheme. As the modification did not result in a material change in the value of the outstanding options at the date of modification, the modification had no impact on the profit or loss of the Group for the year ended 31 December 2011.

The Company adopted a share award scheme (the "Share Award Scheme") on 11 January 2012. The purposes of the Share Award Scheme are to recognise the contribution made by certain employees of the Group and to provide eligible employees with incentives in order to retain them for the continual operation and development of the Group and attract suitable personnel for the growth and further development of the Group. During the year ended 31 December 2013, no share was granted under the Share Award Scheme. The Share Award Scheme was subsequently terminated on 6 March 2014.

(Expressed in Renminbi unless otherwise indicated)

28. EQUITY-SETTLED SHARE-BASED TRANSACTIONS(CONTINUED)

(a) The terms and conditions of the grants (after modification) are as follows:

Date	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
On 1 March 2010	800,000	One year from the date of grant	10 years
On 1 March 2010	800,000	Two years from the date of grant	10 years
On 1 March 2010	800,000	Three years from the date of grant	10 years
On 1 July 2010	1,075,775	One year from the date of grant	10 years
On 1 July 2010	1,075,775	Two years from the date of grant	10 years
On 1 July 2010	1,075,775	Three years from the date of grant	10 years
	5,627,325		
Options granted to employees:			
On 18 September 2009	9,667,972	One year from the date of grant	10 years
On 18 September 2009	9,667,972	Two years from the date of grant	10 years
On 18 September 2009	9,667,971	Three years from the date of grant	10 years
On 28 January 2010	3,791,322	One year from the date of grant	10 years
On 28 January 2010	3,791,322	Two years from the date of grant	10 years
On 28 January 2010	3,791,322	Three years from the date of grant	10 years
On 1 March 2010	33,334	One year from the date of grant	10 years
On 1 March 2010	33,333	Two years from the date of grant	10 years
On 1 March 2010	33,333	Three years from the date of grant	10 years
On 1 July 2010	507,559	One year from the date of grant	10 years
On 1 July 2010	507,558	Two years from the date of grant	10 years
On 1 July 2010	507,558	Three years from the date of grant	10 years
On 1 September 2010	266,667	One year from the date of grant	10 years
On 1 September 2010	266,667	Two years from the date of grant	10 years
On 1 September 2010	266,666	Three years from the date of grant	10 years
On 1 November 2010	333,334	One year from the date of grant	10 years
On 1 November 2010	333,333	Two years from the date of grant	10 years
On 1 November 2010	333,333	Three years from the date of grant	10 years
On 17 December 2010	200,000	One year from the date of grant	10 years
On 17 December 2010	200,000	Two years from the date of grant	10 years
On 17 December 2010	200,000	Three years from the date of grant	10 years
	44,400,556		
	50,027,881		

(Expressed in Renminbi unless otherwise indicated)

28. EQUITY-SETTLED SHARE-BASED TRANSACTIONS(CONTINUED)

(b) The number and weighted average exercise prices of share options are as follows:

	2013		2012	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**US$0.20**	**20,581,135**	US$0.20	39,555,187
Exercised during the year	**US$0.20**	**–**	–	(40,000)
Forfeited during the year				
– Unvested	**US$0.20**	**–**	US$0.20	(10,644,495)
– Vested	**US$0.20**	**(6,309,067)**	US$0.20	(8,289,557)
Outstanding at the end of the year	**US$0.20**	**14,272,068**	US$0.20	20,581,135
Exercisable at the end of the year	**US$0.20**	**14,272,068**	US$0.20	17,852,449

The share options outstanding at 31 December 2013 had a weighted average remaining contractual life of 6 years (2012: 7 years).

(Expressed in Renminbi unless otherwise indicated)

28. EQUITY-SETTLED SHARE-BASED TRANSACTIONS(CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options. The estimate of the fair value of the share options granted is measured based on a Binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial lattice model.

