HAO WEN HOLDINGS LIMITED
皓文控股有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8019

ANNUAL REPORT 2013

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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

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

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This annual report, for which the directors (the "Directors") of Hao Wen Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (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 circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.

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CORPORATE INFORMATION

Directors

Executive Directors

Chow Yik
Lok Wing Fu *(appointed on 17 February 2014)*
Lee Cheuk Yue, Ryan
Leung King Fai
Hu Yangxiong *(resigned on 31 May 2013)*

Independent Non-Executive Directors

Lam Kai Tai
Wong Ting Kon
Yeung Mo Sheung, Ann

Chief Executive Officer

Hu Yangxiong *(resigned on 31 May 2013)*
Chan Yin Tsung *(appointed on 17 February 2014)*

Company Secretary

Leung King Fai

Assistant Company Secretary

Codan Trust Company (Cayman) Limited

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Level 20, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

Auditors

HLB Hodgson Impey Cheng Limited
31st Floor, The Landmark
11 Pedder Street
Central
Hong Kong

Compliance Officer

Hu Yangxiong *(resigned on 31 May 2013)*
Chow Yik *(appointed on 31 May 2013 and resigned on 17 February 2014)*
Chan Yin Tsung *(appointed on 17 February 2014)*

Authorised Representatives

Hu Yangxiong *(resigned on 31 May 2013)*
Chow Yik *(appointed on 31 May 2013)*
Leung King Fai

Qualified Accountant

Leung King Fai

Legal Advisor on Cayman Laws

Conyers Dill & Pearman, Cayman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Ltd.
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

in Hong Kong
The Hongkong and Shanghai Banking Corporation Limited

Gem Stock Code

8019

CHAIRMAN'S STATEMENT

For and on behalf of the board of directors (the "Board") of Hao Wen Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to present to all shareholders the annual report of the Group for the year ended 31 December 2013.

Turnover for the year was approximately RMB56,351,000, which represented a decrease of approximately 28% as compared with that of 2012. The Group recorded a loss of approximately RMB118,501,000 for the year mainly due to the impairment loss on intangible assets and share-based payment.

In order to improve the operation results, the Group will continue to improve the quality of existing products. In addition, the Group will continue to look for other new investment and cooperation opportunities so as to broaden the income base and to strengthen the profitability, as well as minimising the performance risk of the Group.

On behalf of the Board, I would like to extend my appreciation to shareholders of the Company for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, bankers, lawyers and auditors for their trust and support to the Group.

Chow Yik
Chairman

Hong Kong, 21 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Operation review

During the year under review, the Group continued to engage in trading of biodegradable containers in Hong Kong.

The biodegradable containers and disposable industrial packaging products are traded under the brand name "Earth Buddy". The materials used to produce such products are mainly agricultural waste, such as sugar cane dregs (a side-product of sugar refinery), straw, wheat stalk, reed and bamboo. Our biodegradable products are 100% biodegradable to avoid environmental and aesthetic pollution. In this sense, our biodegradable products are truly environmental friendly as they are produced by recycling waste materials into useful products, unlike some of our competitors, who make their disposable containers of papers, which results in major global deforestation, or edible materials, such as corn starch.

Financial review

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB56,351,000 (2012: RMB78,127,000 (restated)), which represented a decrease of approximately 28% as compared with that of 2012. The decrease in turnover was due to significant increase in production costs and subcontracting charges. Such increases have weakened the competitiveness of our products.

The Group's audited consolidated loss for the year was approximately RMB118,501,000 (2012: profit for the year was approximately RMB17,606,000). The decrease in profit was mainly due to the impairment loss of intangible assets of RMB59,798,000 and share-based payments of RMB28,923,000.

The general and administrative expenses increased by 115% to RMB57,596,000 as compared to last year. It was mainly due to the share-based payments of RMB28,923,000.

Net finance expenses decreased by 46% to RMB6,552,000 (2012: RMB12,143,000) It was mainly due to the decrease in interest on convertible notes and interest on promissory notes as the amounts were settled during the year.

After the discontinuation of the production and sale of the medicines in Mainland China, the Group mainly focuses on the trading of biodegradable containers in Hong Kong.

The Group recorded approximately RMB56,351,000 (2012: RMB78,127,000) from the sales of biodegradable containers and industrial packaging products representing 100% of the consolidated turnover of the Group during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, the Company will review regularly and closely monitor the market trend of the industry and the performance of our biodegradable products.

The Directors believed that the above-mentioned measures will improve the market share of the Group's products and thus the returns to shareholders of the Company.

Liquidity and Financial Resources

The Group generally finances its operations through internally-generated cash flows. As at 31 December 2013, the balance of cash and cash equivalents amounted to approximately RMB9,024,000 (2012: RMB4,569,000). With the limited available resources and due to the fair operating results during the year, the Directors expected that the Group might depend on further financing from its shareholders and bankers to finance its business operations and to achieve its business objectives.

The Group had bank and other borrowings as at 31 December 2013 and 2012 of RMB Nil (2012: Nil).

The Group's gearing ratio as at 31 December 2013 is 10% (2012: 103%), which is calculated by dividing total liabilities of RMB5,440,000 over total assets of the Group of RMB52,698,000.

As at 31 December 2013, the net current assets of the Group is RMB26,395,000 (2012: net current liabilities of RMB115,043,000) and the current ratio of the Group was approximately 5.9 times (2012: 0.1 times).

Capital Raising

The Company raised approximately HK$162 million (before expenses) by way of an open offer of 1,621,334,832 shares at a subscription price of HK$0.10 per share on the basis of eight shares for every one share held. The open offer was completed on 30 October 2013.

Save as disclosed above, the Company had no capital raising activity during the year.

Charges on Group Assets

At 31 December 2013 and 2012, none of the assets of the Group has been pledged to secure any loan granted to the Group.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Investments

Save as disclosed above, the Group had no significant investments during the year.

Capital Structure

The Company implemented a share consolidation on the basis that every ten issued and unissued existing shares with a par value of HK$0.01 each were consolidated into one consolidated share with a par value of HK$0.1 each. The Board also changed the board lot size for trading of the existing shares and/or the consolidated shares from 5,000 existing shares to 20,000 consolidated shares subject to and after the share consolidation became effective. The share consolidation and change of the board lot size were effective on 18 September 2013.

Save as disclosed above, there has been no charge in the capital structure of the Company during the year.

Convertible Notes and Promissory Notes

On 27 May 2011, upon completion of acquisition of Smart Courage Limited, the Company issued convertible notes with a principal amount of HK$120,000,000 (equivalent to approximately RMB100,000,000) and promissory notes with principal amount of HK$30,000,000 (equivalent to approximately RMB25,000,000). On 5 April 2013, the Company received notices from the note-holders requesting for the conversion of the convertible notes in the principal amount of HK$4,457,764 and HK$15,000,000 respectively. The balance of the convertible notes together with accrued interest of approximately HK$103 million and promissory notes together with accrued interest of approximately HK$31 million were settled from the proceeds from an open offer on 5 November 2013. Details of the convertible notes and promissory notes are set out in note 24 and 25 to the accompanying consolidated financial statements.

Employee Information

Currently, the Group has about 20 full-time employees (2012: 20 full-time employees) working in Hong Kong and in Mainland China. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The staff costs, including directors' emoluments, were approximately RMB31,181,000 for the year under review (2012: RMB9,778,000).

Contingent Liabilities

As at 31 December 2013, the Group had no contingent liabilities (2012: Nil).

Major Events During the Year Under Review

Material acquisition and disposals

On 22 February 2013, Lucky River Limited, a subsidiary of the Company (the "Vendor"), entered into a sale and purchase agreement with San Cheng Song Investment Company Limited, an independent third party (the "Purchaser"), pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Company's entire interest in 珠海美斯美容有限公司 ("Zhuhai Aomeisi Beauty Treatment Company Limited"), a wholly owned subsidiary of the Company, for a total consideration of HK$8,500,000. The completion of the transaction took place on 19 March 2013.

On 15 May 2013, the Company (the "Vendor") entered into a sale and purchase agreement with I-cloud Investments Limited, an independent third party (the "Purchaser"), pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Company's entire interest in Merry Sky Holdings Limited, a wholly owned subsidiary of the Company, for a total consideration of HK$2,200,000. The completion of the transaction took place on 15 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

On 27 June 2013, the Company (the "Vendor") entered into a sale and purchase agreement with Ng Oi Yee, an independent third party (the "Purchaser"), pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Company's entire interest in Jin Hao Limited, a wholly owned subsidiary of the Company, for a total consideration of HK$200,000. The completion of the transaction took place on 30 June 2013.

On 26 November 2013, the Company entered into a sale and purchase agreement with Keep Up Overseas Limited and Sonic Phoenix Limited, two independent third parties (the "Vendors"), pursuant to which the Company agreed to acquire and the Vendors agreed to sell the entire share capital in Double Win International Investments Limited for a total consideration of HK$130 million. The completion of the transaction took place on 3 January 2014.

Major Events After Year Ended

Material acquisition and disposals

On 26 November 2013, the Company entered into a sale and purchase agreement with two independent third parties, pursuant to which the Company agreed to acquire the entire share capital of Double Win International Investments Limited at the consideration of HK$130 million. The transaction was completed on 3 January 2014. Upon Completion, the Company has issued the Convertible Notes to the vendors as part of the consideration for the acquisition and paid the balance of the consideration by way of cash.

Increase in authorised share capital

On 24 February 2014, the authorised share capital of the Company was increased from HK$200,000,000 to HK$1,000,000,000 by the creation of additional 8,000,000,000 shares.

Convertible notes

On 3 January 2014, The Company has issued convertible notes in the principal amount of HK$116,480,000 with interest at a rate of 2% per annum. On 16 January 2014, the Company received notices from the noteholders for the request of conversion of the abovementioned convertible notes at the conversion price of HK$0.32 per conversion share. Accordingly, the Company issued 364,000,000 new shares to the noteholders and the conversion of convertible notes was completed on 10 March 2014.

Business Outlook and Prospects

The Directors intend to focus on the biodegradable products business by penetrating and developing the European market that has a population which, on average, has a higher level of awareness of environmental issues. The Group has intention to develop the worldwide market for its biodegradable products. The Group is actively seeking strategic partners in different geographical regions to expand its business through business cooperation in various forms including technology transfer and business joint ventures. The goal of the Group is to build a sustainable and profitable global business while help protect and enhance the global environment. At present, the Group's biodegradable products are manufactured by subcontracting factories. In the event that the Group has adequate financial resources, the Group has intention to acquire or set up its own factory for the manufacturing of the biodegradable products.

DIRECTORS PROFILES

Executive Directors

Mr. Chow Yik, aged 32, is the Chairman of the board of director, Mr. Chow obtained the degree of Bachelor of Engineering, majoring in Electronic and Communication Engineering, from the City University of Hong Kong. He is highly experienced in commercial businesses. He founded the Vision Century Company in 2003. Moreover, since 2005, Mr. Chow has been the sales director and executive director of the British electronic company, Air Audio Distribution (HK) Ltd.

Mr. Lok Wing Fu, aged 56, received education in Hong Kong. He has over 20 years' working experience in marketing and wholesales, staff training and sales management. Before joining the Company, Mr. Lok worked for San Miguel Brewery Hong Kong Limited as a wholesales manager responsible for business development, promotions execution and logistics over 10 years. Currently, Mr. Lok is also a director of Foreverup Company Limited responsible for trading operations to and from United States, Mainland China and Hong Kong.

