山東羅欣藥業股份有限公司

Shandong Luoxin Pharmacy Stock Co., Ltd.*

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

Stock Code: 8058

ANNUAL REPORT 2013

* For identification purposes only

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This report, for which the directors (the "Directors" or "Director" for anyone of them) of Shandong Luoxin Pharmacy Stock Co., Ltd. (the "Company" or "Luoxin Pharmacy") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Liu Baoqi
Li Minghua
Han Fengsheng
Chen Yu
Liu Zhenteng (appointed from 1 July 2013)

Non-executive Directors

Yin Chuangui
Liu Zhenhai (re-designated from 1 July 2013)

Independent non-executive Directors

Foo Tin Chung, Victor
Fu Hongzheng
Li Hongjian (retired from 1 July 2013)
Prof. Chen Yun Zhen
Prof. Du Guanhua (appointed from 1 July 2013)

SUPERVISORS

Sun Song
Guan Yonghua (resigned from 1 July 2013)
Wan Jian
Song Liang Wei
Liu Zhenfei (appointed from 1 July 2013)

COMPLIANCE OFFICER

Liu Baoqi

COMPANY SECRETARY

Lau Hon Kee, Keith Vingo *(FCPA, CPA(Aust.))*

AUTHORISED REPRESENTATIVES

Liu Baoqi
Lau Hon Kee, Keith Vingo *(FCPA, CPA(Aust.))*

REGISTERED OFFICE

Luoqi Road, High and New
Technology Experimental Zone, Linyi City
Shandong Province, the PRC

MEMBERS OF THE AUDIT COMMITTEE

Foo Tin Chung, Victor *(chairman of the audit committee)*
Fu Hongzheng
Li Hongjian (retired from 1 July 2013)
Prof. Chen Yun Zhen
Prof. Du Guanhua (appointed from 1 July 2013)

LEGAL ADVISER TO THE COMPANY

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AUDITORS

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H-SHARE SHARE REGISTRAR AND TRANSFER OFFICE

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Rooms 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Linyi City Luozhuang District Branch
The Centre of Longtan Road
Luozhuang District, Linyi City
Shandong Province, PRC

Industrial and Commercial Bank of China
Linyi City Luozhuang District Branch
Baoquan Road, Luozhuang District
Linyi City, Shandong Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Southmark, 11 Yip Hing Street
Wong Chuk Hang, Hong Kong

STOCK CODE

8058

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board"), it is my pleasure to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013 for your review.

With an aim of maximising shareholders' value, our Company is devoted to enhancing the capabilities in research and development, increasing production capacity and consolidating sales network development, focusing on speeding up product structure adjustment and production of compressed antibiotic products, and expediting of market development of products for respiratory and digestive systems. The profit margins and competitiveness of our core operations improved in an ongoing manner. Through dedication and concerted efforts of management and employees, the Company achieved rapid growth and healthy development. For the year ended 31 December 2013, turnover increased by 13.8% to RMB2,535,797,000, whereas profit attributable to shareholders decreased by 2.57% to RMB428,585,000.

In the past year, we spared no efforts to implement the targets of the Twelfth Five-Year Plan of the People's Republic of China ("PRC"). Our capabilities in, among others, management, market network development, technology development, elite team building, spiritual civilisation development, brand building and goodwill have improved rapidly, which further enhanced our ability to withstand risks as well as our overall strength. To cope with business development and the ever increasing market demand, Shandong Yuxin Pharmacy Co., Ltd., a new member of the Company, has been granted the Drug Manufacturing Certificate (藥品生產許可證); further assistance will come from constructing its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities was completed whilst its pre-filling injection workshop is under construction. The construction of pharmaceutical raw materials project of Shandong Hengxin Pharmacy Co., Ltd. is on fast track. Specifically, the synthetic raw materials workshop of the first phase of the project is in operation. In addition, the types of powder passing the new GMP certification are lyophilized powder injection, powder injection, tablets, capsules, small volume injection, granules, dry suspension agent and bulk pharmaceuticals (including sterile bulk medicines). These projects expand the categories of new products of the Company and rapidly increase the integrated production capability. The Company invested in the construction of the Second Hospital of Fei County and the hospital has commenced operation. A number of the Company's new products were derived from successful research and development results, which were subsequently commercialised. Tens of products received invention patents and Scientific and Technological Progress Awards granted by the State. The Group has established or been recognised as a "State-province Joint Engineering Laboratory" (國家地方聯合工程實驗室), an "Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical Research, Development and Technology (Shandong)" (國家綜合性新藥研發技術大平台(山東)產業化示範企業), a "National Post-Doctoral Research Workshop" (國家博士後科研工作站) and"Key High-Tech Enterprise under the State Torch Program" (國家火炬計劃重點高新技術企業),"Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory" (山東省凍乾粉針劑藥物重點實驗室), the "Shandong Key Lyophilized Powder Injection Pharmaceutical Engineering Laboratory" (山東省凍乾粉針劑藥物工程實驗室), the position of "Taishan Scholar – Pharmaceutical expert consultant" (泰山學者－藥學特聘專家) and the "Enterprise Academician Workstation of Shandong Province" (山東省企業院士工作站). The latter enabled the Group to build a stronger platform of talent introduction and technology improvement for the Group, which, in turn, strengthened the Company's research and development capabilities. At present, the Company has an extensive and seamless sales network throughout China and a sound marketing management system. It has formed various sales channels for business solicitation, hospital end operation and logistics delivery, as well as for third terminal and bulk pharmaceuticals.

CHAIRMAN'S STATEMENT

As the Company gained predominance in various aspects, we can thus maintain our rapid and sustainable development. Our advantages include: 1. our remarkable results in successful research and development as well as marketing of State level new medicine; 2. our competitive edge arising from continuous development of new medicine; 3. our experienced management in the pharmaceutical industry; 4. our strength in research and development, and our strong support for research and development as a result of our collaboration with domestic universities and research institutes; 5. our extensive sales and marketing network; 6. our prominent cost advantage achieved by one-stop vertical production ranging from active pharmaceutical ingredients to pharmaceutical finished products in various dosage forms.

We believe that the pharmaceutical industry will maintain rapid growth in 2014. Particularly with acceleration of medical reform implementation by the State, proactive introduction of new cooperative medical initiatives and further input into the pharmaceutical industry. Further, improvement in public health services, a trend towards an aging population and acceleration in urbanisation, overall market expenditure on medical and pharmaceutical treatment will increase dramatically. Such huge market potential will enable well-established enterprises to enter a new era of rapid development. China is one of the countries that consume a lot of pharmaceuticals, the room for development is extensive. The pharmaceutical industry is incorporated into the list of supported industries in the Twelfth Five-Year Plan of the PRC central government. The PRC central government will allocate more resources to pharmaceutical and medical equipment industries. Looking ahead to 2014, the Company faces a new horizon where it will face new challenges as well as development opportunities. We strongly believe that the Company will be able to maintain faster and better development.

The rapid development and advancement of Luoxin Pharmacy always depends on sustained efforts of the management and employees, as well as incessant support from all shareholders, customers, suppliers and business partners. I would like to extend my gratitude to all the Directors for their contribution. I would also like to extend my sincere gratitude on behalf of the Board to all those who have devoted their efforts to facilitate the growth of the Company and giving tremendous support for the advancement of our Company.

Liu Baoqi
Chairman
18 March 2014

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Baoqi (劉保起), aged 52, is an executive Director and the chairman of the Company. He is responsible for the strategic planning and overall management of the Company. Mr. Liu completed his tertiary course in Economics and Management from the School of Shandong Provincial Communist Party (中共山東省委黨校) in 1996. Mr. Liu obtained the qualification of pharmacist. He has about 20 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Liu joined Shandong Luoxin Factory (the predecessor of the Company) in 1995. Before joining Shandong Luoxin Factory, Mr. Liu worked for Linyi Luozhuang Pharmacy Company ("Linyi Luozhuang", the predecessor of Luoxin Pharmacy Group Co., Ltd. ("Luoxin Pharmacy Group", previously know as Linyi Luoxin Pharmacy Company Limited ("Linyi Luoxin")) from 1988 to 1995. Mr. Liu was named as the Outstanding Young Entrepreneur in Linyi City (臨沂市優秀青年企業家)and one of the Ten Outstanding Young Persons in Linyi City (臨沂市十大傑出青年) in May and October 1996 respectively. Mr. Liu is also a delegate of Shandong Province and the Linyi City People's Congress. Mr. Liu is currently the chairman of the board of director of Luoxin Pharmacy Group, Shandong Luosheng Pharmacy Company Limited* (山東羅盛醫藥有限公司) and Shandong Mingxin Pharmacy Company Limited* (山東明欣醫藥有限公司). Mr. Liu is interested in 51.73% of the registered share capital of Luoxin Pharmacy Group. Mr. Liu is the uncle of Mr. Liu Zhenhai, and the father of Mr. Liu Zhenteng and Mr. Liu Zhenfei.

Ms. Li Minghua (李明華), aged 48, is an executive Director, the general manager, the chief executive officer and head of the research and development department of the Company. She is responsible for assisting the chairman of the Company in the Company's overall business development and operation. She graduated from Shenyang Pharmacy University (瀋陽藥科大學) with a bachelor's degree in Pharmacy. Ms. Li is a senior professional engineer in medicine in the PRC certified by Hei Long Jiang Human Resource Department (黑龍江人事廳) and a registered practising pharmacist. Before joining the Company in 2001, Ms. Li had over 15 years' experience working in several pharmaceutical enterprises in the PRC. Ms. Li was granted the Qi Lu Female Inventor award (齊魯巾幗發明家) in 2010. She was accredited as Outstanding Engineer of Shandong Province (山東省優秀工程師) in 2011 and was granted the Adultescent Professional with Outstanding Contribution of Shandong Province (山東省有突出貢獻的中青年專家). She is a delegate of the Fei County People's Congress. Ms. Li is currently a director of Shandong Yuxin Pharmacy Company Limited* (山東裕欣藥業有限公司).

Mr. Han Fengsheng (韓風生), aged 38, is an executive Director and the secretary of the Board. Mr. Han graduated from the Dalian University (大連大學) majoring in Computer Science. Before joining the Company in November 2001, Mr. Han had over 5 years' experience working in the information technology department of Linyi Luozhuang Pharmacy Company (the predecessor of Linyi Luoxin). Mr. Han is a member of the National Committee of the Chinese People's Political Consultative Conference of Luo Zhuang District.

Mr. Chen Yu (陳雨), aged 45, is an executive Director and the vice general manager who is responsible for production management. Mr. Chen completed post-graduate education in Nanjing Chemical Power College (南京化工動力專科學校), and was named a Heat Supply and Ventilation Engineer by Liaoning Province Human Resources Bureau. Mr. Chen has over 19 years of experience in the PRC medicine manufacturing industry.

Mr. Liu Zhenteng (劉振騰), aged 28, was appointed as executive director of the Company from 1 July 2013. Mr. Liu Zhenteng obtained his bachelor's degree in Accountancy from Macquarie University (澳洲麥格理大學) and MBA from University of New South Wales, Australia (澳洲新南威爾斯大學). After his graduation from Macquarie University, Mr. Liu Zhenteng worked as an analyst with a securities company for a year in Hong Kong and after obtaining his MBA, he worked as a researcher in a private equity company for another year in Shanghai. Mr. Liu is responsible for finance, human resources and strategy planning of the Company. Mr. Liu Zhenteng is the son of Mr. Liu Baoqi, the chairman of the Board.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Yin Chuangui (尹傳貴), aged 57, is a non-executive Director, and the authorized representative of Linyi City People's Hospital ("Linyi People Hospital"), a promoter and an initial management shareholder of the Company. Mr. Yin graduated from the Weifang Medical College (濰坊醫學院) with a bachelor's degree specialising in Health Management. In May 2001, Mr. Yin was nominated by Linyi People Hospital as a non-executive Director.

Mr. Liu Zhenhai (劉振海), aged 38, was re-designated as non-executive Director from of the Company 1 July 2013. He has about 15 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Liu Zhenhai is also a delegate of the Linyi City Luo Zhuang District People's Congress. Mr. Liu Zhenhai is currently the director of Luoxin Pharmacy Group, Shandong Luosheng Pharmacy Company Limited* (山東羅盛醫藥有限公司) and Shandong Mingxin Pharmacy Company Limited* (山東明欣醫藥有限公司). Mr. Liu Zhenhai is the nephew of Mr. Liu Baoqi.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Foo Tin Chung Victor (傅天忠), aged 45, was appointed as an independent non-executive Director in April 2005 and carried on this role after the Company's listing on GEM in December 2005. Mr. Foo has over 10 years' experience in the finance and accounting fields. Mr. Foo has been the executive director, financial controller, company secretary and compliance officer of Jinheng Automotive Safety Technology Holdings Limited, a company listed on the Stock Exchange. Mr. Foo had served as an independent non-executive director of Hanergy Solar Group Limited (formerly known as Apollo Solar Energy Technology Holdings Limited and RBI Holdings Limited), a company listed on the Stock Exchange, for three years until 1 May 2008. Mr. Foo holds a bachelor's degree in Accounting and Information System in the University of New South Wales in Australia and holds a master degree in Business Administration in Australia Graduate School of Management. He is a CPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Mr. Foo held senior management positions in listed companies in Hong Kong and was an auditor of an international audit firm.

Mr. Fu Hongzheng (付宏征), aged 50, was appointed as the independent non-executive Director in June 2001 and has carried on this role after the Company's listing on GEM in December 2005. Mr. Fu graduated from Pharmacy School of Yanbian University (延邊大學藥學院) in 1985 with a bachelors' degree and got his master's degree from the Shenyang Medical University (瀋陽醫科大學) in 1991.

Ms. Li Hongjian (李宏建), aged 60, has been appointed as independent non-executive Director since 30 November 2006. Ms. Li graduated from the Faculty of Pharmacy of Shandong Medical University (山東醫學院藥學系) in 1976. Since her graduation, Ms. Li has been engaging in pharmacy works in hospitals. She is currently the person-in-charge of the pharmacy department and the Chief Pharmacist in Shandong Qian Fo Shan Hospital (山東千佛山醫院), as well as a part-time professor and a mentor to the graduate school students of Shandong University (山東大學). Ms. Li Hongjian retired as independent non-executive Director of the Company from 1 July 2013.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Prof. Chen Yun Zhen (陳允震), aged 51, has been appointed as independent non-executive director on 31 December 2012. Prof. Chen is the supervisor of PhD candidates, professor and supervising doctor of Shandong University. Prof. Chen graduated at medical faculty of Shandong University in 1985 and has been working at the Orthopedic Department of Qilu Hospital since July 1985. Currently Prof. Chen is the deputy supervisor of Orthopedic Department, supervisor of Orthopedic Trauma Department and supervisor of Spinal Column and Spinal Cord Injury Research Centre of Qilu Hospital.

Prof. Du Guanhua (杜冠華), aged 57, was appointed as independent non-executive director from 1 July 2013. Prof. Du is a professor, tutor to PhD candidates, pharmacology researcher and Deputy Director of Institute of Materia Medica of Chinese Academy of Medical Sciences（中國醫學科學院）and Union Medical College（中國協和醫科大學）. Prof. Du Guanhua（杜冠華）is also a supervisor of the National Centre of Drug Screening（國家藥物篩選中心）and the president of the Chinese Pharmacological Society（中國藥理學會）. Prof. Du Guanhua（杜冠華）obtained Bachelor of Pharmacy from Shandong University, Medical Master from Tongi Medial College and PhD from Union Medical College.

SUPERVISORS

Mr. Sun Song (孫松), aged 43, is the supervisor and the manager of the Company's bulk medicine workshop. Mr. Sun graduated from the University of Hei Long Jiang（黑龍江大學）in 1993 majoring in Organic Chemistry.

Mr. Guan Yonghua (管永華), aged 51, is the director and deputy general manger of Linyi Municipal Pharmacy. On 30 November 2007, Mr. Guan was nominated by Linyi Municipal Pharmacy and appointed as supervisor of the Company. Mr. Guan resigned as supervisor of the Company from 1 July 2013.