Fair value of share options and assumptions	**Options granted on 18 September 2009**	**Options granted on 28 January 2010**	**Options granted on 1 March 2010**	**Options granted on 1 July 2010**	**Options granted on 1 September 2010**	**Options granted on 1 November 2010**	**Options granted on 17 December 2010**
Fair value at measurement date	US$0.14	US$0.16	US$0.14	US$0.22	US$0.22	US$0.16	US$0.18
Share price	US$0.24	US$0.28	US$0.24	US$0.34	US$0.34	US$0.34	US$0.34
Exercise price	US$0.20	US$0.20	US$0.20	US$0.20	US$0.20	US$0.20	HK$3.18 (70% of the Offer Price)
Expected volatility	58.46%	58.23%	58.00%	59.51%	58.94%	53.10%	57.19%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	4.297%	4.378%	4.293%	4.072%	3.415%	3.241%	3.858%

The expected volatility is based on the historical volatility of listed companies in similar industries (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

29. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d)(i))	Exchange reserve RMB'000 (Note 29(d)(ii))	Other reserve RMB'000 (Note 29(d)(v))	Capital reserve RMB'000 (Note 29(d)(vi))	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2012	1	933,786	(32,811)	383,379	38,950	(12,681)	1,310,624
Changes in equity for 2012:							
Loss for the year	–	–	–	–	–	(460,574)	(460,574)
Other comprehensive income	–	–	181	–	–	–	181
Total comprehensive income	–	–	181	–	–	(460,574)	(460,393)
Share options exercised	–	86	–	–	(38)	–	48
Equity-settled share-based transactions	–	–	–	–	(3,553)	–	(3,553)
Forfeiture of vested share options	–	–	–	–	(12,292)	12,292	–
Balance at 31 December 2012 and 1 January 2013	1	933,872	(32,630)	383,379	23,067	(460,963)	846,726
Changes in equity for 2013:							
Loss for the year	–	–	–	–	–	(672,132)	(672,132)
Other comprehensive income	–	–	(1,506)	–	–	–	(1,506)
Total comprehensive income	–	–	(1,506)	–	–	(672,132)	(673,638)
Share options exercised	–	–	–	–	–	–	–
Equity-settled share-based transactions	–	–	–	–	204	–	204
Forfeiture of vested share options	–	–	–	–	(8,416)	8,416	–
Balance at 31 December 2013	1	933,872	(34,136)	383,379	14,855	(1,124,679)	173,292

29. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividend

No dividend was declared or paid by the Company during the year ended 31 December 2013 and 2012.

(c) Share capital

A summary of movements in the Company's issued share capital during the years ended 31 December 2013 and 2012 are as follows:

	2013 Number of shares '000	**2013** RMB'000	2012 Number of shares '000	2012 RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**1,081,957**	**1**	1,081,917	1
Shares issued upon exercise of share options (note 28)	**–**	**–**	40	–
At 31 December	**1,081,957**	**1**	1,081,957	1

Notes:

(i) The Company was incorporated on 1 March 2010 with an authorised share capital of US$50,100 divided into 626,250,000 shares of US$0.00000008 each and one share was issued at par upon incorporation.

(ii) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

29. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the nominal value of the shares of the Company and proceeds received from the issuance of shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of non-PRC entities. The reserve is dealt with in accordance with the accounting policy set out in note 2(u).

(iii) Statutory reserve

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory reserve must be made before distribution of dividends to shareholders. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase the registered capital of the subsidiary.

(iv) Merger reserve

The merger reserve represents the difference between the net assets of the subsidiaries acquired in 2005, which were under common control of the Controlling Shareholders, and the cash consideration paid.

(v) Other reserve

The Company's other reserve arose from the transfer of the entire equity interest in the subsidiaries from its then holding company in 2011.

The Group's other reserve arose from the capitalisation of the amount due to NT Holdings as a result of the group reorganisation in 2011 and represented the difference between the amount due to NT Holdings of RMB383,380,000 and the nominal value of the shares of the Company issued in exchange thereof and a premium paid for the acquisition of additional interests in a subsidiary in 2012 (note 18(ii)).

(vi) Capital reserve

The capital reserve represents the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments as set out in note 2(q)(ii).

29. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to the equity holders of the Company was Nil (2012: RMB472,909,000), being the net amount of share premium and accumulated losses.