Mr. Lee Cheuk Yue, Ryan, aged 31, graduated with distinction from the University of Virginia McIntire School of Commerce with a Bachelor of Science in Commerce degree concentrating in Finance and Accounting and second major in Economics from the College of Arts and Science. Mr. Lee has over 6 years' experience in the investment banking industry and had held various structuring and marketing sales positions in Banc of America Securities LLC in New York and Deutsche Bank AG in Hong Kong. Mr. Lee is also a Chartered Financial Analyst holder since 2007.

Mr. Leung King Fai, aged 42, graduated from Deakin University with a Bachelor's degree in Commerce. Mr. Leung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He is an Independent Director of Biostar Pharmaceuticals Inc., a company listed on NASDAQ Stock Market.

Independent Non-executive Directors

Mr. Lam Kai Tai, aged 46, was educated at U.C. Berkeley and University of San Francisco as Finance major. In 1997, Mr. Lam joined First Yuanta Securities Ltd. In 2003, Mr. Lam joined Galaxy Entertainment Group (Macau) as Project Manager to oversee the construction and development of Waldo Hotel, Grand Waldo Hotel, Starworld Hotel and Galaxy Macau. Mr. Lam has more than 10 years of experience in project management and merger and acquisition.

Mr. Wong Ting Kon, aged 43, holds a Bachelor degree in Commerce from University of Windsor, Canada. He is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Accountants. He is currently a Partner of Chan Wong & Company C.P.A..

Ms. Yeung Mo Sheung, Ann, aged 49, holds a Bachelor degree of Retail Marketing with honours in the United Kingdom and a Diploma in Marketing from The Chartered Institute of Marketing. She pursued her further study on legal course and has been awarded a Diploma in Legal Practice in the United Kingdom in 1998 and is presently a partner of Messrs. Wong & Wong, Solicitors, a legal firm in Hong Kong. Ms. Yeung currently is an independent non-executive director of Dejin Resources Holdings Limited, Success Universe Group Limited and Merdeka Resources Holdings Limited, all companies are listed on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and consistent with the "Code on Corporate Governance Practices" (the "CG Code") set out in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the financial year ended 31 December 2013, except for deviations from code provisions A.4.1 and C.2 which is explained in paragraphs A.2. A.4 and C.2 below, the Group has complied with all code provisions.

A Directors

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our Directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other price-sensitive announcements, other financial disclosures as required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals and connected transactions within the meaning of Chapter 20 of the GEM Listing Rules that require notification or approval under the GEM Listing Rules.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders. Other responsibilities and matters reserved to the Board are set out in paragraph D.1 below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all Directors at the beginning of the year to provide sufficient notice to give all Directors an opportunity to attend. Regulars meetings are for reviewing and approving the financial and operating performances of the Group as well as considering and approving the overall strategies and policies of the Group. Special Board meetings will be held when necessary. Matters on transactions where Directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive Directors who have no interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the articles of association of the Company, shall abstain from voting on the resolution and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

CORPORATE GOVERNANCE REPORT

Notices are given to all the Directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. Board papers, together with all appropriate information are sent to all Directors at least three (3) days before each Board meetings to the extent practicable.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the Directors. The Company Secretary assists in preparing the meeting agenda, and each Director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all Directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the Company Secretary and are available for inspection by the Directors during normal office hours.

Participation of individual Directors at Board meetings in 2013 is as follows:

Number of meetings	4
Executive directors:	
Mr. Lok Wing Fu (Note 2)	0
Mr. Hu Yangxiong (Note 1)	0
Mr. Chow Yik	4
Mr. Leung King Fai	4
Mr. Lee Cheuk Yue, Ryan	4
Independent non-executive director:	
Mr. Lam Kai Tai	4
Mr. Wong Ting Kon	4
Ms. Yeung Mo Sheung, Ann	4

Notes:

1. Mr. Hu Yangxiong resigned as an executive Director on 31 May 2013.

2. Mr. Lok Wing Fu was appointed as an executive Director on 17 February 2014.

CORPORATE GOVERNANCE REPORT

A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Chow Yik and Mr. Chan Yin Tsung respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

A.3 Board composition

Currently, the Board comprises seven Directors: Four executive Directors and three independent non-executive Directors. The current composition of the Board is as follows:

Membership of Board Committee(s):

Executive Directors:	
Mr. Chow Yik	Member of the Remuneration Committee
Mr. Lok Wing Fu	—
Mr. Lee Cheuk Yue, Ryan	—
Mr. Leung King Fai	Member of the Nomination Committee
Independent non-executive Directors:	
Mr. Lam Kai Tai	Chairman of the Audit Committee Chairman of the Remuneration Committee Chairman of the Nomination Committee
Mr. Wong Ting Kon	Member of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Ms. Yeung Mo Sheung, Ann	Member of the Audit Committee

The GEM Listing Rules require every listed issuer to have at least three independent non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Wong Ting Kon is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Accountants. He is currently a partner of Chan Wong & Company, C.P.A..

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board has assessed the independence of all the independent non-executive Directors and is satisfied of their independence. None of the independent non-executive Directors of the Company has served the Company for 9 years or more.

The Board members do not have any family, financial or business relations with each other. The biographies of our Directors are set out on page 9 of this annual report.

The list of Directors is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

CORPORATE GOVERNANCE REPORT

A.4 Appointment, re-election and removal of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the non-executive Directors (including independent non-executive Directors) of the Company were appointed for a term from the date of their respective appointment up to the date of the annual general meeting of the Company for the year ended 31 December 2013. Non-executive Directors (including independent non-executive Directors) of the Company do not have a specific term of appointment. As the appointment of non-executive Directors are subject to the retirement by rotation provisions in the articles of association of the Company, the Board considers that it is not necessary to appoint the non-executive Directors for a specific term. At every annual general meeting, one-third of the Directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to the articles of the Company. All Directors, including those appointed for a fixed term, are subject to the retirement by rotation provision in the articles of association of the Company.

A Director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting. A Director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

The Board has established a Nomination Committee on 18 November 2009 with written terms of reference. The Nomination Committee comprised of Mr. Lam Kai Tai and Mr. Wong Ting Kon, both of whom are independent non-executive Directors, and Mr. Leung King Fai, an executive Director. Mr. Lam Kai Tai is the chairman of the Nomination Committee. The Nomination Committee has held 2 meetings during the year.

The Nomination Committee is responsible for reviewing Board composition, identifying suitable candidates for directorship, assessing the independence of independent non-executive Directors, making recommendations to the Board regarding any proposed appointment or re-appointment. The Nomination Committee follows a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of a new Director is the collective decision of the Board, taking into consideration the recommendation of the Nomination Committee and the relevant candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a Director must be able to meet the standards set out in Rules 5.01 and 5.02 of the GEM Listing Rules. A candidate who is to be appointed as an independent non-executive Director must also meet the independence criteria set out in Rule 5.09 of the GEM Listing Rules. Further appointment of independent non-executive Director who has serves more than 9 years should be subject to a separate relationship to be approved by shareholders and the Board would consider and set the reason why such independent non-executive Director continues to be independent and should be elected.

CORPORATE GOVERNANCE REPORT

To comply with the code provision A.4.2 which states that every Director of the Company should be subject to the rotation requirement at least once every three years and in accordance with the articles of association of the Company, Mr. Lok Wing Fu, Mr. Lam Kai Tai and Ms. Yeung Mo Sheung, Ann will retire by rotation at the forthcoming annual general meeting of the Company to be held on 5 May 2013 and being eligible have offered themselves for re-election at the annual general meeting.

A.5 Responsibilities of Directors

Each newly appointed Director is provided with a package of orientation materials setting out the required duties and responsibilities of Directors under the GEM Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a Director's duties and obligations under the GEM Listing Rules and relevant legislations will be arranged for all newly appointed Directors. Newly appointed Directors will also receive an introduction on the Company's operation and business. Our Directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our Directors will also be updated from time to time on the business development and operation plans of the Company. All our Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, Listing Rules and corporate governance practices.

According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listing company in compliance with the Revised CG Code on continuous professional development during the Year.

	Corporate governance, rules and regulations (including directors' duties)	Financial, management and other business skills and knowledge
Executive Directors		
Mr. Chow Yik	√	√
Mr. Hu Yangxiong (Note 1)	X	X
Mr. Lee Cheuk Yue, Ryan	√	√
Mr. Leung King Fai	√	√
Mr. Lok Wing Fu (Note 2)	X	X
Independent Non-executive Directors		
Mr. Lam Kai Tai	√	√
Mr. Wong Ting Kon	√	√
Ms. Yeung Mo Sheung, Ann	√	√

Notes:

1. Mr. Ha Yangxiong resigned as an executive Director on 31 May 2013.

2. Mr. Lok Wing Fu was appointed as an executive Director on 17 February 2014.

CORPORATE GOVERNANCE REPORT

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Rules 5.48 to 5.67 (the "Model Code") of the GEM Listing Rules, in relation to the dealings in securities of the Company by the Directors.

Having made specific enquiry of all Directors, each Director of the Company has confirmed that he has complied with the standards set out in the Model Code during the year ended 31 December 2013.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Code for Securities Transactions by Employees") for securities transactions by employees of the Company, its subsidiaries and its holding company (including Directors of the Company's holding company and its subsidiaries), who because of such office or employment, are likely to be in possession of unpublished price sensitive information of the Company or its securities.

A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all Directors in a timely manner as permitted under the circumstances. Notices are given to all the Directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all Directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each Director have separate and independent access to the Group's senior management for information on the latest developments and financial position of the Company and other information and materials necessary to enable the Directors to make informed decisions of the matters to be considered at the Board meetings. The Compliance Officer, the Qualified Accountant and the Company Secretary attend all regular Board meetings and when necessary other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company. Mr. Chan Yin Tsung is currently the Compliance Officer and Mr. Leung King Fai, an executive Director is the Qualified Accountant and the Company Secretary.

All Directors are entitled to have access to Board papers, minutes and related materials.

CORPORATE GOVERNANCE REPORT

B Remuneration of Directors and Senior Management

B.1 The level of remuneration and disclosure

The Remuneration Committee was established on 8 August 2006 in accordance with the CG Code. During 2013, the Remuneration Committee has met 2 times which were attended by all its members. The existing members of the Remuneration Committee are Mr. Lam Kai Tai and Mr. Wong Ting Kon, both of whom are independent non-executive Directors and Mr. Chow Yik, an executive Director. Mr. Lam Kai Tai is the chairman of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.3(a) to (f) of the CG Code.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of Directors and senior management. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive Directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary.

The work performed by the Remuneration Committee during 2013 included reviewing and approving the remuneration package of the Directors (including the three independent non-executive Directors) and the senior management of the Company.

During the process of consideration, no individual Director will be involved in decisions relating to his own remuneration.

Full minutes of the Remuneration Committee meeting are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval.

The Remuneration Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on both of the website of the Company and the website of Stock Exchange.

CORPORATE GOVERNANCE REPORT

C Accountability and Audit

C.1 Financial reporting

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The Directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2013, the Directors have:

— approved the adoption of all applicable International Financial Reporting Standards which are issued by the International Accounting Standards Board;

— selected and applied consistently appropriate accounting policies;

— Made judgments and estimates that are prudent and reasonable; and

— prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the Directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

The financial statements for the year were audited by HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the board of directors that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

For the year ended 31 December 2013, the audit service fees paid or payable by the Company amounted to approximately HK$1,200,000.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 29 to 30 of this annual report.