Mr. Wang Jian (王健), aged 53, was appointed as a supervisor of the Company with effect from 30 November 2010. Mr. Wang graduated with a Master's degree in research from Shenyang Pharmacy University（瀋陽藥科大學）. Mr. Wang worked as the head of research and development department and the general manger of Guangzhiu Bidi Pharmacy Co., Ltd（廣州彼迪藥業有限公司）prior to 1999 and has been individually researching in new medicine since 1999. Mr. Wang currently holds 16,640,136 Domestic Shares, representing approximately 3.74% of all Domestic Shares or approximately 2.73% of all Domestic Shares and H Shares.

Ms. Song Liang Wei (宋良偉), aged 33, was nominated by the staff congress of the Company and appointed as a supervisor of the Company with effect from 30 November 2010. Ms. Song is the manager of the New Medicine Research and Development Technical Centre of the Company. Ms. Song graduated with a diploma in professional pharmacy from Shandong University. Before joining the Company, Ms. Song worked at Linyi People Hospital.

Mr. Liu Zhenfei (劉振飛), aged 26, joined Luoxin Pharmacy Group Co., Ltd.*（羅欣醫藥集團有限公司）, a controlling shareholder of the Company, as sales executive in 2011 and appointed as the supervisor of the Company from 1 July 2013. Mr. Liu Zhenfei obtained a bachelor's degree of Business Administration from Macquarie University, Australia. Mr. Liu Zhenfei is the son of Mr. Liu Baoqi, the chairman of the Board.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lau Hon Kee, Keith Vingo (**劉漢基**), FCPA, CPA (Aust.), aged 43, is the financial controller and company secretary of the Company. Mr. Lau is responsible for accounting, financial reporting and corporate governance of the Company. Mr. Lau holds a Bachelor's degree in Commerce from Australian National University and Master's degree in Professional Accounting from Hong Kong Polytechnic University. Mr. Lau had been serving as an independent non-executive director of Strong Petrochemical Holdings Limited since November 2008 until December 2011, a company listed on the Stock Exchange. Mr. Lau is a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Before joining the Company in March 2003, Mr. Lau had over 10 years' experience in finance and accounting field, and held senior management position in several service and manufacturing companies.

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

As the government proactively deepened medical reforms, continued to toughen regulations and standards and intensify investments in the pharmaceutical industry, and improved public health services in 2013, the investment into the development of the medical and healthcare sector has been increasing. As a result, medical insurance coverage was expanded, rural health services were strengthened, and new rural cooperative medical services were enhanced. In addition to the above favourable factors, driven by the aging population, the accelerating urbanisation as well as the steady growth of the global pharmaceutical market, the development of the pharmaceutical industry in the PRC maintained its promising momentum in 2014.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always centered its strategies on science and technology innovation, research and development ("R&D") acceleration, distribution enhancement and production optimisation. Best endeavours were used to provide reliable and high-tech pharmaceutical products as well as to enforce the marketing and distribution systems. During the year under review, to fully leverage the opportunities arising from the growth in the market, the Group satisfied market demands by investing additional resources in enhancing its production capabilities and technology application, and by accelerating the implementation of technology achievement, formation of new growth point in terms of performance and by accelerating the reform and team building process, thus building a solid foundation for sustainable future development of the Group.

BUSINESS REVIEW

For the year ended 31 December 2013 ("the year under review"), confronting the pressure in the market environment brought about by the commencement of public bidding for basic drugs procurement, the launching of the new Good Manufacturing Practices for pharmaceutical products ("GMP") policy and drug-price cuts, the Group has been implementing the development strategies as formulated earlier and sparing no effort in achieving the targets of the Twelfth Five-Year Plan, maintaining a balanced, healthy development in R&D, management, production, human resources and market network. The outstanding results were attributable to the support and cooperation of all shareholders, customers, suppliers, business partners and the public, as well as the concerted and unremitting efforts of the management and staff of the Group. In view of the current achievements, the Group will strengthen its product R&D and expand its market network to further enhance its brand recognition and competitiveness with an aim of building up a world-class pharmaceutical brand.

RESEARCH AND DEVELOPMENT

1. Building a platform for technology R&D

Currently, the Company has established or been awarded a state-province joint engineering laboratory, the "Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical R&D and Technology (Shandong)"(國家綜合性新藥研發技術大平臺(山東)產業化示範企業), the "National Post-Doctoral Research Workstation"(國家博士後科研工作站) and "Key High-Tech Enterprise under the State Torch Program"(國家火炬計劃重點高新技術企業), "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory"(山東省凍乾粉針劑藥物重點實驗室), "Shandong Lyophilized Powder Injection Pharmaceutical Engineering Laboratory"(山東省凍乾粉針劑藥物工程實驗室), the position of "Taishan Scholar – Pharmaceutical expert consultant"(泰山學者－藥學特聘專家) and "Enterprise Academician Workstation of Shandong Province"(山東省企業院士工作站), which enabled the

Group to build a stronger R&D platform for recruiting talents and improving technology and production techniques, further strengthening the R&D capabilities and overall competitiveness of the Group.

2. *New products, patents and achievements*

During the year under review, the Group filed 67 invention patent applications in the PRC. As at 31 December 2013, the Group had 82 invention patents registered in the PRC.

During the year under review, the Group obtained 3 manufacturing approvals for new products, bringing the total number of manufacturing approvals to 285 as at 31 December 2013.

The Group obtained 46 new drug certificates as at 31 December 2013.

During the year under review, the project "Guacetisal and Guacetisal for Oral Suspension (呱西替柳及呱西替柳乾混懸劑)" was listed in the State Torch Program, and another project "Cefazedone Sodium Salt and Cefazedone Sodium Salt for Injection (頭孢西酮鈉及注射用頭孢西酮鈉)" was included in State Key New Products Program. As at 31 December 2013, the Group had 4 projects listed in the State Torch Program and 2 in State Key New Products Program.

During the year under review, the Company had obtained the manufacturing approvals for lamivudine tablet (an anti-viral drug) and ambroxol hydrochloride injection (a respiratory drug), both newly developed by the Company. Such products will be made available to the market together with the new drugs which were granted manufacturing approvals in the fourth quarter 2012, namely, oxaliplatin injection and its active pharmaceutical ingredients (an antineoplastic drug), gemcitabine hydrochloride injection and its active pharmaceutical ingredients (an antineoplastic drug) and fasudil hydrochloride injection and its active pharmaceutical ingredients (a cardiovascular drug), which will become new growth drivers for the Group.

PRODUCTION AND MANAGEMENT

1. The Group continued to implement effective strategies in seven integral systems, namely management, culture, corporate organisation, capital operation, science and technology innovation, human resources and marketing. These strategies have effectively contributed to the development of the Group and further enhanced its risk resistance capacities and overall competencies. The Company has been named as one of the "Top 100 Pharmaceutical Companies in China"(中國制藥工業百強企業) consecutively since 2006. Since 2011, the Company was consecutively awarded the title of "Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China"(中國醫藥研發產品線最佳工業企業). These recognitions demonstrated the growth in the overall corporate strength of the Group.

2. Construction of Production Facilities

(1) Pharmaceutical preparations: Shandong Yuxin Pharmacy Co., Ltd. was granted the Drug Manufacturing Certificate (藥品生產許可證), and the construction of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities was completed while the pre-filling injection workshop is under construction.

(2) Pharmaceutical raw materials: in respect of the first phase of the construction of pharmaceutical raw materials project of Shandong Hengxin Pharmacy Co., Ltd. (山東裕欣藥業有限公司), the synthetic raw materials workshop is in operation.

(3) Preparations passing the new GMP certification include lyophilized powder injection, powder injection, tablets, capsules, low-volume injections, granules, dry suspension agent and bulk pharmaceuticals (including sterile bulk medicines).

3. External Investment

In cooperation with the People's Hospital of Fei County and Linyi People's Hospital, the Company established the Second Hospital of Fei County, which has been put into trial operation in September 2013.

SALES AND MARKETING

The Group continued to integrate marketing resources and build up an outstanding sales team to increase market share and competitiveness of its products. At present, the Group has an extensive and seamless sales network throughout China under a well-established marketing management system, and accelerated the development of the rural market, and formed an OTC sales network, aiming to build a third end-user direct sales network.

FINANCIAL REVIEW

For the year ended 31 December 2013, the Group's audited turnover was approximately RMB2,529,464,000, representing an increase of approximately 13.52% from approximately RMB2,228,257,000 for the corresponding period of last year. The increase was attributable to the Group's upgrade of product portfolio and acceleration of the development of a sales network to increase the market share of its products, which boosted an increase in turnover. However, the growth rate was moderated when compared with last year due to fewer new products being approved and launched this year.

For the year ended 31 December 2013, the audited cost of sales was approximately RMB884,393,000, representing an increase of approximately 21.82% from approximately RMB725,977,000 for the corresponding period of last year.

For the year ended 31 December 2013, the audited gross profit margin was 65.04%, representing an decrease of approximately 2.38% from 67.42% for the corresponding period of last year. The decrease was attributable to the Company's products which were facing general price control and increase in cost of sales, particularly in the area of direct labour cost and increasing direct depreciation.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2013, the audited operating expenditure was approximately RMB1,203,459,000, representing an increase of approximately 17.97% from approximately RMB1,020,181,000 for the corresponding period of last year. The increase of operating expenditure was due to an increase in selling and distribution expenses in relation to the growth of new sales team during the year ended 31 December 2013.

For the year ended 31 December 2013, the audited profit attributable to the shareholders was approximately RMB428,585,000 representing an decrease of approximately 2.57% from approximately RMB439,874,000, for the corresponding period of last year. Weighted average earnings per share were RMB0.70 for the year ended 31 December 2013. The decrease in the profit attributable to the shareholders was due to decrease in growth of sales, higher than last year corresponding growth of cost of sales and increase in selling and distribution expenses during the year ended 31 December 2013.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's working capital is generally financed by its internally generated cash flow. As at 31 December 2013, the Group's cash and cash equivalents amounted to approximately RMB193,409,000 (as at 31 December 2012: RMB437,275,000). As at 31 December 2013, the Group did not have any borrowings (as at 31 December 2012: nil).

PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

As at 31 December 2013, the Group's bank deposits of approximately RMB6,405,000 were pledged as security for remittance under acceptance (as at 31 December 2012: bank deposits of approximately RMB101,940,000 were pledged as security for remittance under acceptance).

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2013, the Group had financial assets at fair value through profit or loss of approximately RMB1,155,000,000 (as at 31 December 2012: RMB600,000,000). Such financial assets comprised five investments in wealth management products, offered by licensed banks in the PRC. A summary of the financial assets as at 31 December 2013 is as follows:

Investment Amount *(RMB)*	**Investment period**	**Fixed investment return % per annum**
290,000,000	11/2013 to 2/2014	4.80%
200,000,000	12/2013 to 3/2014	5.60%
200,000,000	10/2013 to 4/2014	5.35%
160,000,000	12/2013 to 4/2014	6.20%
305,000,000	12/2013 to 4/2014	6.20%

MANAGEMENT DISCUSSION AND ANALYSIS

The relevant amounts of the financial assets, being the Group's operating cash flow surplus, were previously held by the Group as cash or bank deposits prior to making the said investments with an aim to optimise utilisation of the Group's operating cash flow surplus.

MAJOR ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2013, the Group did not have any major acquisitions or disposals.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2013, the Group did not make any significant investments.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any substantial contingent liabilities.

EXCHANGE RISK

The Group operates and conducts business in the PRC, and all the Group's transactions, assets and liabilities are denominated in RMB. Most of the Group's cash and cash equivalents and pledged deposits are denominated in RMB, while bank deposits are placed with banks in the PRC. Any remittance from the PRC is subject to the restrictions on foreign exchange control imposed by the PRC government.

EMPLOYEES AND REMUNERATION POLICY

The Directors believe that employees' quality is the most important factor in maintaining the sustained development and growth of the Group and in raising its profitability. The Group determines its employees' salaries based on their performance, work experience and the prevailing salaries in the market, while other remuneration and fringe benefits are maintained at an appropriate level. The Company has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

PROSPECTS

Looking ahead, the development of pharmaceutical industry is the priority of future national policies, thus enjoying optimistic prospects. Being one of the supported key industries favoured by the Twelfth Five-Year Plan, the pharmaceutical industry will enjoy more resources allocated by the Central Government to the pharmaceutical and medical equipment sectors, and a modern market system for the circulation of pharmaceutical products will be established during the period of the Twelfth Five-Year Plan so as to enhance industry concentration. The Group is confident in maintaining its sustainable and healthy development.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the "Guiding Opinions on Speeding up of the Restructuring of the Pharmaceutical Industry" (《關於加快醫藥行業結構調整的指導意見》) (the "Opinions") jointly published by the Ministry of Industry and Information Technology of the PRC, the Ministry of Health and China Food and Drug Administration in November 2010 set out the goals of speeding up the restructuring of the pharmaceutical industry, cultivating independent innovation capability and enhancing production concentration. The Opinions are beneficial to the development of innovative enterprises as a whole as they provide more room for the growth of competitive enterprises.

In the future, the Group will continue to pursue the strategic direction of a "technology-driven enterprise with determination and efforts" under the favourable operating environment. By fully leveraging on the opportunities arising from the integration of the pharmaceutical industry, the Group will continue to expand its investment in research and development, enhance the standards in research and development as well as technologies, and strengthen the capabilities of its research and development team. The Group strives for inventing and developing more products of higher technology, better quality and higher added value. The Group also aims at reducing production cost and expanding production scale so as to achieve economies of scale, low production costs and a differentiated competitive advantage. Upon the completion and commencement of production of its new plants of "Yuxin" (裕欣) and "Hengxin" (恒欣), the Group will be able to increase its production capacity to satisfy the ever growing market demand for pharmaceutical products. The new plants will also help the introduction of new dosage forms and effectively expand the research and development scope of new drugs, thus facilitating the Group's comprehensive business growth. The Group will also accelerate the establishment of its sales team and proactively broaden its sales network so as to enhance the market share of its products and continue to improve its core competitiveness.

Through the above strategies, the Group aspires to make "Luoxin" an internationally renowned brand in the pharmaceutical industry.

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44 of the GEM Listing Rules, the Board presents this corporate governance report to disclose its corporate governance practices adopted during the year ended 31 December 2013 to the shareholders. This report highlights some of the most important corporate governance practices of the Company.

THE CORPORATE GOVERNANCE POLICY

The Board considers that good corporate governance of the Company is the key to safeguarding the interests of shareholders and enhancing the performance of the Company. The Board is committed to maintaining and ensuring high standards of corporate governance and will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

The executive directors, according to the corporate governance policy, perform different duties in their specialist area, which are marketing, research and development, finance and accounting and general administration.

The Board has also established the Audit Committee, under its authorised terms of reference, to review the Company's existing internal control policies and procedures, operation, investor relationship and directors' duties and behaviour from time to time in order to maintain that the Board is managing the Company under the corporate governance policy.

In the opinion of the Board, the Company complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report ("Corporate Governance Code") contained in the Appendix 15 of the GEM Listing Rules.

THE BOARD

The Board currently comprises of 5 executive Directors, namely, Mr. Liu Baoqi, Ms. Li Minghua, Mr. Han Fengsheng, Mr. Chen Yu and Mr. Liu Zhenteng with Mr. Liu Baoqi acting as chairman of the Board, 2 non-executive Directors, namely, Mr. Yin Chuangui and Mr. Liu Zhenhai and 4 independent non-executive Directors, namely, Mr. Foo Tin Chung, Victor, Mr. Fu Hongzheng, Prof. Chen Yun Zhen and Prof. Du Guanhua. As the Company was established in the PRC, it has 4 supervisors, namely, Mr. Sun Song, Mr. Wang Jian, Ms. Song Liang Wei and Mr. Liu Zhenfei were also appointed to monitor the decision making of the Board.

Biographical details of the Directors and supervisors and their respective relationships (if any) have been set out in the section "Profiles of Directors, supervisors and senior management" in this report.

In accordance with Article 96 of the articles of association of the Company (the "Articles of Association"), the current service term of the Directors is for a period of 3 years running from 1 July 2013, the date on which the above Directors were duly re-elected and appointed.

The Board is responsible for the overall strategic development and operation of the Company. The Board is also responsible for the financial performance and internal control policies and procedures of the Company's business operation.