(f) Capital management

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

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

The Group monitors capital with reference to its debt-to-assets ratio. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there is adequate working capital to service its debt obligations. The Group's debt-to-assets ratio, being the Group's total interest-bearing borrowings over its total assets, at 31 December 2013 and 2012 was 43.4% and 24.5% respectively.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 240 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from non-vaccine and vaccine related trade and other receivables are set out in note 20.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed line of funding from major financial institutions to meet its liquidity requirements in the short and long term.

All non-interest bearing financial liabilities of the Group are carried at amounts not materially different from their contractual undiscounted cash flow as these financial liabilities are with maturities within one year or repayable on demand at the end of the reporting period. Bank loans and unsecured debenture are repayable within 1~3 years from the end of the reporting period.

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's bank loans, bank accepted bills, trade and other payables and unsecured debenture, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current prevailing rates at the end of the reporting period) and the earliest date of the Group can be required to repay.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

The Group

	2013				
	Scheduled undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Carrying amount as at 31 December RMB'000
Bank loans	297,704	–	–	297,704	285,457
Unsecured debentures	30,000	378,500	–	408,500	339,573
Trade and other payables	576,116	–	–	576,116	576,116
Total	903,820	378,500	–	1,282,320	1,201,146

	2012				
	Scheduled undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Carrying amount as at 31 December RMB'000
Bank loans	540,318	–	–	540,318	526,170
Unsecured debenture	1,500	1,500	21,500	24,500	21,000
Trade and other payables	781,299	–	–	781,299	781,299
Total	1,323,117	1,500	21,500	1,346,117	1,328,469

Management believes that the Group's current cash on hand, expected cash flows from operations, available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations in the near future when they become due.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank deposits, bank loans and unsecured debenture. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net interest bearing liabilities (being interest-bearing financial liabilities less pledged bank deposits, cash at banks and designated loans) at the end of the reporting period:

The Group

	2013		2012	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate instruments:				
Bank loans	**6.16%-6.9%**	**273,516**	5.00% – 7.26%	106,490
Unsecured debenture	**7.50%-11.33%**	**339,573**	7.5%	20,000
		613,089		126,490
Less: Pledged bank deposits	**2.80%-3.75%**	**(260,007)**	3.08% – 3.30%	(352,579)
Cash at banks	**2.34%-3.15%**	**(71,890)**	3.05% – 3.15%	(784)
Designated loans	**10.97%**	**(147,114)**		–
		134,078		(226,873)
Variable rate instruments:				
Bank loans	**3.28%**	**11,941**	3.30% – 7.07%	419,680
Less: Pledged bank deposits	**0.35%-0.39%**	**(56)**	0.35% – 0.39%	(49,869)
Cash at banks	**0.01%-1.27%**	**(157,349)**	0.01% – 1.15%	(245,246)
		(145,464)		124,565
Total net interest-bearing assets		**(11,386)**		(102,308)

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

The Company

	2013		2012	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate instruments:				
Cash at banks	**3.15%**	**47,810**	–	–
Variable rate instruments:				
Cash at banks	**0.01% – 0.35%**	**1,098**	0.01% – 0.35%	69,478

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's loss after taxation and accumulated losses by approximately RMB1,091,000 (2012: decreased/increased loss after taxation and accumulated losses by RMB934,000).

The sensitivity analysis above indicates the annualised impact on the Group's loss before taxation that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments which expose the Group to cash flow interest rate risk at that date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group does not hold any fixed rate instruments which are measured at fair value. This analysis has been performed on the same basis for 2012.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), Pounds Sterling ("GBP") and Hong Kong dollars ("HKD"). In addition, certain bank loans are also denominated in USD and HKD. At present, the Group has no hedging policy with respect to its foreign exchange exposure.