C.2 Internal control

The Board is entrusted with the overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

CORPORATE GOVERNANCE REPORT

C.3 Audit Committee

The Audit Committee was established on 5 July 2001 and a terms of reference was adopted. The Terms of Reference of the Audit Committee have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann, all of whom are independent non-executive Directors. Mr. Lam Kai Tai is the chairman of the Audit Committee. The Audit Committee does not have as a member a former partner of the Group's existing audit firm.

During 2013, the Audit Committee met on four (4) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meetings in 2013 is as follows:

Number of meetings	4
Ms. Yeung Mo Sheung, Ann	4
Mr. Lam Kai Tai	4
Mr. Wong Ting Kon	4

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management system, annual report, accounts and quarterly and half yearly report.

The following is a summary of the work performed by the Audit Committee during 2013:

— reviewing the auditor's management letter and management's response;

— reviewing and considering the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;

— reviewing the audited financial statements and final results announcement for the year ended 31 December 2012;

— reviewing the interim report and the interim results announcement for the six months ended 30 June 2013;

— reviewing the quarterly reports and the quarterly results announcement for the three months ended 31 March 2013 and 30 September 2013, respectively;

— meeting with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2012 final results;

— meeting with the auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2013 unaudited interim results.

CORPORATE GOVERNANCE REPORT

All issues raised by the Audit Committee have been addressed by the management. The work and findings of the Audit Committee have been reported to the Board. During 2013, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval.

The Audit Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

This annual report has been reviewed by the Audit Committee.

D Delegation By the Board

D.1 Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

D.2 Board committees

Apart from the Audit Committee (as described under paragraph C.3), the Remuneration Committee (as described under paragraph B.1) and the Nomination Committee (as described under paragraph A.4), the Board has not established any other committee of the Board.

CORPORATE GOVERNANCE REPORT

E Communication with Shareholders

E.1 Effective communication

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each issue to be considered at the annual general meetings and extraordinary general meetings, including the re-election of Directors, a separate resolution will be proposed by the Chairman of the meeting.

In accordance with the code provision E.1.2 set out in the CG Code, members of the Board have attended the annual general meeting and the extraordinary general meeting held in 2013.

Participation of individual Directors at annual general meeting in 2013 is as follows:

Number of meetings	1
Executive Directors:	
Mr. Hu Yangxiong (Note 1)	0
Mr. Lok Wing Fu (Note 2)	0
Mr. Chow Yik	1
Mr. Leung King Fai	1
Mr. Lee Cheuk Yue, Ryan	0
Independent non-executive Directors:	
Mr. Lam Kai Tai	1
Mr. Wong Ting Kon	0
Ms. Yeung Mo Sheung, Ann	0

Notes:

1. Mr. Hu Yangxiong resigned as an executive Director on 31 May 2013.

2. Mr. Lok Wing Fu was appointed as an executive Director on 17 February 2014.

Notices of general meetings were sent to shareholders at least 20 clear business days before the annual general meeting and at least 10 clear business days for all other general meetings. The Company's auditors have also attended the annual general meeting in 2013.

CORPORATE GOVERNANCE REPORT

Participation of individual Directors at extraordinary general meetings in 2013 is as follows:

Number of meetings	2
Executive Directors:	
Mr. Hu Yangxiong (Note 1)	0
Mr. Lok Wing Fu (Note 2)	0
Mr. Chow Yik	2
Mr. Leung King Fai	2
Mr. Lee Cheuk Yue, Ryan	0
Independent non-executive Directors:	
Mr. Lam Kai Tai	0
Mr. Wong Ting Kon	0
Ms. Yeung Mo Sheung, Ann	0

Notes:

1. Mr. Hu Yangxiong resigned as an executive Director on 31 May 2013.

2. Mr. Lok Wing Fu was appointed as an executive Director on 17 February 2014.

Designated executive Director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any queries.

E.2 Voting by poll

At all general meetings held in 2013, the Chairman had provided an explanation of the procedures for conducting a poll at the commencement of each of the meetings. Poll results were posted on the website of the Stock Exchange (as well as on the website of the Company) on the day of the holding of each of the shareholders' meetings.

Separate resolutions are proposed at shareholders' meeting on each substantial issue, including the election of individual Directors.

CORPORATE GOVERNANCE REPORT

F Shareholders' Rights

F.1 Convening an extraordinary general meeting and Procedures for putting forward proposals at shareholders' meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the Articles of Association of the Company, general meetings shall be convened on the written requisition of any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

F.2 Procedures for nominating a new Director

Pursuant to the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting.

The Board always welcome Shareholders' and other stakerholder's questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post.

The address is Level 20, Infinitus Plaza, 199 Dex Voeux Road Central, Sheung Wan, Hong Kong.

G Investor Relations

The Company has disclosed all necessary information to the shareholders and established a range of communication channels between itself, its shareholders and investors which in compliance with GEM Listing Rules. During the year under review, there is no change in the Company's constitutional documents.

H Articles of Association

There was no any change to the Articles of Association to the Company during the year ended 31 December 2013.

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2013.

Basis of Presentation

The Company was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2001.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The basis of preparation of the financial statements is set out in Note 2 to the accompanying consolidated financial statements.

Principal Place of Business and Activities

The Company is a company incorporated in Cayman Islands and domiciled in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report. The Company is an investment holding company. The principal activities of its subsidiaries are detailed in Note 20 to the financial statements.

Segment Information

Segment information of the Group for the year ended 31 December 2013 is set out in Note 5 to the accompanying consolidated financial statements.

Major Customers and Suppliers

For the year ended 31 December 2013, the five largest customers accounted for approximately 93% of the Group's total turnover. The five largest suppliers accounted for approximately 100% of the Group's total purchases. In addition, the largest customer accounted for approximately 65% of the Group's total turnover while the largest supplier accounted for approximately 53% of the Group's total purchases.

None of the Directors, their associates or any shareholders (which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

Results and Dividends

Details of the Group's results for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 32-33 of this annual report.

REPORT OF THE DIRECTORS

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out below.

Consolidated results

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)		
Turnover	**56,351**	78,127	41,165	89,226	83,468
(Loss)/profit before taxation	**(118,127)**	18,674	(47,543)	(37,703)	(29,303)
Taxation	**(374)**	(1,068)	—	(331)	(2,754)
Net (loss)/profit from ordinary activities attributable to shareholders	**(118,501)**	17,606	(47,543)	(38,034)	(32,057)

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book value:					
Non-current assets	**20,863**	111,314	177,927	28,873	107,565
Current assets	**31,835**	15,880	43,503	102,896	33,607
Current liabilities	**(5,440)**	(130,923)	(103,846)	(93,950)	(132,269)
Net current assets/(liabilities)	**26,395**	(115,043)	(60,343)	8,946	(98,662)
Non-current liabilities	**–**	(37)	(115,245)	—	—
Net assets/(liabilities)	**47,258**	(3,766)	2,339	37,819	8,903

REPORT OF THE DIRECTORS

Share Capital and Share Option Scheme

Details of movements in the Company's issued share capital, together with the details of the Company's share option scheme are set out in the Notes 27 and 28 to the financial statements.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 30 to the financial statements.

Distributable Reserves

As at 31 December 2013 and 2012, the Company has no reserves available for distribution to its shareholders.

Property, Plant and Equipment

Details of movements in investment properties and plant and equipments of the Group during the year are set out in Notes 15 and 16 to the accompanying consolidated financial statements, respectively.

Bank and Other Borrowings

The Company has no bank and other borrowings as at 31 December 2013.

Connected Transactions

There were no significant connected party transactions entered into by the Group for the year ended 31 December 2013.

REPORT OF THE DIRECTORS

Directors

The Directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Mr. Chow Yik	
Mr. Hu Yangxiong	resigned on 31 May 2013
Mr. Lok Wing Fu	appointed on 17 February 2014
Mr. Lee Cheuk Yue, Ryan	
Mr. Leung King Fai	

Independent Non-executive Directors

Mr. Lam Kai Tai
Mr. Wong Ting Kon
Ms. Yeung Mo Sheung, Ann

In accordance with the Company's articles of association, Messrs. Lok Wing Fu, Lam Kai Tai and Yeung Mo Sheung, Ann will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to GEM Listing Rule 5.09 and the Company considers the independent non-executive Directors remained independent.

Biographical Details of Directors and Senior Management

Biographical details of the Directors of the Company and the senior management of the Group are set out on page 9 of the annual report.

Directors' Service Contracts

All Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the articles of association of the Company.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No Director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party-during or at the end of the year.

REPORT OF THE DIRECTORS

Directors' and Chief Executives' Interests or Short Positions in the Shares, Underlying Shares or Debentures of the Company or Any Associated Corporations

As at 31 December 2013, none of the Directors or Chief Executives of the Company had any other interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong (SFO)), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2013, none of the Directors or Chief Executives of the Company had any other interests.

Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of other members of the Group

So far as known to any Director or Chief Executive of the Company, as at 31 December 2013, persons who have interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/Nature of interest	No. of shares (Note 1)	Approximate percentage of interest
Mr. Cheng Kwok Chun	Beneficial owner	214,240,000 (L)	11.75%
Mr. Yip Chi Fai, Stevens (Note 2)	Interest in controlled corporation	147,232,000 (L)	8.07%
Beckon Investments Limited (Note 2)	Beneficial owner	147,232,000 (L)	8.07%

Notes:

1. The letter "L" denotes a long position in shares of the Company.

2. Mr. Yip Chi Fai, Stevens is deemed or taken to be interested in these shares which are beneficially owned by his wholly owned company, namely Beckon Investments Limited for the purpose of the SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2013, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Options to Subscribe for Shares in the Company

Pursuant to a share option scheme adopted by the Company on 24 September 2009, the Directors may, at their discretion, offer to consultants, advisors, service providers, full-time employees and Executive Directors of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest immediate from the date of grant and are then exercisable within a period of ten years.

At 31 December 2013, the directors, employees, consultants, advisors and other service providers of the company had the following interests in options to subscribe for shares of the company under the share option scheme of the company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 of the company.

Details of grantees	No. of options outstanding	Date granted	Period during which options are exercisable	Exercise price per share
Chow Yik (Director)	5,000,000	28 November 2013	29 November 2013 to 28 November 2017	HK$0.319
Leung King Fai (Director)	204,253	11 November 2009	11 November 2009 to 10 November 2019	HK$4.132
	5,000,000	28 November 2013	29 November 2013 to 28 November 2017	HK$0.319
Consultants, Advisers, Service Providers, Employees and Others	2,297,875	11 November 2009	11 November 2009 to 10 November 2019	HK$4.132
	169,800,000	28 November 2013	29 November 2013 to 28 November 2017	HK$0.319

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

* being the weighted average closing price of the company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

REPORT OF THE DIRECTORS

Information on the accounting policy for share options granted and the weighted average value per option is provided in Notes 3 and 28 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

Directors' and Chief Executives' Rights to Acquire Shares or Debt Securities

As at 31 December 2013, save as disclosed above, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

Competing Interest

Up to the date of this report, none of the Directors or the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) of the Company has an interest in any business which directly or indirectly competes with the business of the Group, or has any other conflict of interests with the Group.