CORPORATE GOVERNANCE REPORT

COMMITMENTS

The Board will meet at least every quarter, to review the overall development, operation and financial performance of such period and other matters of the Company that require the approval of the Board. All Board members are given access to board materials and are given reasonable time to review the information and sufficient time for consideration. The chairman of the Board is responsible for preparing the agenda of the Board meetings.

Moreover, Board meets regularly to discuss the daily operation issues of the Company. For those non-executive and independent non-executive Directors who are not personally present at such Board meetings, conference calls will be arranged so as to enable the Company to seek advice actively from them.

APPOINTMENT OF DIRECTORS

The Directors all carried out their duties in a dedicated, diligent and proactive manner with reasonable prudence. They carried our their duties imposed by the Company Law of the PRC, Hong Kong Companies Ordinance (Cap.622) ("Companies Ordinance"), the Articles of Association and the GEM Listing Rules, complied with relevant requirements and strictly implemented resolutions passed at general meetings.

Executive Directors were appointed based on their expertise and are responsible for different areas of the Company's business. The non-executive Directors and supervisors were mostly appointed through nominations made by certain initial management shareholders, promoters or staff unions, who could monitor the decision making of the Board and operation of the Company.

Two of the promoters, Linyi People's Hospital and Pingyi People Hospital sold their shares in the Company to independent investors and Linyi Luoxin (or known as "Luoxin Pharmacy Group" today) during October 2007. But as they played a role in the Company's performance and transactions from 2008 to 2013, and will continue to play their role in subsequent events in 2014, the non-executive Director nominated by them will remain on the Board until further arrangement.

The independent non-executive Directors also serve important role in the Board. They bring independent judgment on issues of strategic direction and future development; opine on connected transactions and risk management on audit issues. One of the independent non-executive Directors is a qualified accountant and the rest of them possess the qualification set out in GEM Listing Rules as at the date of this report. The Board has received annual confirmation in respect of the independence of each of the independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and believes that their independence is in compliance with the GEM Listing Rules as at the date of this report.

Under the code provision A.4.3 of the Corporate Governance Code, serving more than nine years could be relevant to the determination of a non-executive Director's independence and that any further appointment of such independent non-executive Director should be subject to a separate resolution to be approved by shareholders.

CORPORATE GOVERNANCE REPORT

Mr. Foo Tin Chung, Victor (傅天忠), being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director who was appointed in April 2005 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Foo Tin Chung, Victor continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Foo Tin Chung, Victor continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Foo Tin Chung, Victor's re-election at the annual general meeting.

Mr. Fu Hongzheng (付宏征), being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director who was appointed in June 2001 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Fu Hongzheng continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Fu Hongzheng continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Fu Hongzheng's re-election at the annual general meeting.

The Board will consider the past performance, qualification, general market conditions and the Articles of Association in selecting and recommending candidates for directorships. All Directors are regularly updated on governance and regulatory matters and are entitled to have access to independent professional advice pursuant to the internal policies of the Company.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

During the year 2013, the Board has held 4 meetings. Directors were given sufficient time to review documents and information relating to matters discussed during such meetings.

Details of Directors' attendance at Board meetings held in 2013 are as follows:

	Dates of meeting			
Board Meetings	**19 March**	**7 May**	**6 August**	**5 November**
Executive Directors				
Mr. Liu Baoqi	✔	✔	✔	✔
Ms. Li Minghua	✔	✔	✔	✔
Mr. Han Fengsheng	✔	✔	✔	✔
Mr. Chen Yu	✔	✔	✔	✔
Mr. Liu Zhenteng (appointed from 1 July 2013)	x	x	✔	✔
Non-executive Directors				
Mr. Yin Chuangui	✔	✔	✔	✔
Mr. Liu Zhenhai (re-designated from 1 July 2013)	✔	✔	✔	✔
Independent non-executive Directors				
Mr. Foo Tin Chung, Victor	✔	✔	✔	✔
Mr. Fu Hongzheng	✔	✔	✔	✔
Ms. Li Hongjian (retired from 1 July 2013)	✔	✔	x	x
Prof. Chen Yun Zhen	✔	✔	✔	✔
Prof. Du Guanhua (appointed from 1 July 2013)	x	x	✔	✔

CORPORATE GOVERNANCE REPORT

DIRECTORS' ATTENDANCE AT THE GENERAL MEETINGS

During the year ended 31 December 2013, two general meetings were held and details of Directors' attendance are as follows:

Name of Directors	**10 June AGM**	**10 June EGM**
Executive Directors		
Mr. Liu Baoqi	✔	✔
Ms. Li Minghua	x	x
Mr. Han Fengsheng	✔	✔
Mr. Chen Yu	✔	✔
Mr. Liu Zhenteng (appointed from 1 July 2013)	x	x
Non-executive Directors		
Mr. Yin Chuangui	✔	✔
Mr. Liu Zhenhai (re-designated from 1 July 2013)	✔	✔
Independent non-executive Directors		
Mr. Foo Tin Chung, Victor	✔	✔
Mr. Fu Hongzheng	✔	✔
Ms. Li Hongjian (retired from 1 July 2013)	x	x
Prof. Chen Yun Zhen	x	x
Prof. Du Guanhua (appointed from 1 July 2013)	x	x

DIRECTORS' TRAINING

During the year ended 31 December 2013, all the Directors have fulfilled the training requirement under paragraph A.6 of the Corporate Governance Code. The summary of the Directors who attended the types of training is as follows, and for the Director appointed during the year ended 31 December 2013, he has also fulfilled the requirement on a pro rata basis:

	Types of Training				
Name of Directors	**A**	**B**	**C**	**D**	**E**
Executive Directors					
Mr. Liu Baoqi	✔	✔	✔	✔	✔
Ms. Li Minghua	✔	✔	✔	✔	✔
Mr. Han Fengsheng	✔	✔	✔	✔	✔
Mr. Chen Yu	✔	✔	✔	✔	✔
Mr. Liu Zhenteng (appointed from 1 July 2013)	✔	✔	✔	✔	✔
Non-executive Directors					
Mr. Yin Chuangui	x	x	✔	✔	x
Mr. Liu Zhenhai (re-designated from 1 July 2013)	x	x	✔	✔	x
Independent non-executive Directors					
Mr. Foo Tin Chung, Victor	x	x	✔	✔	✔
Mr. Fu Hongzheng	x	x	✔	✔	x
Ms. Li Hongjian (retired from 1 July 2013)	x	x	✔	✔	x
Prof. Chen Yun Zhen	✔	✔	✔	✔	x
Prof. Du Guanhua (appointed from 1 July 2013)	✔	✔	✔	✔	x

A. Attending seminars or workshops on marketing issue of the industry, organised internally or by external providers.

B. Attending seminars or workshops on products research & development and technologies updates of the industry, organised internally or by external providers.

C. Attending seminar or workshops on the Listing Rules, corporate governance and compliance issues, organized internally or by external providers.

D. Attending seminar or workshops on directors' duties and undertakings, both organised internally or by external providers.

E. Attending internal workshop and top level discussion on corporate finance, internal control and budgeting issues.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, after making specific enquiries with the Directors, the Directors have complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors for the year ended 31 December 2013.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under paragraph A.2.1 of the Corporate Governance Code, "the roles of chairman and chief executive officer should be separated and should not be performed by the same individual". During the year ended 31 December 2013, Mr. Liu Baoqi served as chairman of the Board and Ms. Li Minghua served as the general manager and chief executive officer of the Company.

COMMITTEES

As part of corporate governance practices, the Board has established the following committees which are all chaired by and comprise of the independent non-executive Directors.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") was established on 20 November 2005 and its members during the year ended 31 December 2013 included:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Ms. Li Hongjian (retired from 1 July 2013)
Prof. Chen Yun Zhen
Prof. Du Guanhua (appointed from 1 July 2013)

The Company has established the Audit Committee with written terms of reference in compliance with paragraph C.3 of the Corporate Governance Code. The terms of reference adopted on 20 November 2005 were amended and restated on 13 March 2012. The duties of the Audit Committee are to review and supervise the financial reporting process and the Company's internal control policies and procedures and the relationship with the Company's auditors. The appointments of the Audit Committee members are based on their broad experience in the medicinal field and professional knowledge in financial reporting and management.

The Audit Committee meets regularly to review financial reporting matters, internal control policies and procedural issues; and see how the Company can comply with these requirements. The Audit Committee also acts as the communication bridge between the Board and the auditors in relation to the planning and scope of audit work. The audited results of the Group for the year ended 31 December 2013 have been reviewed and discussed by the Audit Committee before any disclosure and release of information.

During the year ended 31 December 2013, the Audit Committee held four meetings and details of attendances of the meetings are shown below:

	Dates of meeting (2013)			
Audit Committee Meetings	**18 March**	**6 May**	**5 August**	**4 November**
Independent non-executive Directors				
Mr. Foo Tin Chung, Victor	✔	✔	✔	✔
Mr. Fu Hongzheng	✔	✔	✔	✔
Ms. Li Hongjian (retired from 1 July 2013)	✔	✔	x	x
Prof. Chen Yun Zhen	✔	✔	✔	✔
Prof. Du Guanhua (appointed from 1 July 2013)	x	x	✔	✔

REMUNERATION COMMITTEE

The remuneration committee of the Company ("Remuneration Committee") was established on 20 November 2005 and its members during the year ended 31 December 2013 included:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Ms. Li Hongjian (retired from 1 July 2013)
Prof. Chen Yun Zhen
Prof. Du Guanhua (appointed from 1 July 2013)

The Company established the Remuneration Committee with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code. The terms of reference adopted on 20 November 2005 were amended and restated on 13 March 2012. The duties of the Remuneration Committee include evaluating the performance and making recommendations on the remuneration package of the Directors and senior management and evaluating and making recommendations on other employee benefit arrangements.

The appointments of the Remuneration Committee members are based on their broad experience in the medicinal field and knowledge of financial management, in particular, remuneration to local workforces. Amongst the members of the Remuneration Committee, Mr. Fu Hongzheng and Ms. Li Hongjian are both experienced medical professionals in the PRC. Prof. Chen and Prof. Du are both practising doctors and medical scholars.

During the year ended 31 December 2013, the Remuneration Committee held four meetings and details of the attendances of the meetings are shown below:

	Dates of meeting (2013)	
Remuneration Committee Meetings	**18 March**	**5 August**
Independent non-executive Directors		
Mr. Foo Tin Chung, Victor	✔	✔
Mr. Fu Hongzheng	✔	✔
Ms. Li Hongjian (retired from 1 July 2013)	✔	x
Prof. Chen Yun Zhen	✔	✔
Prof. Du Guanhua (appointed from 1 July 2013)	x	✔

NOMINATION COMMITTEE

The nomination committee of the Company ("Nomination Committee") was established on 13 March 2012 and its members during the year ended 31 December 2013 include:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Ms. Li Hongjian (retired from 1 July 2013)
Prof. Chen Yun Zhen
Prof. Du Guanhua (appointed from 1 July 2013)

The Company established the Nomination Committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The terms of reference were adopted on 13 March 2012. The duties of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The appointments of the Nomination Committee members are based on their broad experience in the medicinal field and knowledge of directors' duties, in particular, the making of recommendations on board composition with focus on different skills and knowledge of the Directors.

On 31 March 2012, the Nomination Committee issued nomination procedures in respect of shareholders' nomination of candidates for the Company's Directors.

During the year ended 31 December 2013, the Nomination Committee held three meetings and details of the attendances of the meetings are shown below:

	Dates of meeting (2013)	
Nomination Committee Meetings	**18 March**	**5 August**
Independent non-executive Directors		
Mr. Foo Tin Chung, Victor	✔	✔
Mr. Fu Hongzheng	✔	✔
Ms. Li Hongjian (retired from 1 July 2013)	✔	x
Prof. Chen Yun Zhen	✔	✔
Prof. Du Guanhua (appointed from 1 July 2013)	x	✔

SHAREHOLDERS' RIGHTS

Extraordinary General Meeting

According to section 59 of the Articles of the Company, shareholders of the Company holding 10% or more of the total voting shares of the Company shall have the right to convene an extraordinary general meeting. Shareholders who would like to convene an extraordinary general meeting should send a written notice to the Board, which shall convene an extraordinary general meeting within two months after the receipt of the said written notice.

Shareholders of the Company who wish to make such proposal to convene an extraordinary general meeting should approach the Company Secretary for redirecting the proposal to the Board.

Making Proposals at Shareholders' Meetings

According to section 61 of the Articles of the Company, when the Company convenes an annual general meeting, ("annual general meeting" or "AGM") shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new resolutions, and the Company shall include such proposed resolutions in the agenda for such annual general meeting if they are matters falling within the functions and powers of and to be dealt with by shareholders at general meetings.

Shareholders who would like to convene an extraordinary general meeting or to propose new resolutions in annual general meeting should approach the Company Secretary whom shall direct such request to the Board.

Contact details of the Company Secretary:

The Company Secretary
Shandong Luoxin Pharmacy Stock Co. Ltd.
Room 110, Tower B, Southmark,
11 Yip Hing Street, Wong Chuk Hang,
Hong Kong

Email: keith.vingo.lau@luoxin.cn

Enquiries to the board

Shareholders who would like to send enquiries to the Board could approach the Company Secretary in writing and the Board will reply the enquiries in a timely manner.

Contact details of the Company Secretary:

The Company Secretary
Shandong Luoxin Pharmacy Stock Co. Ltd.
Room 110, Tower B, Southmark,
11 Yip Hing Street, Wong Chuk Hang,
Hong Kong

Email: keith.vingo.lau@luoxin.cn

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders and public investors. Information of the Company is disseminated to shareholders and interested parties in the following manner:

- delivery of the quarterly, interim and annual results and reports to all shareholders and interested parties; and

- publication of announcements on the quarterly, interim and annual results on the Stock Exchange websites, and issuance of other announcements and shareholders' circulars in accordance with the continuing disclosure obligation under the GEM Listing Rules.

The Company has appointed the investor relationship division of Quam (H.K.) Limited as the Company's investor relationship service provider. All of the Company's investor relationship information can be found on:

http://shandongluoxin.quamir.com

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing preparation by management of accounts for each financial period. The Board is also committed to making appropriate announcements, in accordance with the GEM Listing Rules, and to disclose all information that is necessary for shareholders to assess the financial performance and other matters of the Company.

During the year ended 31 December 2013, the Board reviewed the engagement of auditors and their remuneration. The auditor of the Company would receive approximately HK$800,000 for audit and related services and approximately HK$179,000 for other services.

The accounts for the year ended 31 December 2013 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting of the Company. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for re-appointment as auditors of the Company at the forthcoming AGM.

INTERNAL CONTROL

The Board is also responsible for regularly reviewing the internal control policies of the Group. Senior management members are required to work in accordance with the internal policies and procedures implemented by the Group. The Group has developed and established internal control policies and procedures prior to listing the H Shares of the Company on GEM in December 2005. This set of policies and procedures monitor the operation of the Company in three areas, namely: sales and account receivables cycles, purchase and account payables cycles, and other policy and procedures, including statutory and regulatory reporting and disclosure requirements. Emphasis has been placed on the level of approval on the utilisation of the Company's resources and compliance with financial reporting and disclosure requirements. The Audit Committee also advises on internal control issues and take an active role in communicating best practice in internal controls of the Group to the Directors and senior management of the Company.

The Board has carried out an annual review of the existing internal control systems of the Group in accordance with Code Provision C.2.1 of the Corporate Governance Code, including financial, operational and compliance controls and risk management functions of the Group. During the year ended 31 December 2013, the Board has reviewed the effectiveness of the Group's internal control systems and considered that they are adequate and effective.

The Board will continue reviewing the policies and procedures in order to maintain a high level of internal control over its operation.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors for the year ended 31 December 2013.

THE STRATEGY TO GENERATE THE VALUE

The Company is committed to launching new medicines, with its strong product research and development support, at their highest yield of product lifecycle, which would maintain the growing return to the shareholders and advance medicine supplies to the community.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company and the Group is the manufacture and sale of pharmaceutical products.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43 of this annual report.

The Directors recommend the payment of a final dividend of RMB0.3 per ordinary share, totaling RMB182,880,000. Such recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting

The register of members of the Company will be closed from 25 April 2014 to 27 May 2014 (both days inclusive) in order to ascertain the shareholders who are eligible to attend and vote at the forthcoming annual general meeting. All properly completed H Shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H-shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 24 April 2014, for registration.