(i) Exposure to currency risk

The following table details the Group's major exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of non-PRC group entities into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in Renminbi)					
	2013			2012		
	USD	**GBP**	**HKD**	USD	GBP	HKD
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Trade and other receivables	**–**	**–**	**32,820**	–	–	33,148
Cash at banks and in hand	**149**	**–**	**30,442**	368	–	16,342
Trade and other payables	**(6,774)**	**(61,798)**	**(1,603)**	(12,996)	(62,447)	–
Bank loans	**–**	**–**	**(11,941)**	(5,494)	–	(19,865)
	(6,625)	**(61,798)**	**49,718**	(18,122)	(62,447)	29,625

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit or loss after taxation (and accumulated losses or retained profits) that would have arisen if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

The Group

	2013		2012	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after taxation and accumulated losses RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after taxation and accumulated losses RMB'000
USD	**5%**	**(248)**	5%	(680)
	(5)%	**248**	(5)%	680
GBP	**5%**	**(2,317)**	5%	(2,342)
	(5)%	**2,317**	(5)%	2,342
HKD	**5%**	**1,864**	5%	1,111
	(5)%	**(1,864)**	(5)%	(1,111)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit or loss after taxation measured in the respective functional currencies, translated into Renminbi at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of non-PRC incorporated subsidiaries into the Group's presentation currency. The analysis has been performed on the same basis for 2012.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs to which market data are not available.
– Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table presents the Group's and the Company's liabilities that are measured at fair value as at 31 December 2013 and 2012:

The Group	**Fair value at 31 December 2013**	**Level 1**	**Level 2**	**Level 3**
	RMB'000	RMB'000	RMB'000	RMB'000
2013				
Liabilities				
– Call options embedded in debenture (note 26(b))	3,264	–	–	3,264

During the year ended 31 December 2013, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

The fair value of call option embedded in debenture is determined using Hull-White Model and the significant unobservable input used in the fair value measurement is yield spread. The fair value measurement is positively correlated to the yield spread. As at 31 December 2013, the yield spread used in the valuation is 6.5%, and it is estimated that with all other variables held constant, an increase/decrease of ten percentage points in the yield spread would have increased/decreased the Group's loss by RMB2,041,000/RMB4,658,000.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (Continued)

The movements during the year in the balance of the level 3 fair value measurement for the unsecured debentures are disclosed in note 26 of the total gains or losses for the period included in profit or loss, loss of RMB1,691,000 related to call options embedded in debenture at the end of the current reporting period. Fair value loss on call options embedded in debenture is disclosed in the consolidated income statement.

(f) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2013, except for the call option embedded in debenture as set out in note 30(e).

31. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2013 not provided for in the consolidated financial statements were as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Contracted for		
– property, plant and equipment	**22,300**	173
– investment in an associate	**64,000**	–
– intangible assets	**–**	8,940
	86,300	9,113

(b) At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year	**8,667**	11,033
After 1 year but within 5 years	**2,092**	8,781
	10,759	19,814

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

32. CONTINGENT LIABILITIES

(a) In January 2013, a subsidiary of the Group received formal court notice that it is being sued by a former vaccine supplier for breach of contract in respect of transactions occurred in 2011. The former supplier lodged a claim for compensation and penalty of RMB6,206,000.

Based on legal advice, the directors are of opinion that as the case is at a preliminary stage, it is not possible to estimate with reasonable certainty the outcome of the case.

(b) In 2011, a subsidiary of the Group was sued by a former vaccine distributor for dispute over performance deposit and service fee. The plaintiff lodged a claim for compensation of RMB1,100,000. The directors have assessed the likelihood of any unfavourable outcome of the legal case and believe that the outcome will not have a material adverse impact on the financial position, operating results or cash flow of the Group.

Apart from the above, the Group has no other outstanding litigations or contingent liabilities up to the date of this report.

33. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2013, transactions with the following parties were considered to be related party transactions:

Name of related party	Relationship with the Group
Mr. Ng Tit and Ms. Chin Yu	Directors of the Company, beneficial holders of the Company's 46.68% equity interest
NT Holdings	Holding company of the Group prior to the Reorganisation

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**15,708**	11,586
Equity-settled share-based payment expenses	**–**	(1,991)
	15,708	9,595

The above remuneration is included in "staff costs" (note 7(b)).

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013, and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HKFRS 9	Financial instruments[2]

1 Effective for annual periods beginning on or after 1 January 2014

2 Available for application-the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.