Audit Committee

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee include the review and supervision of the financial reporting process and the internal monitoring system of the Group. The audit committee has three members comprising Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann, the three Independent Non-executive Directors. The audit committee met 4 times during the year. The Group's audited consolidated results for the year have been reviewed by the audit committee, and it was in its opinion that (i) the preparation of such results complied with the applicable standards and statutory requirements and the requirements of the Stock Exchange and that (ii) the internal reporting and monitoring system of the Group had been properly implemented and was adequate to keep the Board informed of the business and the management affairs of the Group. During the year, no material matters were identified and reported by the Board to the audit committee and the supervisory committee of the Board.

Board Practices and Procedures

For the year under review, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning the board practices and procedures, which applied before the amendment relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report.

Auditors

The Group's financial statements for the year were audited by HLB Hodgson Impey Cheng Limited. HLB Hodgson Impey Cheng Limited retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chow Yik
Chairman

Hong Kong, 21 March 2014

INDEPENDENT AUDITORS' REPORT

HLB 國衛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 HAO WEN HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hao Wen Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 117, 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 International Financial Reporting Standards issued by the International Accounting Standards Board 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.

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

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

INDEPENDENT AUDITORS' REPORT

Opinion

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Wong Sze Wai, Basilia
Practising Certificate Number: P05806

Hong Kong, 21 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 (Restated)
Turnover	4	56,351	78,127
Cost of sales		(53,433)	(70,440)
Gross profit		2,918	7,687
Other gains and losses	6	5,852	4,026
Selling and distribution expenses		–	(4)
General and administrative expenses		(57,596)	(26,816)
Impairment loss on intangible assets		(59,798)	–
Loss from operations		(108,624)	(15,107)
Share of results of associates	19	–	(9)
Loss on disposal of subsidiaries		(3,025)	–
Finance costs	7(a)	(6,552)	(12,143)
Loss before taxation	7	(118,201)	(27,259)
Income tax expense	8(a)	(374)	(1,068)
Loss for the year from continuing operation		(118,575)	(28,327)
Discontinued operations			
Profit for the year from discontinued operations		74	45,933
(Loss)/profit for the year		(118,501)	17,606
Other comprehensive (loss)/income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(1,065)	77
Total comprehensive (loss)/income for the year		(119,566)	17,683
(Loss)/profit for the year attributable to owners of the Company		(118,501)	17,606
Total comprehensive (loss)/income for the year attributable to owners of the Company		(119,566)	17,683

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
(Loss)/earnings per share	14		
For continuing and discontinued operations			
Basic (cents)		(19.60)	4.59
Diluted (cents)		(19.60)	4.59
For continuing operation			
Basic (cents)		(19.62)	(7.39)
Diluted (cents)		(19.62)	(7.39)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

		The Group		The Company	
	Notes	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Non-current assets					
Plant and equipments	15	1,263	2,038	1	45
Investment properties	16	–	1,900	–	–
Intangible assets	17	19,600	98,517	–	–
Goodwill	18	–	6,821	–	–
Investments in subsidiaries	20	–	–	328	13,714
Trade and other receivables	21	–	2,038	–	–
		20,863	111,314	329	13,759
Current assets					
Trade and other receivables, prepayments and deposits	21	22,811	11,311	22,113	82,842
Cash and bank balances	22	9,024	4,569	3,572	140
		31,835	15,880	25,685	82,982
Current liabilities					
Trade and other payables	23	5,352	8,192	4,403	4,395
Convertible notes	24	–	97,822	–	97,822
Promissory notes	25	–	23,932	–	–
Tax payables	26	88	977	–	–
		5,440	130,923	4,403	102,217
Net current assets/(liabilities)		26,395	(115,043)	21,282	(19,235)
Total assets less current liabilities		47,258	(3,729)	21,611	(5,476)
Non-current liabilities					
Deferred tax liabilities		–	37	–	–
Net assets/(liabilities)		47,258	(3,766)	21,611	(5,476)
Capital and reserves attributable to owners of the Company					
Share capital	27	146,820	17,122	146,820	17,122
Reserves		(99,562)	(20,888)	(125,209)	(22,598)
Total equity		47,258	(3,766)	21,611	(5,476)

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2014 and are signed on its behalf by:

Chow Yik
Director

Leung King Fai
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Capital reduction reserve RMB'000	Share-based compensation reserve RMB'000	General fund reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2012	17,122	72,080	7,195	92,489	20,103	9,025	(2,786)	(212,889)	2,339
Profit for the year	–	–	–	–	–	–	–	17,606	17,606
Other comprehensive income for the year									
Exchange differences on translating foreign operations	–	–	–	–	–	–	77	–	77
Total comprehensive income for the year	–	–	–	–	–	–	77	17,606	17,683
Release upon disposal of subsidiaries	–	–	(7,195)	–	–	(9,025)	(7,568)	–	(23,788)
At 31 December 2012 and 1 January 2013	17,122	72,080	–	92,489	20,103	–	(10,277)	(195,283)	(3,766)
Loss for the year	–	–	–	–	–	–	–	(118,501)	(118,501)
Other comprehensive loss for the year									
Exchange differences on translating foreign operations	–	–	–	–	–	–	(1,065)	–	(1,065)
Total comprehensive loss for the year	–	–	–	–	–	–	(1,065)	(118,501)	(119,566)
Issue of shares upon conversion of convertible notes	1,564	14,079	–	–	–	–	–	–	15,643
Issue of shares upon open offer of shares	128,134	–	–	–	–	–	–	–	128,134
Transaction costs attributable to issue share of open offer	–	(1,911)	–	–	–	–	–	–	(1,911)
Recognition of equity-settled share-based payments	–	–	–	–	28,923	–	–	–	28,923
Release upon lapse of share options	–	–	–	–	(12,787)	–	–	12,787	–
Release upon disposal of subsidiaries	–	–	–	–	–	–	(199)	–	(199)
At 31 December 2013	146,820	84,248	–	92,489	36,239	–	(11,541)	(300,997)	47,258

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 (Restated)
Operating activities			
(Loss)/profit before taxation			
From continuing operation		(118,201)	(27,259)
From discontinued operations		74	45,933
		(118,127)	18,674
Adjustments for:			
Depreciation	7(c)	729	3,940
Fair value loss/(gain) of investment properties		200	(230)
Amortisation of intangible assets	7(c)	16,089	17,114
Realised loss on financial assets at fair value through profit or loss	6	–	1,801
Impairment loss of intangible assets	7(c)	59,798	2,083
Share of loss of associates		–	9
Fair value gain on convertible notes	24	(2,115)	(1,103)
Expenses recognised in respect of equity-settled share-based payment		28,923	–
Interest expense	7(a)	6,552	19,555
Interest income	7(a)	–	(1)
Gain on extension of promissory notes	25	(1,474)	–
Written off of plant and equipments	7(c)	253	–
Loss on early repayment of promissory notes	25	1,407	–
Loss/(gain) on disposal of subsidiaries	33	2,944	(66,344)
Operating loss before working capital changes		(4,821)	(4,502)
Increase in inventories		–	(1,079)
Increase in trade and other receivables, prepayments and deposits		(5,456)	(32,253)
Increase in trade and other payables		736	64,774
Cash used in operations		(9,541)	26,940
Purchase of financial assets at fair value through profit or loss		–	(2,717)
Proceeds from disposal of financial assets at fair value through profit or loss		–	7,774
Tax paid		(2)	(54)
Net cash (used in)/generated from operating activities		(9,543)	31,943

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Cash flows from investing activities			
Purchase of plant and equipments		(1,309)	(23,429)
Payment of deposit for acquisition of subsidiaries		(10,656)	–
Net cash inflow/(outflow) from disposal of subsidiaries	33	8,226	(12,705)
Interest received		–	1
Net cash used in investing activities		(3,739)	(36,133)
Cash flows from financing activities			
Repayment of other borrowings		(80,031)	(42,000)
Repayment of promissory notes		(24,401)	–
Proceeds from new other borrowings		–	49,000
Net proceeds from shares issued upon open offer, net of share issuance expense		126,223	–
Interest paid		(3,146)	(10,353)
Net cash generated from/(used in) financing activities		18,645	(3,353)
Net increase/(decrease) in cash and cash equivalents		5,363	(7,543)
Cash and cash equivalents at the beginning of the year	22	4,569	12,010
Effect of exchange rate changes on the balance of cash held in foreign currencies		(908)	102
Cash and cash equivalents at the end of the year	22	9,024	4,569

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. General Information

Hao Wen Holdings Limited (the "Company") was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands, and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 July 2001. The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in the sale of biodegradable food containers and disposable industrial packaging for consumer products. During the year ended 31 December 2012, the manufacture and sales of medicines business was discontinued and disposed. During the year ended 31 December 2013, the skin care business was discontinued and disposed.

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

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

(b) Basis of measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

2. Basis of Preparation *(Continued)*

(b) Basis of measurement *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its operating subsidiary in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency. All financial information presented in RMB has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and report amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are disclosed in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

2. Basis of Preparation *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards

The Group has adopted the following revised IFRSs for the first time for the current year's consolidated financial statements.

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

Except for the amendments to IAS 1, the application of these new IFRSs has no material impact on the results and the financial position of the Group.

The nature of the impending changes in accounting policy on adoption of the amendments to IAS 1 is described below.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012.

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 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 IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

2. Basis of Preparation *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards *(Continued)*

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

IFRS 9	Financial Instruments[3]
IFRS 9, IFRS 7 and IAS 39 (Amendments)	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39[3]
IFRS 10, IFRS 12 and IAS 27 (Amendments)	Investment Entities[1]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
IAS 36	Recoverable Amount and Disclosures for Non-Financial Assets[1]
IAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
IAS 19 (Amendments)	Defined Benefits Plans: Employee Contributions[2]
IFRSs (Amendments)	Annual Improvements to IFRSs 2010-2012 Cycle[2]
IFRSs (Amendments)	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 14	Regulatory Deferral Accounts[4]
IFRIC 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

[3] No mandatory effective date yet determined but is available for adoption.

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

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

Key requirements of IFRS 9 are described as follows:

All recognised financial assets that are within the scope of IAS 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 IFRS 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

2. Basis of Preparation *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards *(Continued)*

With regard to the measurement of financial liabilities designed as at fair value through profit or loss, IFRS 9 requires that the amount of change in 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 not subsequently reclassified to profit or loss. Previously, under IFRS 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.

The date when entities would be required to apply IFRS 9 was previously stated at 1 January 2015. This mandatory effective date has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements, which will now become effective from a later date yet to be announced.

The directors anticipate that the application of new standard may have a significant impact on amounts reported in respect of Group's financial assets. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to IFRS 7 and IAS 32 – Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to IAS 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 amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

2. Basis of Preparation *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards *(Continued)*

Amendments to IAS 36 – Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets

The amendments to IAS 36 are to remove certain unintended disclosure requirements which may be introduced by the consequential amendments to IAS 36 when IFRS 13 was issued. Furthermore, these amendments require the disclosure of additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendments to IAS 36 are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. However, an entity may not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

The directors anticipate that the application of these amendments to IAS 36 will have no material impact on the Group's financial performance and positions.

Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities

The investment entities amendments apply to a particular class of business that qualify as investment entities. The term "investment entity" refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Under IFRS 10, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of IFRS 10.