Entitlement to Final Dividend

The Board has recommended the payment of a final dividend of RMB0.3 per share in respect of the year ended 31 December 2013. Subject to the approval of shareholders at the forthcoming annual general meeting, the dividend cum-date and ex-date will be 30 May 2014 and 3 June 2014 respectively. The register of members of the Company for entitlement of dividend will be closed from 5 June 2014 to 11 June 2014 (both days inclusive) in order to determine the shareholders who are eligible for the final dividend. All properly completed H shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 4 June 2014, for registration.

WITHHOLDING OF INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS AND NON-RESIDENT INDIVIDUAL SHAREHOLDERS IN RESPECT OF THE PROPOSED FINAL DIVIDEND

Non-resident Corporate Shareholders

Pursuant to the Law on Corporate Income Tax of the PRC and the relevant implementing regulations, which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident corporate shareholders whose names appear on the H Share register of members on 11 June 2014. The Company will distribute the final dividend to such non-resident corporate shareholders after withholding a 10% income tax. In order to determine the list of holders of H Shares who are entitled to receive the final dividend, the H Share register of members of the Company will be closed from 5 June 2014 to 11 June 2014, both days inclusive, during which period no transfer of the Company's H Shares will be effected. In order for holders of H Shares to be qualified for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 4 June 2014, for registration.

Non-resident Individual Shareholders

Pursuant to the regulation promulgated by the State General Administration of Taxation of the PRC (Guo Shui Han [2011] No.348), the Company is required to withhold and pay the non-resident individual income tax for the non-resident individual H shareholders and the non-resident individual H shareholders are entitled to certain tax preferential treatments according to the double tax treaties between those countries where the non-resident individual H shareholders are residents and China and the provisions in respect of double tax treaties between the mainland China and Hong Kong or Macau. The Company would withhold and pay the individual income tax at the tax rates of 10% on behalf of the non-resident individual H shareholders who are Hong Kong residents, Macau residents or residents of those countries having double tax treaties with China for personal income tax rates of lower than 10% in respect of dividends. For non-resident individual H shareholders who are residents of those countries having agreements with China for personal income tax rates of lower than 10% in respect of dividends. the Company would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家税務總局關於印發〈非居民享受税收協議待遇管理辦法(試行)〉的通知》(國税發[2009]124號)). For non-resident individual H shareholders who are residents of those countries having double tax treaties with China for personal income tax rates in respect of dividends of higher than 10% but lower than 20%, the Company would withhold the individual income tax at the agreed-upon effective tax rate. For non-resident individual H shareholders who are residents of those countries without any double tax treaties with China or having double tax treaties with China for personal income tax in respect of dividends of 20% and other situations, the Company would withhold the individual income tax at a tax rate of 20%.

REPORT OF THE DIRECTORS

In order to determine the list of holders of H shares of the Company who are entitled to receive the final dividend, the H share register of members of the Company will be closed from 5 June 2014 to 11 June 2014, both days inclusive, during which period no transfer of the Company's H shares will be effected.

The Company will determine the country of domicile of the individual H shareholders based on the registered address as recorded in the register of members of the Company (the "Registered Address") on 11 June 2014 and will withhold and pay the individual income tax based on the register of members of the Company as at 11 June 2014. If the country of domicile of the individual H shareholder is not the same as the Registered Address, the individual H shareholder shall notify the Company's H share registrar and provide relevant supporting documents to the Company's H share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 4 June 2014, for registration. If the individual H shareholders do not provide the relevant supporting documents to the share registrar of the Company's H shares within the time period stated above, the Company will determine the country of domicile the individual H shareholders based on the recorded Registered Address on 11 June 2014.

The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment such appropriate income tax and the final dividend will only be payable to the shareholders whose names appear on the Company's H share register of members on 11 June 2014.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

RESERVES

Movements in the reserves of the Company during the year ended 31 December 2013 are set out in Note 35 to the accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 20 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 34 to the accounts.

REPORT OF THE DIRECTORS

GEARING RATIO

The Directors of the Company review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risk associated with each class of capital. During the year ended 31 December 2013, the Group's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated base on total debt and total assets.

The gearing ratio as at 31 December 2013 and 2012 are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Total debt	**–**	–
Total assets	**2,667,700**	2,288,547
Gearing ratio	**N/A**	N/A

DISTRIBUTABLE RESERVES

According to the Company Law of the PRC, the distributable reserves of the Company as at 31 December 2013 amounted to RMB1,953,051,000 (2012: RMB1,708,301,000).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 125 to 126 of this report.

COMPARISON BETWEEN BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS

An outstanding business objective stated in the prospectus but which remains unfulfilled is the commencement of promotion activities and production of Rhodiola for Injection.

Promotional activities for Rhodiola for Injection, including press releases and other target-customer oriented promotional activities, have not yet officially commenced as the Company has not obtained production approval. Nonetheless, the patent in respect of Rhodiola for Injection, which was obtained by the Company on 10 May 2006, was widely reported.

Production of Rhodiola for Injection has not yet commenced either as the Company is in the process of obtaining production approval from the relevant PRC authority.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group has not redeemed, purchased or sold any of its listed securities during the year ended 31 December 2013.

SHARE OPTIONS

The Group has not adopted any share option plan since its establishment.

DIRECTORS

The Directors during the year ended 31 December 2013 were:

Executive directors
Liu, Baoqi (劉保起)
Li, Minghua (李明華)
Han, Fengsheng (韓風生)
Chen, Yu (陳雨)
Liu, Zhenteng (劉振騰) (appointed from 1 July 2013)

Non-executive directors
Yin, Chuangui (尹傳貴)
Liu, Zhenhai (劉振海) (re-designated from 1 July 2013)

Independent non-executive directors
Fu, Hongzheng (付宏征)
Foo, Victor Tin Chung (傅天忠)
Li Hongjian (李宏建) (retired from 1 July 2013)
Prof. Chen Yun Zhen (陳允震)
Prof. Du Guanhua (杜冠華) (appointed from 1 July 2013)

In accordance with Article 96 of the Articles of Association adopted by the shareholders of the Company on 20 November 2005, the term of directorship for most of the Directors is for a term of three years running from 30 November 2004, being the date of the general meeting of the Company which approved the appointments of the Directors. The last term of the directors' service has expired and they were re-elected as follows:

Mr. Liu, Baoqi (劉保起), Ms. Li, Minghua (李明華), Mr. Han Fengsheng (韓風生) and Mr. Chen Yu (陳雨), being executive Directors, retired and were re-elected on 10 June 2013 with a term of three years commencing from 1 July 2013. Mr. Liu. Zhenteng (劉振騰) was appointed as executive director on 1 July 2013 with a term of three years commencing from 1 July 2013.

REPORT OF THE DIRECTORS

Mr. Yin, Chuangui (尹傳貴), being non-executive Directors, retired and were re-elected on 10 June 2013 with a term of three years commencing from 1 July 2013. Mr. Liu, Zhenhai (劉振海), was re-designated as non-executive Directors on 10 June 2013 with a term of three years commencing from 1 July 2013.

Mr. Fu, Hongzheng (付宏征), Mr. Foo, Victor Tin Chung (傅天忠) and Prof. Chen Yun Zhen (陳允震), being independent non-executive Directors retired and were re-elected on 10 June 2013 with a term of three years commencing from 1 July 2013. Prof. Du Guanhua (杜冠華) was appointed on 10 June 2013 with a term of three years commencing from 1 July 2013. Ms. Li Hongjian (李宏建) reached retirement age and was retired from 1 July 2013.

Under the code provision A.4.3 of the Corporate Governance Code, serving more than nine years could be relevant to the determination of a non-executive Director's independence and that any further appointment of such independent non-executive Director should be subject to a separate resolution to be approved by shareholders.

Mr. Foo Tin Chung, Victor (傅天忠), being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director who was appointed in April 2005 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Foo Tin Chung, Victor continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Foo Tin Chung, Victor continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Foo Tin Chung, Victor's re-election at the annual general meeting.

Mr. Fu Hongzheng (付宏征), being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director who was appointed in June 2001 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Fu Hongzheng continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Fu Hongzheng continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Fu Hongzheng's re-election at the annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive Directors, independent non-executive Directors and supervisors of the Company has entered into a service contract with the Company commencing from 1 July 2013 for a term of three years.

Save as disclosed above, none of the Directors and supervisors of the Company has entered into service contracts with the Company which were not terminable by the Company within one year without compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Save as disclosed above, none of the Directors and supervisors of the Company had a material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business during the year ended 31 December 2013.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2013, the interests and short positions of each of the Directors and supervisors of the Company in the shares, underlying shares and debentures of the Company, as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long position of Domestic Shares as at 31 December 2013:

Name of director	Capacity/Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's Share Capital
Mr. Liu Baoqi (劉保起) *(Note 1)*	Interest of controlled corporation	325,639,949	73.17%	53.42%

Note 1:

These 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group Co., Ltd. ("Luoxin Pharmacy Group", previously known as Linyi Luoxin Pharmacy Company Limited). Liu Baoqi (劉保起) ("Mr. Liu") is interested in 51.73% of the registered share capital of Luoxin Pharmacy Group. Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. The total number of Domestic Shares in which Mr. Liu is deemed to be interested as at 31 December 2013 was 325,639,949 (representing 73.17% of total issued Domestic Shares and 53.42% of the Company's total issued share capital). On 30 June 2012, Luoxin Pharmacy Group held 320,639,949 Domestic Shares, representing 72.05% of the total issued Domestic Shares and 52.60% of the Company's total issued share capital. On 17 September 2012, Luoxin Pharmacy Group acquired 3,000,000 domestic shares from Mr. Li Xue Liang (李學良) and 2,000,000 domestic shares from Mr. Wang Jian (王健), a supervisor of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

In respect of the register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2013, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and supervisors of the Company.

Long position of Domestic Shares, as at 31 December 2013:

Name	**Capacity/Nature of Interest**	**Number of Domestic Shares**	**% of total issued Domestic Shares**	**% of Company's Share Capital**
Luoxin Pharmacy Group	Beneficial Owner	325,639,949	73.17%	53.42%
Zuo Hongmei (左洪梅)	Family interest *(Note 2)*	325,639,949	73.17%	53.42%

Note 2:

These 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group. Luoxin Pharmacy Group is owned as to approximately 51.73% by Mr. Liu. As Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group, for the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. Zuo Hongmei (左洪梅), as the wife of Mr. Liu, is taken to be interested in the entire 325,639,949 Domestic Shares that Mr. Liu is interested in.

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2013, the Company did not enter into any significant contract. However, the framework agreements of continuing connected transactions, entered into between the Company and (i) Luoxin Pharmacy Group, the controlling shareholder of the Company; (ii) Linyi People Hospital; (iii) Shandong Luosheng Pharmacy Co., Ltd. ("Shandong Luosheng"); and (iv) Shandong Mingxin Pharmacy Co., Ltd. ("Shandong Mingxin"), both being the fellow subsidiaries of the Company in 2012, which remained effective during the year ended 31 December 2013. Please refer to the section on Connected Transactions and Continuing Connected Transactions for details.

MANAGEMENT CONTRACTS

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

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year ended 31 December 2013 attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	6.5%
– five largest suppliers combined	22.9%
Sales	
– the largest customer	12.9%
– five largest customers combined	23.6%

During the year ended 31 December 2013, the sales of chemical medicines to Luoxin Pharmacy Group, Shandong Luosheng and Shandong Mingxin amounted to approximately RMB326,789,000, RMB39,401,000 and RMB27,135,000 respectively. Luoxin Pharmacy Group is the largest customer of the Company for the year ended 31 December 2013.

Three of the five largest customers of the Company are Luoxin Pharmacy Group. Shandong Luosheng and Shandong Mingxin which are the related parties of the Company. For further details, please refer to note 38 to the accounts.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2013, the Company had the following non-exempt, continuing connected transactions, details of which are set out below:

	Annual Cap for the financial years ending 31 December		
Nature of transaction	**2011**	**2012**	**2013**
Sales of chemical medicines from the Company to Luoxin Pharmacy Group pursuant to a framework agreement dated 8 August 2012	RMB550 million	RMB825 million	RMB990 million
Sales of chemical medicines by the Company to Linyi People Hospital pursuant to a framework agreement dated 22 December 2009	RMB30 million	RMB39 million	N/A
Sales of chemical medicines by the Company to Shandong Luosheng pursuant to a framework agreement dated 8 August 2012	RMB120 million	RMB180 million	RMB180 million
Sales of chemical medicines by the Company to Shandong Mingxin pursuant to a framework agreement dated 8 August 2012	RMB110 million	RMB165 million	RMB165 million

Luoxin Pharmacy Group is the single largest and a substantial shareholder of the Company, holding approximately 53.42% of the issued share capital of the Company. Linyi People Hospital is one of the promoters of the Company. Shandong Luosheng and Shandong Mingxin are fellow subsidiaries of the Company of which Luoxin Pharmacy Group is holding more than 51% of both companies. They are therefore connected persons of the Company pursuant to Rule 20.11 of the GEM Listing Rules. The sale of the chemical medicines from the Company to Luoxin Pharmacy Group, Linyi People Hospital, Shandong Luosheng and Shandong Mingxin pursuant to the respective framework agreements constitute continuing connected transactions of the Company, details of which are set out in the announcement issued by the Company on 8 August 2012 and the circular issued by the Company on 13 September 2012.

REPORT OF THE DIRECTORS

During the year ended 31 December 2013, the sales of chemical medicines by the Company to Luoxin Pharmacy Group, Shandong Luosheng and Shandong Mingxin amounted to RMB326,789,119, RMB39,400,802 and RMB27,134,968 (2012: RMB491,855,153, RMB55,460,615 and RMB27,096,740) respectively, which did not exceed the annual cap for the relevant transactions. Further details are set out in Note 38 to the consolidated financial statements. The Company received confirmation from auditors that these transactions comply with the matters stated in Rule 20.38 of the GEM Listing Rules. The independent non-executive Directors, who are not interested in any of the above continuing connected transactions, have reviewed and confirmed that the above continuing connected transactions have been entered into by the Company:

1. in the ordinary and usual course of the business of the Company;

2. on terms of arm's length transactions to the Company; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Directors have received a letter from the auditors in respect of the continuing connected transactions as required by Rule 20.38 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

COMPETING INTERESTS

Set out below is information disclosed pursuant to paragraph 11.04 of GEM Listing Rules:

Luoxin Pharmacy Group

Luoxin Pharmacy Group which holds 53.42% of the Company's issued share capital, is the controlling shareholder of the Company. The chairman and executive director of the Company, Mr. Liu Baoqi, is also the chairman and executive director of Luoxin Pharmacy Group, and a controlling shareholder thereof. He holds 51.73% of the registered capital of Luoxin Pharmacy Group.

The principal activities of Luoxin Pharmacy Group, apart from being a controlling shareholder of the Company, are trading medical equipment, Chinese medicines and health and beauty products, which are not directly or indirectly in competition with the Company's business. The Company is principally engaged in the manufacturing and trading of antibiotics and system specified medicines. Luoxin Pharmacy Group also engages in the trading of chemical medicines, but is restricted only to those products which are purchased from the Company under the continuing connected transactions as disclosed above. Save as trading of chemical medicines purchased from the Company, Luoxin Pharmacy Group does not sell any chemical medicine. The customers to whom Luoxin Pharmacy Group sells chemical medicines are those hospitals in Linyi City District, which are at or below county level, that the Group does not have direct access to.

REPORT OF THE DIRECTORS

Luoxin Pharmacy Group does not engage in the manufacturing of medicines whether by itself or through any subsidiary or associate company. Luoxin Pharmacy Group can only be regarded as participating in the manufacturing of medicines indirectly through the Group by reason of it being a controlling shareholder of the Company.

The Company's targeted markets and customers are hospitals of all sizes and at all levels throughout the PRC. Luoxin Pharmacy Group's targeted markets and customers are small and medium sized hospitals at or below county level, mainly in Linyi City District.

Notwithstanding the non-competition undertakings entered into by Luoxin Pharmacy Group in 2002 (as supplemented by a memorandum in 2005), whereby it agreed not to engage in any business which would be in competition with that of the Company, the Company entered into certain continuing connected transactions with Luoxin Pharmacy Group. The Company has been selling chemical medicines to Luoxin Pharmacy Group under these agreements. It is a unique feature of the PRC medicine market that certain customer groups would only deal with certain medicine traders. Owing to this unique feature, certain hospitals at or below county level in Linyi City District would not purchase medicines directly from the Company. However Luoxin Pharmacy Group may have business dealings with these hospitals. In those circumstances, Luoxin Pharmacy Group becomes the bridge between the Company and those hospitals and sells the Company's chemical medicine products to them. Therefore, the Company entered into the said continuing connected transactions with Luoxin Pharmacy Group for the distribution of the Company's chemical medicines to these customers.

The Directors considered that not only were the continuing connected transactions not a breach of the non-competition undertaking on the part of Luoxin Pharmacy Group, but rather a perfect opportunity that promoted cooperation between the Company and Luoxin Pharmacy Group in opening up the chemical medicine market. It would also broaden the ultimate client base for both the Company and Luoxin Pharmacy Group with hospitals at or below county level in Linyi City District. Without this opportunity and cooperation, neither the Company nor Luoxin Pharmacy Group have been able to sell chemical medicines to those hospitals. In reaching the above conclusion, the Directors have taken into account the following:

(i) Since 2005, there has been no sale of chemical medicines by Luoxin Pharmacy Group other than the chemical medicines purchased from the Company under the continuing connected transactions. As such, Luoxin Pharmacy Group has not resumed its chemical medicines business that is directly or indirectly in competition with the Company's business; and

(ii) the continuing connected transactions bring mutual benefits to the Group and Luoxin Pharmacy Group. On one hand, the Group generates considerable revenue by distributing through Luoxin Pharmacy Group to particular groups of customers that the Group would not be able to gain access to without Luoxin Pharmacy Group. On the other hand, Luoxin Pharmacy Group generates revenue by selling the Group's products whilst pursuant to the undertakings, Luoxin Pharmacy Group is restricted from selling chemical medicine products produced by other manufacturers.

Revenue generated by the sale of products to Luoxin Pharmacy Group amounted to approximately 21%, 22% and 13% of the total revenue of the Company in each of the three years ended 31 December 2011, 2012 and 2013 respectively.

REPORT OF THE DIRECTORS

Despite the fact that the Group currently relies on Luoxin Pharmacy Group for a sizeable portion of its revenue, the Directors believe that it can source other distributors and distribute its chemical medicine products to markets other than hospitals at or below county level in Linyi City District, even if Luoxin Pharmacy Group ceases to distribute products of the Group. Having said that, the Company and Luoxin Pharmacy Group are in a good business relationship and there is no indication that Luoxin Pharmacy Group will cease to cooperate with the Group.

In view of the above, the Directors consider there is no competing interest between the Group and Luoxin Pharmacy Group. None of the Directors, the substantial Shareholders of the Company or their respective associates (as defined in the Main Board Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

AUDITORS

The accounts for the year ended 31 December 2013 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming AGM. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming AGM.

On behalf of the Board
Liu Baoqi
Chairman

PRC, 18 March 2014

INDEPENDENT AUDITORS' REPORT

國衞會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF SHANDONG LUOXIN PHARMACY STOCK CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shandong Luoxin Pharmacy Stock Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 124, which comprise the consolidated and Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. 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.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY (Continued)

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 18 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Turnover	7	**2,529,464**	2,228,257
Cost of sales		**(884,393)**	(725,977)
Gross profit		**1,645,071**	1,502,280
Other revenue	7	**49,838**	29,878
Other income	9	**12,046**	6,267
Selling and distribution expenses		**(1,066,095)**	(896,150)
General and administrative expenses		**(137,364)**	(124,031)
Finance costs	8	**(9)**	(90)
Profit before taxation	9	**503,487**	518,154
Taxation	10	**(74,785)**	(78,045)
Profit for the year		**428,702**	440,109
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year		**428,702**	440,109
Profit for the year attributable to:			
– Owners of the Company		**428,585**	439,874
– Non-controlling interests		**117**	235
		428,702	440,109
Total comprehensive income attributable to:			
– Owners of the Company		**428,585**	439,874
– Non-controlling interests		**117**	235
		428,702	440,109
Earnings per share attributable to owners of the Company (RMB)	15		
– Basic and diluted		**0.703**	0.722

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Available-for-sale financial assets	17	**41,000**	1,000
Purchased technical know-how	18	**17**	247
Prepayments to acquire technical know-how	19	**15,405**	16,245
Property, plant and equipment	20	**330,740**	273,695
Construction-in-progress	21	**268,584**	229,378
Prepaid lease payments	22	**50,936**	52,939
Deferred tax assets	23	**1,216**	1,972
Goodwill	24	**165**	165
		708,063	575,641
Current assets			
Inventories	25	**223,194**	188,344
Trade and bills receivables	27	**278,144**	312,882
Other receivables, deposits and prepayments	28	**109,890**	174,405
Financial assets at fair value through profit and loss	29	**1,155,000**	600,000
Pledged bank deposits	30	**6,405**	101,940
Cash and bank balances	30	**187,004**	335,335
		1,959,637	1,712,906
Current liabilities			
Trade and bills payables	31	**165,957**	217,493
Other payables and accruals	32	**298,690**	134,438
Deposits received		**26,718**	26,956
Dividend payable		**18,000**	–
Taxation payable		**51,724**	50,341
		561,089	429,228
Net current assets		**1,398,548**	1,283,678
Total assets less current liabilities		**2,106,611**	1,859,319
Non-current liability			
Deferred income	33	**20,380**	20,380
Net assets		**2,086,231**	1,838,939

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Capital and reserves			
Share capital	34	**60,960**	60,960
Other reserves		**68,736**	67,781
Retained earnings			
– Proposed final dividend		**182,880**	182,880
– Others		**1,770,171**	1,525,421
Equity attributable to owners of the Company		**2,082,747**	1,837,042
Non-controlling interests		**3,484**	1,897
Total equity		**2,086,231**	1,838,939

Approved by the Board of Directors on 18 March 2014 and signed on its behalf by:

Liu Baoqi	**Liu Zhenteng**
Director	*Director*

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Interests in subsidiaries	16	**103,009**	101,479
Available-for-sale financial assets	17	**41,000**	1,000
Purchased technical know-how	18	**17**	247
Prepayments to acquire technical know-how	19	**13,033**	16,245
Property, plant and equipment	20	**260,615**	273,116
Construction-in-progress	21	**162,723**	102,344
Prepaid lease payments	22	**18,860**	19,275
Deferred tax assets	23	**1,216**	1,972
		600,473	515,678
Current assets			
Inventories	25	**222,158**	185,910
Amounts due from subsidiaries	26	**116,132**	158,812
Trade and bills receivables	27	**240,689**	306,348
Other receivables, deposits and prepayments	28	**66,139**	135,898
Financial assets at fair value through profit and loss	29	**1,155,000**	600,000
Pledged bank deposits	30	**6,405**	95,940
Cash and bank balances	30	**179,054**	282,127
		1,985,577	1,765,035
Current liabilities			
Trade and bills payables	31	**139,014**	211,192
Other payables and accruals	32	**239,172**	133,533
Deposits received		**25,353**	26,593
Dividend payable		**18,000**	–
Taxation payable		**47,899**	50,229
		469,438	421,547
Net current assets		**1,516,139**	1,343,488
Total assets less current liabilities		**2,116,612**	1,859,166
Non-current liability			
Deferred income	33	**20,380**	20,380
Net assets		**2,096,232**	1,838,786

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Capital and reserves			
Share capital	34	**60,960**	60,960
Other reserves		**67,652**	67,652
Retained earnings			
– Proposed final dividend		**182,880**	182,880
– Others		**1,784,740**	1,527,294
Total equity		**2,096,232**	1,838,786

Approved by the Board of Directors on 18 March 2014 and signed on its behalf by:

Liu Baoqi	**Liu Zhenteng**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012	60,960	31,139	30,562	6,033	1,390,394	1,519,088	6,662	1,525,750
Profit for the year	–	–	–	–	439,874	439,874	235	440,109
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	439,874	439,874	235	440,109
Capital refund to non-controlling interests due to deregistration of a subsidiary	–	–	–	–	–	–	(5,000)	(5,000)
Transfer from retained earnings to statutory surplus reserve fund	–	–	47	–	(47)	–	–	–
Dividend paid	–	–	–	–	(121,920)	(121,920)	–	(121,920)
At 31 December 2012 and 1 January 2013	**60,960**	**31,139**	**30,609**	**6,033**	**1,708,301**	**1,837,042**	**1,897**	**1,838,939**
Profit for the year	**–**	**–**	**–**	**–**	**428,585**	**428,585**	**117**	**428,702**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**428,585**	**428,585**	**117**	**428,702**
Transfer from retained earnings to statutory surplus reserve fund	**–**	**–**	**955**	**–**	**(955)**	**–**	**–**	**–**
Capital injection by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**1,470**	**1,470**
Dividend paid	**–**	**–**	**–**	**–**	**(182,880)**	**(182,880)**	**–**	**(182,880)**
At 31 December 2013	**60,960**	**31,139**	**31,564**	**6,033**	**1,953,051**	**2,082,747**	**3,484**	**2,086,231**
Representing:								
Proposed 2013 final dividends					**182,880**			
Others					**1,770,171**			
Retained earnings as at 31 December 2013					**1,953,051**			

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Operating activities			
Profit before taxation		**503,487**	518,154
Adjustments for:			
Interest income		**(6,215)**	(8,462)
Interest expense		**9**	90
Gain on financial assets at fair value through profit or loss		**(41,256)**	(14,282)
Reversal of obsolete inventories written down	25	**–**	(3,960)
Reversal of impairment loss recognised in respect of trade receivables	27	**(4,309)**	(283)
Reversal of impairment loss recognised in respect of other receivables	28	**–**	(472)
Depreciation of property, plant and equipment	20	**27,445**	24,365
Loss on disposal of property, plant and equipment		**55**	1,139
Write-down of obsolete inventories	25	**292**	164
Impairment loss recognised in respect of trade receivables	27	**1,510**	1,068
Impairment loss recognised in respect of other receivables	28	**57**	1,392
Impairment loss recognised in respect of prepayments to acquire technical know how		**3,212**	–
Amortisation of prepaid lease payments	22	**1,303**	413
Amortisation of purchased technical know-how	18	**230**	430
Operating cash flows before working capital changes		**485,820**	519,756
Increase in inventories		**(35,142)**	(35,786)
Decrease/(increase) in trade and bills receivables		**37,537**	(80,854)
Decrease/(increase) in other receivables, deposits and prepayments		**65,158**	(104,416)
(Decrease)/increase in trade and bills payables		**(51,536)**	74,664
(Decrease)/increase in deposits received		**(237)**	169
Increase/(decrease) in other payables and accruals		**164,251**	(36,771)
Cash generated from operations		**665,851**	336,762
Interest paid		**(9)**	(90)
PRC income tax paid		**(72,646)**	(77,325)
Net cash generated from operating activities		**593,196**	259,347

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Investing activities			
Interest received		**6,215**	8,462
Acquisition of financial assets at fair value through profit or loss		**(1,155,000)**	(1,050,000)
Increase in prepayments to acquire technical know-how		**(2,372)**	(4,298)
Purchase of property, plant and equipment		**(82,093)**	(19,379)
Additions of construction-in-progress		**(41,658)**	(121,577)
Proceeds from disposal of financial assets at fair value through profit or loss		**641,256**	564,282
Purchase of available-for-sale financial asset		**(40,000)**	–
Net cash used in investing activities		**(673,652)**	(622,510)
Financing activities			
Dividend paid		**(164,880)**	(121,920)
Capital refund to non-controlling interest upon deregistration of a subsidiary		**–**	(5,000)
Capital injection from non-controlling interest of a subsidiary		**1,470**	–
Decrease/(increase) in pledged bank deposits		**95,535**	(67,459)
Net cash used in financing activities		**(67,875)**	(194,379)
Net decrease in cash and cash equivalents		**(148,331)**	(557,542)
Cash and cash equivalents at the beginning of the year		**335,335**	892,877
Cash and cash equivalents at the end of the year		**187,004**	335,335
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**187,004**	335,335

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company by way of promotion with a registered capital of Renminbi ("RMB") 46,000,000. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd.. The H shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2005.

The Company's registered office is located at Luoqi Road, High and New Technology Experimental Zone, Linyi City, Shandong Province, the PRC.

The principal activities of the Company are manufacturing and selling of pharmaceutical products. The principal activities of the subsidiaries are described in Note 16.

The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 18 March 2014.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2013.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 to 2011 Cycle
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosure – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

(a) recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*; and

(b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

As the Group does not have any offsetting arrangements or any master netting agreements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in these consolidated financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

The Group has early adopted the amendments to HKAS 36. HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) Int–12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) – Int13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, the "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The *Annual Improvements to HKFRSs 2009 – 2011 Cycle* include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 1 *Presentation of Financial Statements*;
- amendments to HKAS 16 *Property, Plant and Equipment*; and
- amendments to HKAS 32 *Financial Instruments: Presentation.*

HKAS 1 (Amendments)

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

HKAS 16 (Amendments)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise.

HKAS 32 (Amendments)

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes.*

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has early adopted the amendments to HKAS 36. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Except for the above, the application of these new HKFRSs had no material impact on the Group's consolidated financial performance and positions for the current and prior years. Accordingly, no prior period adjustments had been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[1]
HKAS 19 (Amendments)	Defined Benefit Plans – Employee Contributions[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

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

[2] Effective for annual periods beginning on or after 1 July 2014

[3] Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

[4] Effective for annual periods beginning on or after 1 January 2016

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (Continued)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

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

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 *Levies* addresses the issue of when to recognise a liability to pay a levy. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of The Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

The preparation of consolidated 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 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 assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates 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 consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20 – 40 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction-in-progress

Construction-in-progress comprises buildings, plant and machinery on which construction work or installation has not been completed and which, upon completion, management intends to use for long-term purpose. It is stated at cost which includes construction expenditure incurred, interest on loan and other direct costs attributable to the construction or installation less any accumulated impairment losses. On completion, the buildings, plant and machinery are transferred to respective categories at cost less any accumulated impairment losses.

Leasehold land

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

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

Purchased technical know-how

Purchased technical know-how is stated at cost less accumulated amortisation and any accumulated impairment losses. It is recognised as an intangible asset if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and amortised on a straight-line basis over its estimated economic life of a period of five years since the commencement of related production. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill (Continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into loans and receivables, financial assets at fair value though profit or loss and available-for-sale financial assets ("AFS financial assets"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

Financial assets at fair value though profit or loss

Financial assets are classified as at fair value though profit or loss when the financial asset is either held for trading or it is designated as at fair value though profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value though profit or loss (continued)

A financial asset other than a financial asset held for trading may be designated as at fair value though profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value though profit or loss.

Financial assets at fair value though profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 5.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in the active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivables, other receivables, pledged bank deposits, cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is 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.

For financial assets carried at cost, the amount of 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. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities (including trade and bills payables and other payables and accruals) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value through profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Derecognition (Continued)

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

Research and development costs

Research costs are expensed as incurred. Development costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset when it is probable that the project will be success consisting its commercial and technological feasibility, and costs can be measured reliably. Such development costs are recognised as an asset and amortised from the commencement of the commercial production of the product on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. 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.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Pension obligations

Payments to defined contribution retirement plans are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowings costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received.

Government grant relating to purchase of property, plant and equipment is included in non-current liabilities as deferred income and is expensed in profit or loss on a straight-line basis over the expected useful lives of the related assets.

Foreign and presentation currency

Functional and presentation currency

Items included in the accounts of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The accounts are presented in RMB, which is the Group's functional and presentation currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign and presentation currency (Continued)

Transactions and balances

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

Related party transactions

A party is considered to be related to the Group if:

(a) the party 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 of a parent of the reporting entity.