The directors anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 27 (2011) will have no material impact on the Group's financial performance and positions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

2. Basis of Preparation *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards *(Continued)*

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

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

Similar relief will be included in IFRS 9.

The amendments will be effective for annual periods beginning on or after 1 January 2014 and applied retrospectively. Earlier application is permitted.

The directors anticipate that the application of these amendments to IAS 39 will have no material impact on the Group's financial performance and positions.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(a) Basis of consolidation *(Continued)*

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) 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, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured 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 Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). 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 IAS 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.

(iv) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Business combinations *(Continued)*

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

(i) deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

(ii) 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 IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Noncurrent 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 IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Business combinations *(Continued)*

When 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.

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 IAS 39, or IAS 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(b) Investments in subsidiaries

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses.

(c) Investments in associates

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 associates 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 IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are 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 associates. 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 IAS 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 IAS 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 IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(c) Investments in associates *(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 IAS 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.

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) 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 in the consolidated statement of profit or loss and other comprehensive income. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(e) Plant and equipments

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed items of assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains or losses arising on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognised net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

– Machinery and equipment	8 – 10 years
– Furniture and office equipment	5 – 8 years
– Motor vehicles	5 – 8 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(e) Plant and equipments *(Continued)*

(iv) Construction in progress represents buildings and various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses. Cost comprises direct costs of construction incurred during the periods of construction.

Construction in progress is transferred to buildings, and machinery and equipment when the asset is substantially ready for its intended use.

(f) Leased assets

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

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(f) Leased assets *(Continued)*

(iii) Leasehold land for own use

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.

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(h) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) the intention to complete the intangible asset and use or sell it;

(iii) the ability to use or sell the intangible asset;

(iv) how the intangible asset will generate probable future economic benefits;

(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(h) Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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).

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. When 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. When 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(h) Intangible assets *(Continued)*

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(i) Inventories

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

The cost of inventories is calculated based on the weighted average costing method (which approximates the average actual cost) and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

(j) 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.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" financial assets and "loans and receivables". 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 marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

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 financial asset at fair value through profit or loss.

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling it in the near future; or

(b) 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

(c) it is a derivative that is not designated and effective as a hedging instrument.

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

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) 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

(c) it forms part of a contract containing one or more embedded derivatives, and IAS 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss *(Continued)*

Financial assets 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 dividend or interest earned on the financial asset and is included in the "other gains and losses" line item in the consolidated statement of profit or loss and other comprehensive income.

Loan 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 other receivables, bank balances and cash) 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 available-for-sale 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

(a) significant financial difficulty of the issuer or counterparty; or

(b) breach of contract, such as a default or delinquency in interest or principal payments; or

(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, 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 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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 available-for-sale 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 investments, 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

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bank and other borrowings, convertible notes, and promissory notes are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

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 though profit or loss.

Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to convertible notes reserves. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to convertible notes reserves. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

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. 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 comprehensive income.

For financial liabilities, they are removed from the Group's consolidated statement of financial positions when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognised in the consolidated statement of profit or loss and other comprehensive income.

(k) Cash and cash equivalents

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

(l) Borrowings

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

(m) Trade and other payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(n) Revenue

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

(i) Sale of goods

Revenue from sale of goods is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue excludes value added tax or other sales taxes and is stated after deduction of any trade discounts.

(ii) Interest income

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

(o) Employee benefits

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

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

(ii) Share-based payments

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(p) Finance income and costs

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying assets are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(q) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(r) Provisions and contingent liabilities

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

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

(s) Translation of foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(s) Translation of foreign currencies *(Continued)*

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

(t) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

(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 which the other entity is a member);

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

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

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

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

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

Close family members of an individual are those family members who may be expected to influence, or be influenced 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 and obligations between related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

3. Significant Accounting Policies *(Continued)*

(u) Segment reporting

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

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

(v) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

4. Turnover

Turnover represents the sales value of goods supplied to customers, which excludes value added tax and is stated after deduction of goods returns and trade discounts.

	2013 RMB'000	2012 RMB'000 (Restated)
Continuing operation:		
Sale of biodegradable products	56,351	78,127
Discontinued operations:		
Distribute of skin care products	–	85
Sale of pharmaceutical products	–	56,450
	–	56,535
Total	56,351	134,662

5. Segment Reporting

Information reported to the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods devoured or provided. The segmentations are based on the information about the operation of the Group that management uses to make decision and regularly review by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance.

The Group's reportable and operating segment under IFRS 8 are as follows:

The Group currently operates in one operating segment which is the sale of biodegradable food containers and disposable industrial packaging for consumer products.

The Group's manufacturing and sale of pharmaceutical products operation was disposed during the year ended 31 December 2012 and the distribution of skin care products operation was disposed during the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

5. Segment Reporting *(Continued)*

Segment revenues and results

	Continuing operation		Discontinued operations					
	Biodegradable products		Skin care products		Pharmaceutical products		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover								
External sales	56,351	78,127	–	85	–	56,450	56,351	134,662
Result								
Segment result	(13,463)	(8,828)	74	(616)	–	48,632	(13,389)	39,188
Unallocated corporate expenses							(35,363)	(6,279)
Impairment loss on intangible assets	(59,798)	–	–	(2,083)	–	–	(59,798)	(2,083)
(Loss)/profit from operations							(108,550)	30,826
Loss on disposal of subsidiaries							(3,025)	–
Share of results of associates							–	(9)
Finance costs							(6,552)	(12,143)
(Loss)/profit before taxation							(118,127)	18,674
Income tax expense							(374)	(1,068)
(Loss)/profit for the year							(118,501)	17,606

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2012: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of impairment loss on intangible assets and central administration costs including directors' emoluments, share of results of associates, loss on disposal of subsidiaries, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

5. Segment Reporting *(Continued)*

Segment assets and liabilities

	Continuing operation		Discontinued operations					
	Biodegradable products		Skin care products		Pharmaceutical products		Consolidated	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Assets								
Segment assets	**33,404**	104,992	**–**	–	**–**	–	**33,404**	104,992
Unallocated corpoarate assets							**19,294**	22,202
							52,698	127,194
Liabilities								
Segment liabilities	**2,024**	1,323	**–**	–	**–**	–	**2,024**	1,323
Unallocated corporate liabilities							**3,416**	129,637
							5,440	130,960

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to operating segments other than investment properties and other corporate assets.

All liabilities are allocated to operating segments other than convertible notes, promissory notes and corporate liabilities.

Other segment information

The following is an analysis of the Group's other segment information:

	Continuing operation		Discontinued operations							
	Biodegradable products		Skin care products		Pharmaceutical products		Unallocated		Consolidated	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Capital expenditure	**1,309**	–	**–**	–	**–**	23,422	**–**	7	**1,309**	23,429
Depreciation and amortisation	**16,120**	16,420	**–**	694	**–**	3,014	**698**	926	**16,818**	21,054
Impairment loss on intangible assets	**59,798**	–	**–**	2,083	**–**	–	**–**	–	**59,798**	2,083
Impairment loss on other receivables	**–**	–	**–**	–	**–**	–	**373**	–	**373**	–
Written off of plant and equipments	**–**	–	**–**	–	**–**	–	**253**	–	**253**	–
Fair value loss on investment properties	**–**	–	**–**	–	**–**	–	**200**	–	**200**	–
Loss on early repayment of promissory notes	**–**	–	**–**	–	**–**	–	**1,407**	–	**1,407**	–

The Group's revenue from its major products were disclosed in note 4 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

5. Segment Reporting *(Continued)*

Geographical information

The Group operates in two principal geographical areas, the PRC and Hong Kong. The Group's revenue from continuing operation from the external customers by location of operations and information about its non-current assets are detailed below.

	Revenue		Non-current assets	
	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000 (Restated)	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000
The PRC	42,835	–	–	4,859
Hong Kong	13,516	78,127	20,863	106,455
	56,351	78,127	20,863	111,314

Information about major customers

Included in revenue arising from continuing operation, biodegradable products, of approximately RMB56,351,000 (2012: RMB78,127,000) of approximately RMB42,835,000 (2012: RMB76,641,000), which arose two (2012: five) external customers.

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	2013 RMB'000	2012 RMB'000
Customer A (Note)	–	19,666
Customer B (Note)	–	16,591
Customer C (Note)	–	16,537
Customer D (Note)	–	14,553
Customer E (Note)	–	9,294
Customer F	36,473	–
Customer G	6,362	–

Note:

No information on revenue for the current year is disclosed for these customers since none of them contributed 10% or more to the Group's revenue for the year ended 31 December 2013.

During the year ended 31 December 2012, included in revenue arising from sale of discontinued operation, pharmaceutical products of approximately RMB56,450,000 of approximately RMB50,012,000, which arose from one single external customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

6. Other Gains and Losses

	2013	2012
	RMB'000	RMB'000
Continuing operation:		
Sample income	–	5
Sundry income	492	718
Rental income	–	36
Distribution income	1,771	3,735
Fair value gain on investment properties	–	230
Realised loss on of financial assets at fair value through profit or loss	–	(1,801)
Gain on extension of promissory notes	1,474	–
Fair value gain on convertible notes	2,115	1,103
	5,852	4,026
Discontinued operations:		
Sample income	–	267
Sundry income	–	7
Total	5,852	4,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

7. Loss before Taxation

Loss before taxation is arrived after charging/(crediting):

(a) Finance costs

	2013 RMB'000	2012 RMB'000 (Restated)
Continuing operation:		
Interest on convertible notes	3,472	9,662
Interest on promissory notes	2,035	2,482
Interest on other borrowings	1,045	–
Bank interest income	–	(1)
	6,552	12,143
Discontinued operations:		
Interest on bank and other borrowings wholly repayable within five years	–	7,411
Net finance costs recognised in consolidated statement of profit or loss and other comprehensive income	6,552	19,554

The following is an analysis of net finance costs/(income):

	2013 RMB'000	2012 RMB'000
Total interest income earned on financial assets that are not designated as at fair value through profit or loss – Loans and receivables (including cash and bank balances)	–	1
Total interest expenses for financial liabilities that are not designated as at fair value through profit or loss	6,552	19,555

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

7. Loss before Taxation *(Continued)*

(b) Staff costs (including directors' emoluments)

	2013 RMB'000	2012 RMB'000 (Restated)
Continuing operation:		
Contributions to defined contribution plans	58	59
Salaries, wages and other benefits	31,123	2,199
	31,181	2,258
Discontinued operations:		
Contributions to defined contribution plans	–	1,175
Salaries, wages and other benefits	–	6,345
	–	7,520
Total staff costs	31,181	9,778

(c) Other items

	2013 RMB'000	2012 RMB'000 (Restated)
Continuing operation:		
Amortisation of intangible assets	16,089	16,420
Depreciation	729	926
Operating lease charges in respect of property rentals:		
Minimum lease payments	1,327	1,590
Auditors' remuneration		
– audit services	995	995
Cost of inventories sold	53,433	70,440
Impairment loss on intangible assets	59,798	–
Share-based payments	28,923	–
Written off of plant and equipments	253	–
Impairment loss on other receivables	373	–
Fair value loss on investment properties	200	–
Loss on early repayment of promissory notes	1,407	–
Discontinued operations:		
Amortisation of intangible assets	–	694
Depreciation	–	3,014
Operating lease charges in respect of property rentals:		
Minimum lease payments	–	1,500
Advertising and promotion expenses	–	31,011
Cost of inventories sold	–	17,649
Impairment loss on intangible assets	–	2,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

8. Income Tax Expense

Continuing operation

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2013 RMB'000	2012 RMB'000
Current tax		
Hong Kong	–	91
PRC Enterprise Income Tax	411	886
	411	977
Under provision in prior year		
Hong Kong	–	54
Deferred tax		
(Credit)/charged to the consolidated statement of profit or loss and other comprehensive income	(37)	37
	374	1,068

(i) Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year ended 31 December 2013.

(ii) Income taxes outside Hong Kong

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax in the Cayman Islands and BVI, respectively.

The subsidiary of the Group established in the PRC is generally subject to PRC Enterprise Income Tax on its taxable income at an income tax rate of 25% in respect of the year ended 31 December 2013 (2012: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

8. Income Tax Expense *(Continued)*

Continuing operation *(Continued)*

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2013 RMB'000	2013 %	2012 RMB'000 (Restated)	2012 %
Loss before taxation	**(118,201)**		(27,259)	
Notional tax on profit/loss before taxation calculation at the relevant tax rate of 16.5% (2012: 25%)	**(19,503)**	**(16.5)**	(6,815)	(25.0)
Tax effect non-taxable income	**(2,186)**	**(1.9)**	(144)	(0.5)
Tax effect non-deductible expenses	**14,989**	**12.7**	1,584	5.8
Tax effect of unused tax losses not recognised	**6,574**	**5.6**	4,563	16.7
Under provision of profit tax for prior year	**–**	**–**	54	0.2
Tax effect of different tax rates in other jurisdictions	**500**	**0.4**	1,826	6.7
Income tax expense for the year	**374**	**0.3**	1,068	3.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

8. Income Tax Expense *(Continued)*

Discontinued operations

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2013 RMB'000	2012 RMB'000
Current tax		
PRC Enterprise Income Tax for the year	–	–

(i) **Hong Kong Profits Tax**

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the years ended 31 December 2013 and 2012.

(ii) **Income taxes outside Hong Kong**

Pursuant to the rules and regulations of the British Virgin Islands (the "BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax in the BVI.

The subsidiary of the Group established in the PRC is generally subject to PRC Enterprise Income Tax on its taxable income at an income tax rate of 25% in respect of the year ended 31 December 2013 (2012: 25%).

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2013 RMB'000	%	2012 RMB'000 (Restated)	%
Loss before taxation	(7)		(20,411)	
Notional tax on loss before taxation calculation at the PRC enterprise income tax rate of 16.5% (2012: 25%)	(1)	(16.5)	(5,103)	(25.0)
Tax effect non-deductible expenses	1	16.5	4,876	23.9
Tax effect of different tax rates in other jurisdictions	–	–	227	1.1
Income tax expense for the year	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

9. Directors' Remuneration

Details of remuneration of the directors' remuneration of the Company for the year, disclosed pursuant to Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Share options RMB'000	2013 Total RMB'000
Executive directors:					
Hu Yangxiong					
(resigned on 31 May 2013)	–	80	4	–	84
Leung King Fai	–	389	12	812	1,213
Lee Cheuk Yue	–	156	–	–	156
Chow Yik	–	278	12	812	1,102
Independent non-executive directors:					
Yeung Mo Sheung, Ann	144	–	–	–	144
Lam Kai Tai	104	–	–	–	104
Wong Ting Kon	96	–	–	–	96
	344	903	28	1,624	2,899

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2012 Total RMB'000
Executive directors:				
Hu Yangxiong	–	288	10	298
Zhao Borui (resigned on 4 May 2012)	–	34	–	34
Leung King Fai	–	371	11	382
Lee Cheuk Yue	–	159	–	159
Chow Yik	–	242	11	253
Independent non-executive directors:				
Yeung Mo Sheung, Ann	147	–	–	147
Lam Kai Tai	106	–	–	106
Wong Ting Kon	98	–	–	98
	351	1,094	32	1,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

9. Directors' Remuneration *(Continued)*

The details of those benefits in kind, including the principal terms and number of options granted, are disclosed in note 28.

For the years ended 31 December 2013 and 2012, no emolument was paid to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2013 and 2012.

10. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2012: four) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two individual (2012: one) are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other emoluments	**445**	254
Retirement scheme contributions	**19**	12
	464	266

The emoluments of the other two individual (2012: one individual) with the highest emoluments are within the following bands:

	Number of individuals	
	2013	2012
Nil – HK$1,000,000	**2**	1

For the years ended 31 December 2013 and 2012, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

For the year ended 31 December 2013 and 2012, no emoluments of senior management (excluding directors) was paid by the Group.

11. Discontinued Operations

On 16 June 2012, the Company entered into the conditional sale and purchase agreement that the manufacture and sales of medicines business were discontinued following the disposal of Garner International Limited ("Garner"), a directly wholly-owned subsidiary of the Company and its subsidiaries (collectively known as the "Garner Group"), which carried out all of the Group's manufacture and sales of medicines operation. The disposal of the manufacture and sales of medicines business is consistent with the Group's long–term policy to focus its activities in remaining business and the directors believe that inputs of further managerial, operational and financial and sales resources to these businesses will enhance the performance of the remaining group. The disposal was completed on 10 October 2012, on which date control of pharmaceutical products operation passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit on disposal, are disclosed in note 33(a).

On 16 May 2013, the Company entered into the conditional sale and purchase agreement that the skin care products business were discontinued following the disposal of Merry Sky Holdings Limited, a directly wholly-owned subsidiary of the Company, which carried out all of the Group's skin care products operation. The disposal of the skin care products business is consistent with the Group's long-term policy to focus its activities in remaining business and the directors believe that inputs of further managerial, operational and financial and sales resources to these businesses will enhance the performance of the remaining group. The disposal was completed on 15 June 2013. Details of the assets and liabilities disposed of, and the calculation of the profit on disposal, are disclosed in note 33(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

11. Discontinued Operations *(Continued)*

Analysis of profit for the year from discontinued operations

The comparative profit and cash flows from discontinued operations have been re–presented to include those operations classified as discontinued in the current year.

	2013 RMB'000	2012 RMB'000 (Restated)
Profit for the year from discontinued operations:		
Turnover	–	56,535
Cost of sales	–	(17,649)
Gross profit	–	38,886
Other gains and losses	–	274
Selling and distribution expenses	–	(38,223)
General and administrative expenses	(7)	(11,854)
Impairment loss on intangible assets	–	(2,083)
Loss from operations	(7)	(13,000)
Finance costs	–	(7,411)
Loss before taxation	(7)	(20,411)
Income tax expense	–	–
	(7)	(20,411)
Gain on disposal of operations (note 33(b)/(a))	81	66,344
Profit for the year from discontinued operations	74	45,933
Profit for the year from discontinued operations include the following:		
Amortisation of intangible assets	–	694
Depreciation	–	3,014
Impairment loss on intangible assets	–	2,083
Auditor's remuneration	–	–
Cost of inventories sold	–	17,649
Cash flow from discontinued operations		
Net cash inflow from operating activities	–	28,398
Net cash outflow from investing activities	–	(23,409)
Net cash inflow from financing activities	–	7,000
Net cash inflow	–	11,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

12. Loss Attributable to Owners of the Company

The consolidated loss attributable to owners of the Company includes a loss of approximately RMB140,239,000 (2012: RMB7,603,000) which has been dealt with in the financial statements of the Company.

13. Dividend

The board of directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: Nil).

14. Loss Per Share

(a) Basic (loss)/earnings per share

For continuing and discontinued operations

The calculation of basic (loss)/earnings per share is based on the loss for the year attributable to owners of the Company of approximately RMB118,501,000 (2012: earnings for the year approximately RMB17,606,000) and weighted average number of approximately 604,486,000 (2012: approximately 383,217,000 (restated)) ordinary share in issue during the year after adjusting the effects of the share consolidation and open offer. The adjustments have been reflected retrospectively by restating the opening weighted average number of ordinary shares at 1 January 2012.

For continuing operation

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately RMB118,575,000 (2012: approximately RMB28,327,000 (restated)) and weighted average number of approximately 604,486,000 (2012: approximately 383,217,000 (restated)) ordinary share in issue during the year after adjusting the effects of the share consolidation and open offer. The adjustments have been reflected retrospectively by restating the opening weighted average number of ordinary shares at 1 January 2012.

For discontinued operations

Basic earnings per share for discontinued operation is RMB0.01 cents (2012: RMB12 cents). The calculation of basic earnings per share is based on the earnings for the year attributable to owners of the Company of approximately RMB74,000 (2012: approximately RMB45,933,000 (restated)) and weighted average number of approximately 604,486,000 (2012: approximately 383,217,000 (restated)) ordinary share in issue during the year after adjusting the effects of the share consolidation and open offer. The adjustments have been reflected retrospectively by restating the opening weighted average number of ordinary shares at 1 January 2012.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the years ended 31 December 2013 and 2012 were same as the basic (loss)/earnings per share. The Company's outstanding share options were not included in the calculation of diluted (loss)/earnings per share because the effects of the Company's outstanding share option were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

15. Plant and Equipments

Movements in plant and equipments are as follows:

	The Group					The Company
	Machinery and equipment	Furniture and office equipment	Motor vehicles	Construction-in-progress	Total	Furniture and office equipment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2012	11,646	9,247	11,559	40,785	73,237	159
Exchange adjustments	–	(5)	(3)	–	(8)	(2)
Additions	–	435	–	22,994	23,429	–
Disposal of subsidiaries	(11,646)	(8,041)	(9,478)	(63,779)	(92,944)	–
At 31 December 2012 and 1 January 2013	–	1,636	2,078	–	3,714	157
Exchange adjustments	–	(41)	(8)	–	(49)	(4)
Additions	–	698	611	–	1,309	–
Written off	–	(1,469)	–	–	(1,469)	(101)
Disposal of subsidiaries	–	(83)	(2,080)	–	(2,163)	–
At 31 December 2013	**–**	**741**	**601**	**–**	**1,342**	**52**
Accumulated depreciation and impairment						
At January 2012	8,822	5,334	7,735	–	21,891	79
Exchange adjustments	–	(1)	(3)	–	(4)	(1)
Charge for the year	1,435	1,300	1,205	–	3,940	34
Disposal of subsidiaries	(10,257)	(5,793)	(8,101)	–	(24,151)	–
At 31 December 2012 and 1 January 2013	–	840	836	–	1,676	112
Exchange adjustments	–	(17)	(2)	–	(19)	(3)
Charge for the year	–	490	239	–	729	31
Written off	–	(1,216)	–	–	(1,216)	(89)
Disposal of subsidiaries	–	(46)	(1,045)	–	(1,091)	–
At 31 December 2013	**–**	**51**	**28**	**–**	**79**	**51**
Carrying amounts						
At 31 December 2013	**–**	**690**	**573**	**–**	**1,263**	**1**
At 31 December 2012	–	796	1,242	–	2,038	45

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

16. Investment Properties

	The Group 2013 RMB'000	2012 RMB'000
Completed investment properties at fair value:		
At 1 January	1,900	1,670
Fair value (loss)/gain	(200)	230
Disposal of subsidiaries (note 33(c))	(1,700)	–
At 31 December	–	1,900

(a) Valuation of investment properties

The fair value of the Group's investment properties as at 31 December 2012 has been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited ("AAL"), independent qualified professional valuers not connected to the Group. The fair value was determined based on reference to market evidence of transactions prices for similar properties.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2012 are as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Commercial property units located in the PRC	1,900	–	–	1,900

There were no transfers in or out of Level 3 for the year ended 31 December 2012.