(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. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related party transactions (Continued)

Close family members of an individual are those family members who may be expected to influence, or be inflecting by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Taxation

The Group is subject to PRC enterprise income tax and value-added tax. Since PRC tax rules are complicated and there may be new PRC tax rules and regulations from time to time, the Group recognised tax liabilities based on estimates of tax liabilities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

Provision for obsolete inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(Continued)

Trade and other receivables

The debt profile of trade and other debtors is reviewed on a regular basis to ensure that the trade and other debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However from time to time, the Group may experience delays in collection. Where recoverability of trade and other debtor balances are called into doubts, specific provisions for trade and other receivables are made based on credit status of the debtors, the aged analysis of the receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of profit or loss and other comprehensive income. Changes in the collectibility of trade and other receivables for which provision are not made could affect the results of operations.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are primarily based on market conditions existing at the end of each reporting period.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2013 RMB'000	2012 RMB'000
The Group		
Financial assets		
Available-for-sale investments	**41,000**	1,000
Loan and receivables (including cash and cash equivalents)	**510,370**	834,272
Financial assets at fair value through profit or loss	**1,155,000**	600,000
Financial liabilities		
Amortised cost	**455,222**	319,703

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(a) ***Categories of financial instruments*** (Continued)

	2013	2012
	RMB'000	RMB'000
The Company		
Financial assets		
Available-for-sale investments	**41,000**	1,000
Loan and receivables (including cash and cash equivalents)	**580,382**	926,095
Financial assets at fair value through profit or loss	**1,155,000**	600,000
Financial liabilities		
Amortised cost	**368,761**	312,497

(b) ***Financial risk management objectives and policies***

The main risks arising from the Group's financial instruments are market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The Board of Directors review and agree policies for managing each of these risks and they are summarised below.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Interest rate risk management

The Group considers that there is no significant cash flow interest rate risk and fair value interest rate risk as the Group does not have variable rate and fixed rate borrowings. The Group did not enter into interest rate swap to hedge against its exposures to changes in fair values of the borrowings.

The Group's exposure to market risk for changes in interest rates relates primarily to the bank balances. Floating-rate interest income is charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) *Financial risk management objectives and policies* (Continued)

Market risk (Continued)

Foreign currency risk management

The Group operates and conducts business in the PRC and all the Group's transactions, assets and liabilities are primarily denominated in RMB and Hong Kong dollars ("HKD"), which expose the Group to foreign currency risk. The Group does not have any formal hedging policy.

No sensitivity analysis on foreign currency risk is performed since the Group's has no material foreign currency denominated monetary assets and liabilities at the end of the reporting period.

Other price risk

The Group is exposed to equity price risk mainly through its investment. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. In addition, the management of the Group would monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis on change in fair value of financial assets at fair value though profit or loss

The sensitivity analyses below have been determined based on the exposure to price risk at the end of the reporting period.

If prices had been 10% higher/lower (2012: 10%):

– post-tax profit for the year ended 31 December 2013 would increase/decrease by RMB115,500,000 (2012: RMB60,000,000). This is mainly due to the changes in fair value of financial assets designated as financial assets at fair value through profit or loss investments.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) *Financial risk management objectives and policies* (Continued)

Credit risk

As at 31 December 2013, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group and the Company have put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group and the Company perform periodic credit evaluation of its customers. The Group's and the Company's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the accounts. In this regard, the Directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group and the Company do not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) *Financial risk management objectives and policies* (Continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework to meet the Group's and the Company's short, medium and long-term funding and liquidity management requirements. The Group and the Company manage liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
The Group					
As at 31 December 2013					
Non-derivative financial liabilities					
Trade and bills payables	–	165,957	–	165,957	165,957
Other payables and accruals	–	271,265	–	271,265	271,265
Dividend payable	–	18,000	–	18,000	18,000
		455,222	–	455,222	455,222
As at 31 December 2012					
Non-derivative financial liabilities					
Trade and bills payables	–	217,493	–	217,493	217,493
Other payables and accruals	–	102,210	–	102,210	102,210
		319,703	–	319,703	319,703

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) *Financial risk management objectives and policies* (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
The Company					
As at 31 December 2013					
Non-derivative financial liabilities					
Trade and bills payables	–	139,014	–	139,014	139,014
Other payables and accruals	–	211,747	–	211,747	211,747
Dividend payable	–	18,000	–	18,000	18,000
		368,761	–	368,761	368,761
As at 31 December 2012					
Non-derivative financial liabilities					
Trade and bills payables	–	211,192	–	211,192	211,192
Other payables and accruals	–	101,305	–	101,305	101,305
		312,497	–	312,497	312,497

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively.

(ii) the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(iii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) ***Financial risk management objectives and policies*** (Continued)

Fair value of financial instruments (Continued)

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets				
Financial assets designated as at fair value through profit or loss	**–**	**1,155,000**	**–**	**1,155,000**

	31 December 2012			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets designated at fair value through profit or loss	–	600,000	–	600,000

Level 2 fair value of financial products classified as financial assets designated as at fair value through profit or loss have been determined based on quotes from those financial institutions. The most significant input is market value of the underlying assets.

There were no transfers between Levels 1 and 2 in the both years.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

6. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group currently operates in one business segment in the manufacturing and selling of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results report to the chief operating decision makers are the net profit of the Group and the reportable assets and liabilities report to the chief operating decision makers are the Group's assets and liabilities.

6. SEGMENT INFORMATION (Continued)

Revenue from major products

The Group's revenue from its major product is as follows:

	2013 RMB'000	2012 RMB'000
Pharmaceutical products	**2,529,464**	2,228,257

Information about major customers

Included in revenues arising from sales of pharmaceutical products of approximately RMB2,529,464,000 (2012: RMB2,228,257,000) are revenues of approximately RMB326,789,000 (2012: RMB491,855,000) which arose from sales to the Group's largest customer.

Geographical information

The Group mainly operates in the PRC. During the year ended 31 December 2013, except for revenue of approximately RMB2,278,000 (2012: Nil) is generated from external customers located in overseas, all of the Group's revenue is derived from external customers located in the PRC. The non-current assets of the Group are all located in the PRC in each of the year ended 31 December 2013 and 2012.

7. TURNOVER AND OTHER REVENUE

Turnover and other revenue recognised are as follows:

	2013 RMB'000	2012 RMB'000
Turnover		
Sales of manufactured pharmaceutical products	**2,529,464**	2,228,257
Other revenue		
Interest income on bills receivables	**1,096**	1,683
Interest income on bank deposits	**5,119**	6,779
Gain on financial assets at fair value through profit or loss	**41,256**	14,282
Sundry income	**2,367**	7,134
	49,838	29,878
Total revenue	**2,579,302**	2,258,135

7. TURNOVER AND OTHER REVENUE (Continued)

The sales of product mix of the Group are as follows:

	2013 RMB'000	2012 RMB'000
System specified medicines	956,226	727,328
Antibiotics	1,084,839	998,706
Other medicines	488,399	502,223
	2,529,464	2,228,257

8. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Bills payables wholly repayable within six months	9	90

9. PROFIT FROM OPERATIONS

Operating profit of the Group was determined after charging/(crediting) the following:

	2013 RMB'000	2012 RMB'000
Cost of inventories recognised as an expenses	**848,019**	691,440
Depreciation of property, plant and equipment (Note 20)	**27,445**	24,365
Amortisation of purchased technical know-how (included in cost of sales) (Note 18)	**230**	430
Amortisation of prepaid lease payments (Note 22)	**1,303**	413
Write-down of obsolete inventories (Note 25)	**292**	164
Impairment loss recognised in respect of trade receivables (Note 27)	**1,510**	1,068
Impairment loss recognised in respect of other receivables (Note 28)	**57**	1,392
Employees benefit expenses (excluding Directors' and supervisors' remuneration)	**651,907**	438,276
Loss on disposal of property, plant and equipment	**55**	1,139
Research and development costs	**70,616**	78,061
Rental expenses	**216**	125
Advertising costs	**28,052**	3,658
Auditors' remuneration	**800**	600
and after crediting:		
Other income		
Waiver of trade payables	**1,495**	1
Government grant	**2,090**	441
Penalty income	**4,152**	1,110
Reversal of obsolete inventories written-down (Note 25)	**–**	3,960
Reversal of impairment loss recognised in respect of trade receivables (Note 27)	**4,309**	283
Reversal of impairment loss recognised in respect of other receivables (Note 28)	**–**	472
	12,046	6,267

10. TAXATION

(i) No provision for Hong Kong profits tax has been made as the Group did not carry on any business in Hong Kong during the year (2012: Nil).

(ii) As described in the paragraph below, the Company is subjected to the PRC enterprise income tax at a rate of 15% (2012: 15%). The subsidiaries of the Group are subjected to the PRC enterprise income tax at a rate of 25% (2012: 25%).

The Company received confirmation from the recognition authority that the Company has been recognised as the High and New Technology Enterprise. Pursuant to the new Enterprise Income Tax Law, the enterprise income tax applicable to the High and New Technology Enterprise is reduced to be levied at 15%. The Company has since been enjoying the tax concession rate of 15% for three years effective from 1 January 2012.

(iii) ***The PRC value-added tax***

The Group is subjected to the PRC value-added tax ("VAT") at 17% (2012: 17%) of revenue from sale of goods in the PRC. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

(iv) The amount of taxation charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2013 RMB'000	2012 RMB'000
Current taxation – Enterprise income tax	**74,029**	77,337
Deferred taxation (Note 23)	**756**	708
	74,785	78,045

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC as follows:

10. TAXATION (Continued)

	2013 RMB'000	2012 RMB'000
Profit before taxation	**503,487**	518,154
Calculated at a taxation rate of 25% (2012: 25%)	**125,872**	129,539
Tax effect of income not taxable for tax purpose	**(6,864)**	(20,511)
Tax effect of expenses not deductible for tax purpose	**6,179**	19,436
Tax effect of tax concession	**(51,158)**	(51,251)
Tax effect of temporary difference	**756**	832
Taxation charge for the year	**74,785**	78,045

11. DIVIDENDS

A dividend in respect of 2013 of RMB0.3 per share (2012: RMB0.3 per share), amounting to a total dividend of RMB182,880,000 (2012: RMB182,880,000 is to be proposed at the annual general meeting of the Company on 27 May 2014. These consolidated financial statements do not reflect this dividend payable.

	2013 RMB'000	2012 RMB'000
Proposed final dividend of RMB0.3 (2012: RMB0.3) per ordinary share	**182,880**	182,880

12. EMPLOYEE BENEFIT EXPENSES

	2013 RMB'000	2012 RMB'000
Salaries and wages	**641,160**	430,103
Pension costs – defined contribution plans	**10,747**	8,173
	651,907	438,276

13. PENSION AND RETIREMENT BENEFIT COSTS

The Group has provided for pension and retirement benefit costs to all qualified employees in the PRC in accordance with the regulations set by the PRC local government which is calculated based on 30% on the employees' salary or the monthly average salaries set out by the PRC local government.

Commencing 2003, the Group has participated in a Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong for all qualified Hong Kong employees, which is a defined contribution scheme managed by independent trustees. Monthly contributions are made to the MPF Scheme based on 5% of the Hong Kong employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. Both the Group's and the employees' contributions are subject to a cap of RMB799 (equivalent to HK$1,000) per month before 1 June 2012 and RMB999 (equivalent HK$1,250) per month with effect from 1 June 2012, and thereafter contributions are voluntary.

During the year ended 31 December 2013, the Group has contributed approximately RMB11,986 (2012: RMB11,382) to the MPF Scheme.

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) The aggregate amounts of emoluments paid and payable to the Directors and supervisors of the Company are as follows:

	2013 **RMB'000**	2012 RMB'000
Basic salaries and allowances	**1,066**	1,056
Retirement benefit costs	**56**	60
	1,122	1,116

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(i) The aggregate amounts of emoluments paid and payable to the Directors and supervisors of the Company are as follows: (Continued)

Individual emoluments paid and payable to the Directors and supervisors for the year ended 31 December 2013 are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Contribution to retirement benefits schemes RMB'000	Total RMB'000
Executive Directors				
Liu Baoqi	–	372	8	380
Li Minghua	–	120	8	128
Liu Zhenhai (re-designated as non-executive director on 1 July 2013)	–	48	4	52
Liu Zhenteng (appointed on 1 July 2013)	–	48	4	52
Han Fengsheng	–	60	8	68
Chen Yu	–	60	8	68
Non-executive Directors				
Yin Chuangui	24	–	–	24
Liu Zhenhai	12	–	–	12
Independent non-executive Directors				
Foo Tin Chung, Victor	118	–	–	118
Fu Hongzheng	24	–	–	24
Li Hongjian (resigned on 1 July 2013)	12	–	–	12
Prof. Chen Yun Zhen (appointed on 31 December 2012)	24	–	–	24
Prof. Du Guanhua (appointed on 1 July 2013)	12	–	–	12
Supervisors				
Liu Zhenfei (appointed on 1 July 2013)	12	–	–	12
Sun Song	–	60	8	68
Guan Yonghua (resigned on 1 July 2013)	12	–	–	12
Wang Jian	24	–	–	24
Song Liangwei	–	24	8	32
	274	792	56	1,122

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(i) The aggregate amounts of emoluments paid and payable to the Directors and supervisors of the Company are as follows: (Continued)

Individual emoluments paid and payable to the Directors and supervisors for the year ended 31 December 2012 are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Contribution to retirement benefits schemes RMB'000	Total RMB'000
Executive Directors				
Liu Baoqi	–	372	8	380
Li Minghua	–	120	9	129
Liu Zhenhai	–	96	8	104
Han Fengsheng	–	60	9	69
Chen Yu	–	60	9	69
Non-executive Directors				
Yin Chuangui	24	–	–	24
Liu Yuxin (resigned on 31 December 2012)	24	–	–	24
Independent non-executive Directors				
Foo Tin Chung, Victor	120	–	–	120
Fu Hongzheng	24	–	–	24
Li Hongjian	24	–	–	24
Prof. Chen Yun Zhen (appointed on 31 December 2012)	–	–	–	–
Supervisors				
Sun Song	–	60	8	68
Guan Yonghua	24	–	–	24
Wang Jian	24	–	–	24
Song Liangwei	–	24	9	33
	264	792	60	1,116

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(i) The aggregate amounts of emoluments paid and payable to the Directors and supervisors of the Company are as follows: (Continued)

The number of Directors and supervisors whose emoluments fell within the following band is as follows:

	Number of individuals 2013	2012
Nil – RMB799,000 (equivalent to Nil – HK$1,000,000)	**18**	14

None of the Directors have waived or agreed to waive any emoluments during the year.

(ii) The five individuals whose emoluments were the highest in the Group for the year include one (2012: four) Director whose emoluments are reflected in the analysis presented above. The emoluments payable (excluding amounts paid or payable by way of commissions on sales generated by the individual) to the remaining four (2012: one) non-director, highest paid individual during the year are as follows:

	2013 RMB'000	2012 RMB'000
Basic salaries and allowances	**1,255**	621
Retirement benefit costs	**37**	11
	1,292	632

The number of non-director, highest paid individuals whose emoluments fell within the following band is as follows:

	Number of individuals 2013	2012
Nil – RMB799,000 (equivalent to Nil – HK$1,000,000)	**4**	1

(iii) During the year, no emoluments have been paid to the Directors of the Company or the five highest individuals as an inducement to join or as compensation for loss of office (2012: Nil).

(iv) Ms. Li Minghua was also the chief executive of the Company during the years ended 31 December 2013 and 2012.