(b) The analysis of the carrying amount of investment properties is as follows:

	2013 RMB'000	2012 RMB'000
In the PRC		
– medium-term leases	–	1,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

17. Intangible Assets

Movements in intangible assets of the Group are as follows:

	Intellectual properties RMB'000 (note c)	Exclusive rights RMB'000 (note a)	Exclusive skin care products distribution license RMB'000 (note b)	Total RMB'000
Cost				
At 1 January 2012	131,775	5,000	7,193	143,968
Exchange adjustments	(419)	–	–	(419)
Disposal of subsidiaries	–	(5,000)	–	(5,000)
At 31 December 2012 and 1 January 2013	131,356	–	7,193	138,549
Disposal of subsidiaries	–	–	(7,193)	(7,193)
Exchange adjustments	(4,319)	–	–	(4,319)
At 31 December 2013	**127,037**	**–**	**–**	**127,037**
Accumulated amortisation and impairment				
At 1 January 2012	16,472	5,000	4,415	25,887
Amortisation expenses	16,420	–	694	17,114
Exchange adjustments	(53)	–	1	(52)
Impairment loss	–	–	2,083	2,083
Disposal of subsidiaries	–	(5,000)	–	(5,000)
At 31 December 2012 and 1 January 2013	32,839	–	7,193	40,032
Amortisation expenses	16,089	–	–	16,089
Impairment loss	59,798	–	–	59,798
Disposal of subsidiaries	–	–	(7,193)	(7,193)
Exchange adjustments	(1,289)	–	–	(1,289)
At 31 December 2013	**107,437**	**–**	**–**	**107,437**
Carrying amounts				
At 31 December 2013	**19,600**	**–**	**–**	**19,600**
At 31 December 2012	98,517	–	–	98,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

17. Intangible Assets *(Continued)*

(a) Intangible assets represents exclusive rights acquired by the Group to produce and sell the products of "Plasmin Capsule" and "Puli Capsule" within and outside the PRC. The exclusive rights were disposed upon the disposal of subsidiaries during the year ended 31 December 2012.

(b) The exclusive skin care products distribution license's useful life used in the calculation of amortisation is 6 years.

During the year ended 31 December 2012, as the result of the unexpected poor performance of the distribution of skin care products in the PRC, the Group carried out a review of the recoverable amount of the exclusive skin care products distribution license. The value-in-use at 31 December 2012 was calculated to be lower than the carrying amount of the exclusive skin care products distribution license and accordingly an impairment loss of approximately RMB2,083,000 was recognised during the year ended 31 December 2012.

The recoverable amount of exclusive skin care products distribution license for the year ended 31 December 2012 was determined based on value-in-use calculations. The impairment review of the distribution skin care product license is based on the expected future cash flows and based on the financial budgets approved by management covering a 5-year period. Discount rate of 11.05% was applied on the value-in-use calculations.

The exclusive skin care products were disposed upon the disposal of subsidiaries during the year ended 31 December 2013 (note 33(b)).

(c) The intellectual property's useful life used in the calculation of amortisation is 8 years.

During the year ended 31 December 2013, as the result of the unexpected poor performance of the biodegradable products. The impairment review of the intellectual properties to be lower than the carrying amount of the biodegradable products and accordingly an impairment of approximately RMB59,798,000 (2012: Nil) was recognised during the year ended 31 December 2013.

The recoverable amount of biodegradable products for the year ended 31 December 2013 was determined based on value-in-use calculations. The impairment review of the biodegradable products is based on the expected future cash flows and based on the financial budgets approved by management covering a 5-year period. Discount rate of 13.18% was applied on the value-in-use calculations.

(d) The amortisation charge for the year is included in "general administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

18. Goodwill

	The Group 2013 RMB'000	2012 RMB'000
Cost:		
At 1 January	6,821	6,821
Disposal of a subsidiary (note 33(d))	(6,821)	–
At 31 December	–	6,821
Accumulated impairment loss:		
At 1 January and 31 December	–	–
Carrying amounts:		
At 31 December	–	6,821

Particular of impairment testing on goodwill are disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

– Health spa business

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	2013 RMB'000	2012 RMB'000
Health spa business	–	6,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

18. Goodwill *(Continued)*

For the year ended 31 December 2012, the recoverable amount of this cash-generating units has been determined based on a value in use calculation which uses cash flow projection based on financial budgets approved by the directors covering a five year period, and discount rate of 17.31% per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

The key assumptions used in the value-in-use calculations are as follows:

Budgeted market share	Average market share in the period immediately before the budget period. The values assigned to the assumption reflect past experience.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period which reflects the past experience.

19. Interests in Associates

	The Group	
	2013	2012
	RMB'000	RMB'000
Cost of investments in associates	–	3,400
Share of results of associates	–	(410)
	–	2,990
Impairment loss recognised (note)	–	(2,990)
At 31 December	–	–

Note:

During the year ended 31 December 2012, the associate was deregistered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

19. Interests in Associates *(Continued)*

During the year ended 31 December 2012, the Group had interests in the following associates:

Name of entity	Form of entity, place of incorporation/ registration and operations	Particulars of issued share capital	Percentage of equity attributable to the Group	Percentage of voting power hold	Principal activities
江油市元神醫葯科技開發有限公司	Incorporated in PRC	Registered capital of RMB1,000,000	41%	41%	Research and development on chinese herbal medicine

The summarised financial information in respect of the Group's associates is set out below:

	The Group	
	2013 RMB'000	2012 RMB'000
Total assets	–	–
Total liabilities	–	–
Net assets	–	–
Group's share of net assets of associates	–	–
Turnover	–	–
Loss for the year	–	20
Group's share of loss of associates	–	9
Group's share of other comprehensive expenses	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

20. Investments in Subsidiaries

In the Company's statement of financial position, investments in subsidiaries consist of:

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**669**	14,677
Less: Impairment loss recognised	**(341)**	(963)
	328	13,714

Notes:

In prior years, the subsidiaries incurred losses continuously and the directors of the Company carried out a review on the recoverable amounts of the investments in subsidiaries. The carrying amounts of the investments in subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries. Accordingly, impairment losses of approximately RMB341,000 (2012: RMB963,000) were made during the year.

During the year ended 31 December 2012, the Group disposed of 100% of its interest in Garner International Limited and the proceeds on disposal of RMB2,445,000 (Equivalent to HK$3,000,000) were received in cash on completion date. Detail please refer to (note 33(a)).

During the year ended 31 December 2013, the Group disposed of 100% of its interest in Jin Hao Limited and Merry Sky Limited and the proceeds on disposal of approximately RMB1,746,000 (Equivalent to HK$2,200,000) and RMB159,000 (Equivalent to HK$200,000) were received in cash on completion date respectively. Detail please refer to (note 33(b) and (c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

20. Investments in Subsidiaries *(Continued)*

The particulars of all subsidiaries of the Company at 31 December 2013 were as follows:

Name of company	Place of incorporation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company		Principal activities
			Directly	Indirectly	
Premium Stars Investments Limited	BVI	50,000 ordinary of US$1 each	100%	–	Investment holding
Smart Courage Limited	BVI	1 ordinary of US$1 each	–	100%	Investment holding
Earth Buddy (Intellectual property) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Sale of biodegradable products
Earth Buddy Environmental Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Sale of biodegradable products
Earth Buddy Materials Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Sale of biodegradable products
Famous Reliance Limited	BVI	50,000 ordinary of US$1 each	100%	–	Investment holding

The above table lists the subsidiaries of the Group, which, in the opinion of the directors, principally affected the results or assets of the Group. The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

21. Trade and Other Receivables, Prepayments and Deposits

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	2,734	3,798	–	–
Less: allowance for doubtful debts (note 21(b))	–	–	–	–
	2,734	3,798	–	–
Other receivables	2,207	8,119	38	382
Trade deposit	5,518	778	–	–
Deposit for acquisition of subsidiaries	10,656	–	10,656	–
Rental and other deposits	1,539	530	385	519
Prepayments	157	124	157	123
Amounts due from subsidiaries *	–	–	10,877	81,818
	22,811	13,349	22,113	82,842
Less: Non-current portion – Loan receivables	–	(2,038)	–	–
	22,811	11,311	22,113	82,842

* The amounts due from subsidiaries are non-trade nature, unsecured, interest free and repayable on demand. Due to the prolonged poor financial performance of the subsidiaries, the carrying amounts due from subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows reference to be generated from the respective subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

21. Trade and Other Receivables, Prepayments and Deposits *(Continued)*

(a) Ageing analysis

Included in trade and other receivables are trade debtors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2013	2012
	RMB'000	RMB'000
0 to 30 days	**–**	3,283
31 to 60 days	**256**	440
61 to 90 days	**–**	2
91 to 180 days	**539**	73
181 to 365 days	**1,937**	–
Over 365 days	**2**	–
	2,734	3,798
Less: allowance for doubtful debts	**–**	–
	2,734	3,798

Customers are generally granted with credit term of 90 days. Further details on the Group's policy are set out in note 32(a)(i).

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 3(j)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
At January	**–**	62,419
Disposal of subsidiaries	**–**	(62,419)
At 31 December	**–**	–

In determining the recoverability of trade debtors, the Group considers any change in the credit quality of the trade receivables.

At 31 December 2013 and 2012, none of the Group's trade debtors were individually determined to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

21. Trade and Other Receivables, Prepayments and Deposits *(Continued)*

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither past due nor impaired and that are past due but not impaired are as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**256**	3,725
Less than 6 months past due	**2,476**	73
More than 6 months past due	**2**	–
	2,478	73
Total	**2,734**	3,798

Trade debtors that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

22. Cash and Bank Balances

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand, denominated in				
– Hong Kong dollars and United States dollars	**9,024**	4,197	**3,572**	140
– Renminbi	**–**	372	**–**	–
Cash and cash equivalents in statements of financial position and consolidated statement of cash flows	**9,024**	4,569	**3,572**	140

Cash and bank balances of approximately RMBNil (2012: RMB372,000) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government. Cash at banks earn interest at floating rates based on daily bank deposits rate.

23. Trade and Other Payables

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**1,571**	856	**–**	–
Accrued expenses and other payables	**3,781**	6,339	**3,416**	3,602
Amounts due to subsidiaries*	**–**	–	**987**	793
Amounts due to directors*	**–**	997	**–**	–
	5,352	8,192	**4,403**	4,395

* The amounts due to the subsidiaries and the directors are unsecured, non-interest bearing and repayable on demand.

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group	
	2013	2012
	RMB'000	RMB'000
0 to 30 days	**1,571**	856

The average credit period on purchases of goods is 30 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

24. Convertible Notes

The Group and the Company

On 27 May 2011, the Company issued 3% coupon convertible notes the ("Convertible Notes") with a principal amount of HK$120,000,000 (equivalent to approximately RMB100,020,000). Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.10 per conversion share. The convertible notes were issued as part of the consideration for acquisition of Smart Courage Limited and its subsidiaries ("Smart Courage Group"). The maturity date of the Convertible Notes is the date immediately preceding the second anniversary of the date of issue of the Convertible Notes, 27 May 2013. The effective interest rate of the liability component on initial recognition is 10.913% per annum.