The number of senior management (excluding directors and supervisors) whose emolument fell within the following band is as follows:

	Number of individuals 2013	2012
Nil – RMB799,000 (equivalent to Nil – HK$1,000,000)	**4**	4

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to owners of the Company (RMB'000)	**428,585**	439,874
Weighted average number of ordinary shares in issue ('000)	**609,600**	609,600
Basic and diluted earnings per share (RMB)	**0.703**	0.722

16. INTERESTS IN SUBSIDIARIES

The Company

	2013 **RMB'000**	2012 RMB'000
Cost of investments in subsidiaries, unlisted in PRC	**103,009**	101,479

16. INTERESTS IN SUBSIDIARIES (Continued)

The Company (Continued)

As at 31 December 2013 and 2012, the Company had interests in the following subsidiaries:

Name of the entity	Form of business structure	Place of incorporation and operation	Paid-up capital	Proportion of registered capital held by the Company		Proportion of voting power held		Principal activities
				2013	2012	**2013**	2012	
Sichuan Luoxin Pharmacy Company Limited* (四川羅欣醫葯有限公司) ("Sichuan Luoxin")	Incorporated	PRC	RMB6,000,000	**51%**	51%	**51%**	51%	Wholesale of biochemical products and Chinese medicine
Shandong Yuxin Pharmacy Company Limited* (山東裕欣藥業有限公司) ("Shandong Yuxin")	Incorporated	PRC	RMB50,000,000	**100%**	100%	**100%**	100%	Wholesale and manufacture of biochemical products and Chinese medicine
Shandong Hengxin Pharmacy Company Limited*# (山東恒欣藥業有限公司) ("Shandong Hengxin")	Incorporated	PRC	RMB50,000,000	**100%**	100%	**100%**	100%	Wholesale and manufacture of biochemical products and Chinese medicine

The subsidiaries had no debt securities outstanding at the end of the reporting period or at any time during the year.

\# Shandong Hengxin and Shandong Biological were incorporated on 11 April 2012 and 19 December 2012 respectively.

* The English name represents the translated name of the subsidiary as no English name has been registered.

16. INTERESTS IN SUBSIDIARIES (Continued)

The Company (Continued)

The table below shows details of non-wholly owned subsidiary of the Group that have material non-controlling interest:

Name of subsidiary	Profit allocated to non-controlling interest		Accumulated non-controlling interest		Percentage of equity interest held by non-controlling interests	
	2013	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**%**	%
Sichuan Luoxin	**117**	235	**3,484**	1,897	**49**	49

Summarised financial information in respect of each of the Group's subsidiary that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intra-group eliminations.

Sichuan Luoxin

	2013	2012
	RMB'000	RMB'000
Current assets	**25,828**	19,389
Non-current assets	**409**	579
Current liabilities	**(19,128)**	(16,239)
Equity attributable to owners of the company	**7,109**	3,729
Revenue	**98,661**	100,163
Expenses	**98,145**	100,446
Profit for the year	**380**	338
Total comprehensive income for the year	**–**	–
Net cash outflow from operating activities	**(7,201)**	(16,710)
Net cash inflow from investing activities	**120**	732
Net cash inflow flow financing activities	**9,000**	15,812
Net cash inflow/(outflow)	**1,919**	(166)

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group and the Company

Available-for-sale investments comprise:

	2013 **RMB'000**	2012 RMB'000
Unlisted securities – Equity securities (Note)	**41,000**	1,000

Note:

Amount of RMB1,000,000 represents 10% of the capital of 山東羅欣陽光包裝制品有限公司, a company involved in the production and selling of plastic and packaging materials.

Amount of RMB40,000,000 represents 40% of the capital of the Second Hospital of Fei County (費縣第二醫院). The Directors of the Company confirmed that the Group does not involve into the daily operation decision and financial decision of the Second Hospital of Fei County, therefore the Group does not have any control and significant influence on the Second Hospital of Fei County.

The Directors of the Company is of the opinion that no impairment is required at the end of the reporting period.

The equity securities do not have a quoted market price in an active market are stated at cost loss impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that the fair value cannot be reliably measured.

18. PURCHASED TECHNICAL KNOW-HOW

The Group and the Company

	RMB'000
Cost:	
At 1 January 2012	17,450
Additions	–
At 31 December 2012 and 1 January 2013	**17,450**
Additions	**–**
At 31 December 2013	**17,450**
Accumulated amortisation and impairment:	
At 1 January 2012	16,773
Charge for the year	430
At 31 December 2012 and 1 January 2013	**17,203**
Charge for the year	**230**
At 31 December 2013	**17,433**
Net book value:	
At 31 December 2013	**17**
At 31 December 2012	247

19. PREPAYMENTS TO ACQUIRE TECHNICAL KNOW-HOW

The Group and the Company

As at 31 December 2013 and 2012, the amounts are prepayments to third parties to acquire technical know-how. As at 31 December 2013 and 2012, amount of RMB5,642,000 and RMB2,430,000 respectively was impaired. The Directors of the Company have considered that the amount of the prepayment to acquire technical know-how of RMB5,642,000 (2012: RMB2,430,000) was not recoverable as the research and development process was not successful and would not bring any future economic benefit to the Group and the Company. The Directors of the Company are of the opinion that no further impairment was recognised because the remaining research and development process was considered to be successful and would bring future economic benefit to the Group and the Company.

20. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:					
At 1 January 2012	181,707	154,185	17,899	16,454	370,245
Additions	1,873	12,844	3,060	1,602	19,379
Disposals	(111)	(1,302)	–	–	(1,413)
Transfer from construction-in-progress (Note 21)	98	5,982	–	2,533	8,613
At 31 December 2012 and 1 January 2013	**183,567**	**171,709**	**20,959**	**20,589**	**396,824**
Additions	**45,528**	**30,030**	**4,029**	**2,506**	**82,093**
Disposals	**–**	**(140)**	**–**	**(19)**	**(159)**
Transfer from construction-in-progress (Note 21)	**67**	**2,385**	**–**	**–**	**2,452**
At 31 December 2013	**229,162**	**203,984**	**24,988**	**23,076**	**481,210**
Accumulated depreciation and impairment:					
At 1 January 2012	18,981	62,967	8,546	8,544	99,038
Charge for the year	4,703	14,619	2,883	2,160	24,365
Written back on disposals	(12)	(262)	–	–	(274)
At 31 December 2012 and 1 January 2013	**23,672**	**77,324**	**11,429**	**10,704**	**123,129**
Charge for the year	**4,857**	**18,373**	**414**	**3,801**	**27,445**
Written back on disposals	**–**	**(86)**	**–**	**(18)**	**(104)**
At 31 December 2013	**28,529**	**95,611**	**11,843**	**14,487**	**150,470**
Net book value:					
At 31 December 2013	**200,633**	**108,373**	**13,145**	**8,589**	**330,740**
At 31 December 2012	159,895	94,385	9,530	9,885	273,695

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2013 and 2012, all buildings of the Group are located in the PRC.

Depreciation expense of RMB17,100,000 (2012: RMB18,978,000) has been expensed in cost of sales and RMB10,345,000 (2012: RMB5,387,000) have been included in administrative expenses for the year.

The Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:					
At 1 January 2012	181,707	154,185	17,216	16,354	369,462
Additions	1,873	12,844	3,060	1,515	19,292
Disposals	(111)	(1,302)	–	–	(1,413)
Transfer from construction-in-progress (Note 21)	98	5,982	–	2,533	8,613
At 31 December 2012 and 1 January 2013	183,567	171,709	20,276	20,402	395,954
Additions	1,329	5,243	4,029	2,494	13,095
Disposals	–	(140)	–	(19)	(159)
Transfer from construction-in-progress (Note 21)	67	56	–	–	123
At 31 December 2013	184,963	176,868	24,305	22,877	409,013
Accumulated depreciation and impairment:					
At 1 January 2012	18,981	62,967	8,466	8,503	98,917
Charge for the year	4,703	14,619	2,752	2,121	24,195
Written back on disposals	(12)	(262)	–	–	(274)
At 31 December 2012 and 1 January 2013	23,672	77,324	11,218	10,624	122,838
Charge for the year	4,345	17,276	275	3,768	25,664
Written back on disposals	–	(86)	–	(18)	(104)
At 31 December 2013	28,017	94,514	11,493	14,374	148,398

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Net book value:					
At 31 December 2013	**156,946**	**82,354**	**12,812**	**8,503**	**260,615**
At 31 December 2012	159,895	94,385	9,058	9,778	273,116

21. CONSTRUCTION-IN-PROGRESS

The Group

	RMB'000
At 1 January 2012	116,414
Additions	121,577
Transfer to property, plant and equipment (Note 20)	(8,613)
At 31 December 2012 and 1 January 2013	**229,378**
Additions	**41,658**
Transfer to property, plant and equipment (Note 20)	**(2,452)**
At 31 December 2013	**268,584**

Analysis of construction-in-progress as follows:

	2013 RMB'000	2012 RMB'000
Construction cost of buildings	**107,342**	117,253
Cost of plant and machinery	**161,242**	112,125
	268,584	229,378

21. CONSTRUCTION-IN-PROGRESS (Continued)

The Company

	RMB'000
At 1 January 2012	14,061
Additions	96,896
Transfer to property, plant and equipment (Note 20)	(8,613)
At 31 December 2012 and 1 January 2013	**102,344**
Additions	**60,502**
Transfer to property, plant and equipment (Note 20)	**(123)**
At 31 December 2013	**162,723**

Analysis of construction-in-progress as follows:

	2013 **RMB'000**	2012 RMB'000
Construction cost of buildings	**3,784**	27,893
Cost of plant and machinery	**158,939**	74,451
	162,723	102,344

22. PREPAID LEASE PAYMENTS

The Group

Prepaid lease payments represent 48-year to 70-year land use rights in the PRC expiring from November 2050 to September 2079. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2012	20,100
Addition of prepaid lease payment	33,664
Amortisation of prepaid lease payments	(413)
At 31 December 2012 and 1 January 2013	**53,351**
Amortisation of prepaid lease payments	**(1,303)**
At 31 December 2013	**52,048**

Analysed for reporting purposes as:

	2013 **RMB'000**	2012 RMB'000
Current assets (included in other receivables, deposits and prepayments)	**1,112**	412
Non-current assets	**50,936**	52,939
	52,048	53,351

	2013 **RMB'000**	2012 RMB'000
Long-term lease	**9,087**	9,227
Medium-term lease	**42,961**	44,124
	52,048	53,351

22. PREPAID LEASE PAYMENTS (Continued)

The Company

Prepaid lease payments represent 50-year to 70-year land use rights in the PRC expiring from November 2050 to September 2079. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2012	20,100
Amortisation of prepaid lease payments	(413)
At 31 December 2012 and 1 January 2013	**19,687**
Amortisation of prepaid lease payments	**(414)**
At 31 December 2013	**19,273**

Analysed for reporting purposes as:

	2013 RMB'000	2012 RMB'000
Current assets (included in other receivables, deposits and prepayments)	**413**	412
Non-current assets	**18,860**	19,275
	19,273	19,687

	2013 RMB'000	2012 RMB'000
Long-term lease	**9,087**	9,227
Medium-term lease	**10,186**	10,460
	19,273	19,687

23. DEFERRED TAX ASSETS

The Group and the Company

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2012: 25%).

The movements in the deferred tax assets are as follows:

	2013 RMB'000	2012 RMB'000
At the beginning of the year	**1,972**	2,680
Deferred taxation charged to the consolidated statement of profit or loss and other comprehensive income (Note 10)	**(756)**	(708)
At the end of the year	**1,216**	1,972

	Provisions RMB'000	**Amortisation charge on purchased technical know-how** RMB'000	**Total** RMB'000
At 1 January 2012	2,220	460	2,680
Charged to the consolidated statement of profit or loss and other comprehensive income	(584)	(124)	(708)
At 31 December 2012 and 1 January 2013	**1,636**	**336**	**1,972**
Charged to the consolidated statement of profit or loss and other comprehensive income	**(672)**	**(84)**	**(756)**
At 31 December 2013	**964**	**252**	**1,216**

All deferred tax assets are to be recovered after more than 12 months.

24. GOODWILL

The Group

The carrying amount of goodwill was allocated to cash-generating unit as follows:

	2013	2012
	RMB'000	RMB'000
Manufacturing and selling of pharmaceutical products	**165**	165

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's manufacturing and selling of pharmaceutical products activity was not impaired. The recoverable amount was assessed by reference to the cash-generating unit's value in use.

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Directors covering a five-year period, and a discount rate of 12%.

Cash flow projections during the budget period are based on the same expected gross margins and raw material price inflation throughout the budget period. The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash-generating unit.

25. INVENTORIES

The Group

	2013	2012
	RMB'000	RMB'000
Raw materials	**39,807**	61,789
Work-in-progress	**85,861**	31,661
Finished goods	**98,375**	95,451
	224,043	188,901
Less: Write down of obsolete inventories	**(849)**	(557)
	223,194	188,344

25. INVENTORIES (Continued)

The Group (Continued)

Movements in the write down of obsolete inventories are as follows:

	2013 RMB'000	2012 RMB'000
Balance at the beginning of the year	**557**	4,353
Write-down of obsolete inventories during the year	**292**	164
Reversal of obsolete inventories written-down	**–**	(3,960)
Balance at the end of the year	**849**	557

The reversal of obsolete inventories written-down arose from sales of obsolete inventories recognised during the year.

The Directors of the Company have assessed the net realisable values and conditions of the Group's inventories as at 31 December 2013 and have considered a write-down of obsolete inventories of approximately RMB849,000 (2012: RMB557,000) be made in respect of the net realisable value of the inventories.

The Company

	2013 RMB'000	2012 RMB'000
Raw materials	**29,629**	61,789
Work-in-progress	**85,309**	31,661
Finished goods	**108,069**	93,017
	223,007	186,467
Less: Write down of obsolete inventories	**(849)**	(557)
	222,158	185,910

25. INVENTORIES (Continued)

Movements in the write down of obsolete inventories are as follows:

	2013	2012
	RMB'000	RMB'000
Balance at the beginning of the year	**557**	4,353
Write-down of obsolete inventories during the year	**292**	164
Reversal of obsolete inventories written-down	**–**	(3,960)
Balance at the end of the year	**849**	557

The reversal of obsolete inventories written-down arose from sales of obsolete inventories recognised during the year.

The Directors of the Company have assessed the net realisable values and conditions of the Company's inventories as at 31 December 2013 and have considered a write-down of obsolete inventories of approximately RMB849,000 (2012: RMB557,000) be made in respect of the net realisable value of the inventories.

26. AMOUNTS DUE FROM SUBSIDIARIES

The Company

	Highest balances during the year	**2013**	2012
	RMB'000	**RMB'000**	RMB'000
Sichuan Luoxin	22,126	**11,550**	8,556
Shandong Hengxin	156,851	**49,802**	48,849
Shandong Yuxin	117,427	**54,780**	101,407
		116,132	158,812

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

27. TRADE AND BILLS RECEIVABLES

The Group

	2013 RMB'000	2012 RMB'000
Trade receivables	**260,093**	286,275
Bills receivables	**19,702**	31,119
	279,795	317,394
Less: Provision for impairment loss recognised in respect of trade receivables	**(1,651)**	(4,512)
	278,144	312,882

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of provision for impairment loss:

	2013 RMB'000	2012 RMB'000
1 to 90 days	**219,494**	239,001
91 to 180 days	**44,876**	65,020
181 to 365 days	**13,774**	8,861
	278,144	312,882

Customers are generally granted with credit term of 90-180 days. Bills receivables are all due to mature within 180 days. Trade and bills receivables as at 31 December 2013 and 2012 are denominated in RMB.

As at 31 December 2013, amount of approximately RMB26,667,000 was receivable from two connected parties (Note 38). The amounts due are unsecured, interest-free and receivable within 90 days.

As at 31 December 2012, amount of approximately RMB87,866,000 was receivable from two connected parties (Note 38). The amounts due are unsecured, interest-free and receivable within 180 days.

27. TRADE AND BILLS RECEIVABLES (Continued)

(a) Included in the Group's trade and bills receivables balance are debtors with a carrying amount of approximately RMB13,774,000 (2012: RMB8,861,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group has recognised provision for impairment loss of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. The Group does not hold any collateral over these balances.

Details of the aging analysis of trade and bills receivables which are past due but not impaired are as follows:

	2013 **RMB'000**	2012 RMB'000
181 to 365 days	**13,774**	8,861

(b) Movements in the provision for impairment loss recognised in respect of trade receivables are as follows:

	2013 **RMB'000**	2012 RMB'000
Balance at the beginning of the year	**4,512**	3,727
Impairment loss recognised during the year	**1,510**	1,068
Written off during the year	**(62)**	–
Reversal of impairment loss recognised in respect of trade receivables	**(4,309)**	(283)
Balance at the end of the year	**1,651**	4,512

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. Accordingly, the Directors of the Company have considered provision for impairment is values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the provision for impairment loss recognised in respect of trade receivables.

27. TRADE AND BILLS RECEIVABLES (Continued)

The Company

	2013 RMB'000	2012 RMB'000
Trade receivables	**227,405**	279,600
Bills receivables	**14,515**	31,119
	241,920	310,719
Less: Provision for impairment loss recognised in respect of trade receivables	**(1,231)**	(4,371)
	240,689	306,348

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of provision for impairment loss:

	2013 RMB'000	2012 RMB'000
1 to 90 days	**187,654**	232,601
91 to 180 days	**39,448**	64,987
181 to 365 days	**13,587**	8,760
	240,689	306,348

Customers are generally granted with credit term of 90-180 days. Bills receivables are all due to mature within 180 days. Trade and bills receivables as at 31 December 2013 and 2012 are denominated in RMB.

As at 31 December 2013, amount of approximately RMB26,667,000 was receivable from two connected parties (Note 38). The amounts due are unsecured, interest-free and receivable within 90 days.

As at 31 December 2012, amount of approximately RMB87,866,000 was receivable from two connected parties (Note 38). The amounts due are unsecured, interest-free and receivable within 180 days.

27. TRADE AND BILLS RECEIVABLES (Continued)

(a) Included in the Company's trade and bills receivables balance are debtors with a carrying amount of approximately RMB13,587,000 (2012: RMB8,760,000) which are past due at the reporting date for which the Company has not provided for impairment loss. The Company has recognised provision for impairment loss of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. The Company does not hold any collateral over these balances.

Details of the aging analysis of trade and bills receivables which are past due but not impaired are as follows:

	2013 RMB'000	2012 RMB'000
181 to 365 days	**13,587**	8,760

(b) Movements in the provision for impairment loss recognised in respect of trade receivables are as follows:

	2013 RMB'000	2012 RMB'000
Balance at the beginning of the year	**4,371**	3,727
Impairment loss recognised during the year	**1,231**	926
Written off during the year	**(62)**	–
Reversal of impairment loss recognised in respect of trade receivables	**(4,309)**	(282)
Balance at the end of the year	**1,231**	4,371

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. Accordingly, the Directors of the Company have considered provision for impairment in values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the provision for impairment loss recognised in respect of trade receivables.

28. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group

	2013 RMB'000	2012 RMB'000
Other receivables and deposits	**40,593**	85,834
Prepayments (Note)	**71,073**	90,290
	111,666	176,124
Less: Provision for impairment loss recognised in respect of other receivables	**(1,776)**	(1,719)
	109,890	174,405

Note:

Prepayments mainly comprised of prepayment of value-added tax, acquisition of plant and machinery, raw materials, packing materials and consumables, and acquisition of prepaid lease payments of approximately RMB11,750,000 (2012: RMB38,608,000), RMB16,532,000 (2012: RMB14,160,000) and RMB35,665,000 (2012: RMB37,110,000) respectively.

Movements in the provision for impairment loss recognised in respect of other receivables are as follows:

	2013 RMB'000	2012 RMB'000
Balance at the beginning of the year	**1,719**	799
Impairment loss recognised during the year	**57**	1,392
Reversal of impairment loss recognised in respect of other receivables	**–**	(472)
Balance at the end of the year	**1,776**	1,719

The reversal of impairment loss recognised due to the recovery of other receivables during the year.

In determining the recoverability of other receivables, the Group considers any change in the credit quality of the other receivables. Included in the provision for impairment loss recognised in respect of other receivables are individually impaired other receivables with a balance of approximately RMB1,776,000 (2012: RMB1,719,000) which have been in financial difficulty. The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected recoverable amounts. The Group does not hold any collateral over these balances.

28. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

The Company

	2013 RMB'000	2012 RMB'000
Other receivables and deposits	**39,878**	84,587
Prepayments (Note)	**28,037**	53,030
	67,915	137,617
Less: Provision for impairment loss recognised in respect of other receivables	**(1,776)**	(1,719)
	66,139	135,898

Note:

Prepayments mainly comprised of prepayment of value-added tax, and acquisition of plant and machinery, raw materials, packing materials and consumables of approximately RMB11,626,000 (2012: RMB38,608,000), RMB15,997,000 (2012: RMB14,118,000) respectively.

Movements in the provision for impairment loss recognised in respect of other receivables are as follows:

	2013 RMB'000	2012 RMB'000
Balance at the beginning of the year	**1,719**	799
Impairment loss recognised during the year	**57**	1,392
Reversal of impairment loss recognised in respect of other receivables	**–**	(472)
Balance at the end of the year	**1,776**	1,719

The reversal of impairment loss recognised due to the recovery of other receivables during the year.

In determining the recoverability of other receivables, the Company considers any change in the credit quality of the other receivables. Included in the provision for impairment loss recognised in respect of other receivables are individually impaired other receivables with a balance of approximately RMB1,776,000 (2012: RMB1,719,000) which have been in financial difficulty. The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected recoverable amounts. The Company does not hold any collateral over these balances.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

2013

As at 31 December 2013, the financial assets at fair value through profit or loss represent five principal and return-protected financial products ("Financial Products 2013") issued by several financial institutions in the PRC. The Financial Products 2013 were all matured within one year and were classified as current assets.

These financial products were classified as financial assets designated as at financial assets at fair value through profit or loss. The Directors of the Company estimated that the fair value of the Financial Products 2013 as at the year end date were approximate to their carrying amounts with reference to the indicative values provided by those financial institutions.

2012

As at 31 December 2012, the financial assets at fair value through profit or loss represent four principal and return-protected financial products ("Financial Products 2012") issued by several financial institutions in the PRC. The Financial Products 2012 were all matured within one year and were classified as current assets.

These financial products were classified as financial assets designated as at financial assets at fair value through profit or loss. The Directors of the Company estimated that the fair value of the Financial Products 2012 as at the year end date were approximate to their carrying amounts with reference to the indicative values provided by those financial institutions.

30. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

The Group and the Company

As at 31 December 2013, bank deposits of the Group approximately RMB6,405,000 (2012: RMB101,940,000) are pledged as collateral for bills payables.

As at 31 December 2013, bank deposits of the Company approximately RMB6,405,000 (2012: RMB95,940,000) are pledged as collateral for bills payables.

The annual effective interest rate on pledged bank deposits is 3.08% (2012: 3.3%).

Cash and cash equivalents of the Group and the Company are denominated in RMB and HKD and bank deposits are placed with banks in the PRC and in Hong Kong. The remittance of funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

31. TRADE AND BILLS PAYABLES

The Group

	2013	2012
	RMB'000	RMB'000
Trade payables	**159,552**	115,553
Bills payables	**6,405**	101,940
	165,957	217,493

The following is an analysis of trade and bills payables by age based on the invoice date:

	2013	2012
	RMB'000	RMB'000
1 to 90 days	**116,267**	81,279
91 to 180 days	**18,952**	108,370
181 to 365 days	**10,491**	6,278
Over 365 days	**20,247**	21,566
	165,957	217,493

Trade and bills payables as at 31 December 2013 and 2012 are denominated in RMB.

The average credit period on trade and bills payables is 90 days. Bills payables are all due to mature within 180 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

31. TRADE AND BILLS PAYABLES (Continued)

The Company

	2013 RMB'000	2012 RMB'000
Trade payables	**132,609**	115,252
Bills payables	**6,405**	95,940
	139,014	211,192

The following is an analysis of trade and bills payables by age based on the invoice date:

	2013 RMB'000	2012 RMB'000
1 to 90 days	**90,721**	75,022
91 to 180 days	**18,775**	108,365
181 to 365 days	**9,322**	6,277
Over 365 days	**20,196**	21,528
	139,014	211,192

Trade and bills payables as at 31 December 2013 and 2012 are denominated in RMB.

The average credit period on trade and bills payables is 90 days. Bills payables are all due to mature within 180 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

32. OTHER PAYABLES AND ACCRUALS

The Group

	2013 RMB'000	2012 RMB'000
Accrued salaries	**63,704**	21,434
Other payables	**207,561**	80,776
Received in advance	**27,425**	32,228
	298,690	134,438

32. OTHER PAYABLES AND ACCRUALS (CONTINUED)

The Company

	2013 RMB'000	2012 RMB'000
Accrued salaries	**58,780**	21,434
Other payables	**152,967**	79,871
Received in advance	**27,425**	32,228
	239,172	133,533

33. DEFERRED INCOME

The Group and the Company

During the years ended 31 December 2002 and 2003, the Company received government subsidies in cash of RMB20,380,000 pursuant to an approval obtained from the local government authority. The grants were to enable the Company to construct a new manufacturing plant to produce Chinese medicines. As at 31 December 2013 and 2012, the Company has not commenced the construction of the new manufacturing plant.

34. SHARE CAPITAL

		Nominal value		
	Number of shares '000	**Domestic shares** RMB'000	**H shares** RMB'000	**Total** RMB'000
Registered, issued and fully paid:				
At 31 December 2012 (nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960
At 31 December 2013 (nominal value of RMB0.10 each)	**609,600**	**44,504**	**16,456**	**60,960**

35. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity to the consolidated financial statements.

The Company

The movements of reserves of the Company are as follows:

	Share premium RMB'000	**Statutory surplus reserve fund** RMB'000 (Note (i))	**Statutory public welfare fund** RMB'000 (Note (ii))	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2012	31,139	30,480	6,033	1,396,376	1,464,028
Profit attributable to owners of the Company	–	–	–	435,718	435,718
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	435,718	435,718
Dividend paid	–	–	–	(121,920)	(121,920)
At 31 December 2012 and 1 January 2013	**31,139**	**30,480**	**6,033**	**1,710,174**	**1,777,826**
Profit attributable to owners of the Company	**–**	**–**	**–**	**440,326**	**440,326**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**440,326**	**440,326**
Dividend paid	**–**	**–**	**–**	**(182,880)**	**(182,880)**
At 31 December 2013	**31,139**	**30,480**	**6,033**	**1,967,620**	**2,035,272**
Representing:					
Proposed 2013 final dividends				**182,880**	
Others				**1,784,740**	
Retained earnings as at 31 December 2013				**1,967,620**	

35. RESERVES (Continued)

Notes:

(i) Pursuant to the PRC regulations and the Articles of Association of the Group's entities in the PRC, the entities in the PRC are required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory surplus reserve fund until the fund aggregates to 50% of the entity's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

During the year ended 31 December 2013, appropriation of RMB955,000 (2012: RMB47,000) was made by a subsidiary of the Company.

During the years ended 31 December 2013 and 2012, no appropriation has been made by the Company because the statutory surplus reserve fund of the Company has reached 50% of the Company's registered capital.

The statutory surplus reserve fund shall only be used to make good previous years' losses, to expand the entity's production operations, or to increase the capital of the entity. Upon approval by a resolution passed at a shareholders' general meeting, the entity may transform its statutory surplus reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(ii) Pursuant to the PRC regulations and the Articles of Association of the Group's entities in the PRC, the contribution to statutory public welfare fund by the entities is voluntary. This fund can only be used to provide staff welfare facilities and other collective benefits to the company's employees. This fund is non-distributable other than in liquidation. The Directors consider that no provision to be made for the years ended 31 December 2013 and 2012.

36. BANKING FACILITIES

The Group

The Group had aggregate banking facilities of approximately RMB6,405,000 (2012: RMB101,940,000) which were fully utilised as at 31 December 2013.

As at 31 December 2013, RMB6,405,000 (2012: RMB101,940,000) of the banking facilities were secured by pledged bank deposits of approximately RMB6,405,000 (2012: RMB101,940,000).

The Company

The Company had aggregate banking facilities of approximately RMB6,405,000 (2012: RMB95,940,000) which were fully utilised as at 31 December 2013.

As at 31 December 2013, RMB6,405,000 (2012: RMB95,940,000) of the banking facilities were secured by pledged bank deposits of approximately RMB6,405,000 (2012: RMB95,940,000).

37. COMMITMENTS AND CONTINGENCIES

The Group had the following significant capital commitments:

(a) Operating leases

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2013 RMB'000	2012 RMB'000
Within one year	100	58

The Group leases office premises under operating lease arrangements which are negotiated and fixed for an average term of a year. The lease payments are fixed and pre-determined.

(b) Capital commitments

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

	2013 RMB'000	2012 RMB'000
Contracted but not provided for:		
– Purchase of technical know-how	2,930	3,130
– Purchase of property, plant and equipment	327,260	217,023

38. RELATED PARTY TRANSACTIONS

Key management compensation for the year ended 31 December 2013 and 2012 was disclosed in Note 14(i).

Apart from those as disclosed under Note 27 and elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

38. RELATED PARTY TRANSACTIONS (Continued)

	2013 RMB'000	2012 RMB'000
Sales of chemical medicines to Luoxin Pharmacy Group Company Limited ("Luoxin Pharmacy Group") (note (i))	**326,789**	491,855
Sales of chemical medicines to Shandong Luosheng Pharmacy Co., Ltd. ("Shandong Luosheng") (note (ii))	**39,401**	55,461
Sales of chemical medicines to Shandong Mingxin Pharmacy Co., Ltd. ("Shandong Mingxin") (note (iii))	**27,135**	27,097

Notes:

(i) Luoxin Pharmacy Group is the shareholder and promoter of the Company. Mr. Liu Baoqi is the Director for both Luoxin Pharmacy Group and the Company. As at 31 December 2013, amount of approximately RMB21,896,000 (2012: RMB83,565,000) due from Luoxin Pharmacy Group is included in trade and bills receivables, the terms of the outstanding balance is set out in Note 27.

(ii) Shandong Luosheng is the fellow subsidiary of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Luosheng. Mr. Liu Baoqi and Mr. Liu Zhenhai are also the directors of Shandong Luosheng.

(iii) Shandong Mingxin is the fellow subsidiary of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Mingxin. Mr. Liu Baoqi and Mr. Liu Zhenhai are also the directors of Shandong Mingxin. As at 31 December 2013, amount of approximately RMB4,771,000 (2012: RMB4,301,000) due from Shandong Mingxin is included in trade and bills receivables, the terms of the outstanding balance is set out in Note 27.

The above transactions constitute connected transactions under GEM Listing Rules. Please also refer to "Connected Transactions and Continuing Connected Transactions" under "Report of the Directors".

39. CONTINGENT LIABILITIES

The Group and the Company had no material contingent liabilities as at 31 December 2013.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 18 March 2014.

FIVE YEARS FINANCIAL SUMMARY

	For the year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	**2,529,464**	2,228,257	1,626,848	1,342,254	907,453
Cost of sales	**(884,393)**	(725,977)	(624,217)	(591,944)	(479,736)
Gross profit	**1,645,071**	1,502,280	1,002,631	750,310	427,717
Other revenue	**49,838**	29,878	9,023	7,705	3,767
Other income	**12,046**	6,267	15,614	3,303	2,501
Selling and distribution expenses	**(1,066,095)**	(896,150)	(403,313)	(218,663)	(79,668)
General and administrative expenses	**(137,364)**	(124,031)	(127,621)	(94,399)	(42,874)
Share of profit of an associate	**–**	–	5,873	2,672	4,063
Finance costs	**(9)**	(90)	(168)	(174)	(240)
Profit before taxation	**503,487**	518,154	502,039	450,754	315,266
Taxation	**(74,785)**	(78,045)	(75,355)	(67,360)	(46,716)
Profit for the year	**428,702**	440,109	426,684	383,394	268,550
Profit attributable to:					
Equity holders of the Company	**428,585**	439,874	426,556	383,122	268,550
Non-controlling interests	**117**	235	128	272	–
	428,702	440,109	426,684	383,394	268,550
Dividends	**182,880**	182,880	121,920	12,192	12,192
Earnings per share attributable to owners of the Company (RMB)	**0.703**	0.722	0.700	0.629	0.441

FIVE YEARS FINANCIAL SUMMARY

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets & Liabilities					
Total assets	**2,667,700**	2,288,547	1,937,283	1,570,906	1,220,473
Total liabilities	**(581,469)**	(449,608)	(411,533)	(447,980)	(471,618)
	2,086,231	1,838,939	1,525,750	1,122,926	748,855
Equity attributable to owners of the Company	**2,082,747**	1,837,042	1,519,088	1,121,392	748,573
Non-controlling interests	**3,484**	1,897	6,662	1,534	282
	2,086,231	1,838,939	1,525,750	1,122,926	748,855