During the year 31 December 2013, the convertible note holder ("Note holder") has convert Convertible Notes of approximately 194,577,640 shares at 5 April 2013. On 27 May 2013, the Convertible Notes is matured and reallocated as other borrowings.

The Convertible Notes recognised in the statement of financial position was calculated, as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	97,822	92,499
Interest charged calculated at an effective interest rate of 10.913%	3,472	9,662
Interest paid	(1,084)	(2,942)
Fair value changes	(2,115)	(1,103)
Conversion	(15,643)	–
Matured and reclassified as other borrowings	(80,031)	–
Exchange alignments	(2,421)	(294)
At 31 December	–	97,822

Interest expense on the Convertible Notes is calculated using the effective interest method by applying the effective interest rate of 10.913% to the liability component. The fair values of the convertible notes has been arrived on the basis of a valuation carried out on the date of issue and at the end of the reporting period by independent professional valuers not connected with the Group. The effective interest rate range from 7.556% to 10.931% per annual.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

25. Promissory Notes

The Group

On 27 May 2011, Premium Stars Investment Limited, a wholly owned subsidiary of the Company issued promissory notes with a principal amount of HK$30,000,000 for acquiring the entire issued share capital of Smart Courage Group (the "Promissory Notes"). The fair value of Promissory Notes was approximately HK$26,959,000 (equivalent to approximately RMB22,470,000) on 27 May 2011. The promissory note bearing interest at 5% per annum and are repayable in the second anniversary from the date of issue of Promissory Note the effective interest rate is 10.913%. On 25 March 2013, vendor of Promissory Notes agreed to postpone the materiality date of the Promissory Notes from 27 May 2013 to 27 May 2015. Other terms and conditions of the Promissory Notes remain unchanged.

The movement of the carrying amount of the Promissory Notes during the year ended 31 December 2013 is set out below:

	2013	2012
	RMB'000	RMB'000
At 1 January	**23,932**	22,746
Interest charged calculated at an effective interest rate of 8.474 and 10.913%	**2,035**	2,482
Interest paid	**(1,017)**	(1,223)
Gain on extension of Promissory notes	**(1,474)**	–
Exchange alignments	**(482)**	(73)
Repayment	**(24,401)**	–
Loss on early repayment	**1,407**	–
At 31 December	**–**	23,932

As at 31 December 2013, the fair value of promissory notes was approximately HK$Nil (2012: HK$30,590,000 (equivalent to approximately RMB24,931,000)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

26. Income Tax Expenses

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Provision for PRC enterprise income tax for the year	**–**	886
Provision for Hong Kong profit tax	**88**	91
	88	977

(b) Deferred taxation recognised

No deferred tax liabilities have been recognised as the Group does not have significant temporary difference for the year ended 31 December 2013.

At the end of the reporting period, no deferred tax assets has been recognised in relation to the deductible temporary difference and tax losses as it is not probable that taxable profit will be available against which the deductible temporary difference and tax losses can be utilised (2012: Nil). The Group and the Company has tax losses of approximately RMB17,168,000 (2012: RMB11,475,000) and RMB17,168,000 (2012: RMB4,131,000) respectively, which do not expire under current tax legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

27. Capital and Reserves

(a) Movements in components of equity

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

The Company

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reduction reserve RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2012	17,122	72,080	56,774	92,489	20,103	(1,162)	(255,515)	1,891
Loss for the year	–	–	–	–	–	–	(7,603)	(7,603)
Other comprehensive income								
Exchange difference translating into presentation currency	–	–	–	–	–	236	–	236
Total comprehensive loss	–	–	–	–	–	236	(7,603)	(7,367)
At 31 December 2012 and 1 January 2013	17,122	72,080	56,774	92,489	20,103	(926)	(263,118)	(5,476)
Loss for the year	–	–	–	–	–	–	(140,239)	(140,239)
Other comprehensive loss								
Exchange difference translating into presentation currency	–	–	–	–	–	(3,353)	–	(3,353)
Total comprehensive loss for the year	–	–	–	–	–	(3,353)	(140,239)	(143,592)
Issue of shares upon conversion of convertible notes	1,564	14,079	–	–	–	–	–	15,643
Issue of shares upon open offer of shares	128,134	–	–	–	–	–	–	128,134
Transaction costs attributable to issue shares of open offer	–	(1,911)	–	–	–	–	–	(1,911)
Recognition of equity-settled share-based payments	–	–	–	–	28,923	–	–	28,923
Release upon lapse of share options	–	–	–	–	(12,787)	–	12,787	–
Release upon disposal of subsidiaries	–	–	–	–	–	(110)	–	(110)
At 31 December 2013	146,820	84,248	56,774	92,489	36,239	(4,389)	(390,570)	21,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

27. Capital and Reserves *(Continued)*

(b) Share capital

(i) Authorised and issued share capital

	Notes	2013 Number of shares '000	2013 Nominal value HK$'000	2012 Number of shares '000	2012 Nominal value HK$'000
Authorised:					
Ordinary shares of HK$0.1 each (2012: HK$0.01)		2,000,000	200,000	20,000,000	200,000

	Notes	2013 Number of shares '000	2013 Nominal value of ordinary shares HK$'000	2013 Nominal value of ordinary shares RMB'000	2012 Number of shares '000	2012 Nominal value of ordinary shares HK$'000	2012 Nominal value of ordinary shares RMB'000
Ordinary share, issued and fully paid:							
At 1 January		1,832,091	18,320	17,122	1,832,091	18,320	17,122
Issue of shares on exercise of convertible notes	(i)	194,578	1,945	1,564	–	–	–
Share consolidation	(ii)	(1,824,001)	–	–	–	–	–
Issue of shares upon open offer	(iii)	1,621,334	162,133	128,134	–	–	–
		1,824,002	182,398	146,820	1,832,091	18,320	17,122

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

(i) On 15 April 2013, partial convertible note with the principal amount of approximately HK$19,458,000 (equivalent to approximately RMB15,643,000) out of HK$120,000,000 (equivalent to approximately RMB96,480,000) were exercised and converted into approximately 194,578,000 issued shares at the conversion price of HK$0.1 per share.

(ii) Pursuant to an ordinary resolution passed by the shareholders of the Company at a special general meeting on 17 September 2013 every 10 issued and unissued shares of HK$0.01 each in share capital of the Company be consolidated into one share of HK$0.10 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

27. Capital and Reserves *(Continued)*

(b) Share capital *(Continued)*

(i) Authorised and issued share capital *(Continued)*

(iii) The Company raised approximately HK$162,133,000 (equivalent to approximately RMB128,134,000) (before expenses) by way of an open offer of 1,621,334,832 shares at a subscription price of HK$0.10 per share on the basis of eight shares for every one share. The open offer was completed on 30 October 2013. The proceeds from the open offer has been applied to settle the convertibles notes, promissory notes and accrued interest, the remaining will be served as working capital.

(c) Nature and purpose

(i) Share premium

Share premium represents the share premium of the Company, the application of which is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) Capital reserve

Capital reserve represents the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate amount of the issued share capital of subsidiaries acquired by the Company through an exchange of shares.

(iii) Share-based compensation reserve

Share-based compensation reserve comprises the portion of the grant date fair value of unexercised share options granted to employees and other service providers of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(o)(ii).

(iv) General fund reserve

According to the relevant laws and regulations in the PRC, Shanxi Everpride, as a wholly foreign-owned enterprise established in the PRC, is required to appropriate at least 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the generally accepted accounting principles and financial regulations applicable to the PRC enterprises, to a general fund reserve until the balance of the fund reaches 50% of its registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

The general fund reserve can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general fund reserve shall be maintained at a minimum of 25% of the registered capital after such increase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

27. Capital and Reserves *(Continued)*

(c) Nature and purpose *(Continued)*

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(s).

(vi) Contributed surplus

The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares.

Under the Companies Law (2000 Revision) of the Cayman Islands, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital account.

(d) Distributability of reserves

In the opinion of the Company's directors, as at 31 December 2013 and 2012, the Company has no reserves available for distribution to its shareholders.

(e) Capital management

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

The capital structure of the Group consists of (i) debt, which includes loans and other borrowings convertible notes and promissory notes; (ii) cash and cash equivalents; and (iii) capital, which comprises all components of equity.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to balance its overall capital structure, the Group may issue new shares, raise new debt financing or sell assets to reduce debt.

The Group monitors its capital structure on the basis of gearing ratio. The Group's gearing ratio as at 31 December 2013 is 10% (2012: 103%), which is calculated by dividing total liabilities of approximately RMB5,440,000 (2012: RMB130,960,000) over the total assets of approximately RMB52,698,000 (2012: RMB127,194,000).

There were no changes in the Group's approach to capital management during the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

28. Equity Settled Share-based Transactions

On 5 July 2001, the Company had adopted a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible employees for their contribution to the Group. Eligible employees of the Old Scheme include all executive directors, executives, officers and full-time employees of the Group. The Old Scheme was effective for a period of 10 years commencing from 5 July 2001, after which period no further options will be granted but the provisions of the Old Scheme shall in all other respects remain in full force and effect.

On 24 September 2009, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted. As a result, the Company can no longer grant any further share options under the Old Scheme. In addition, no share option was granted prior to the termination of the Old Scheme.

The Company has the New Scheme which was adopted on 24 September 2009 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants of the Group, including the employees and directors of any company in the Group, to take up options at HK$10 consideration to subscribe for shares of the Company. The New Scheme remains in force for a period of 10 years from adoption of such scheme and expires on 23 September 2019. The exercise period of the share options granted is determined by the directors of the Company but not later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The purpose of New Scheme is to provide incentives or rewards to the participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the shares in issue from time to time.

The exercise price must be at least the highest of: (a) the nominal value of the Company's share on the date of grant; (b) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; and (c) the average closing price of a share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors of the Company to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the Directors of the Company at their sole discretion, there is no requirement of a minimum period for which a share option must be held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

28. Equity Settled Share-based Transactions *(Continued)*

	Date of grant	Exercised price HK$	Number of share options outstanding at 1 January '000	Granted during the year '000	Exercise during the year '000	Lasped/ cancelled/ forfeited during the year '000	Share consolidation '000	Adjustment during the year '000	Number of share options outstanding at 31 December '000
2013									
Directors	11 November 2009 (Adjusted)	4.1320	4,000	–	–	–	(3,600)	(196)	204
	22 January 2010	0.2488	86,760	–	–	(86,760)	–	–	–
	28 November 2013	0.3190	–	10,000	–	–	–	–	10,000
			90,760	10,000	–	(86,760)	(3,600)	(196)	10,204
Eliginle participants	11 November 2009 (Adjusted)	4.1320	61,000	–	–	(16,000)	(40,500)	(2,202)	2,298
	22 January 2010	0.2488	–	–	–	–	–	–	–
	28 November 2013	0.3190	–	169,800	–	–	–	–	169,800
			61,000	169,800	–	–	(40,500)	(2,202)	172,098
			151,760	179,800	–	(102,760)	(44,100)	(2,398)	182,302
Weighted average exercise price			1.9120	0.3190	–	0.8534	4.1320	4.1320	0.3713
2012									
Directors	11 November 2009	0.2110	4,000	–	–	–	–	–	4,000
	22 January 2010	0.2488	86,760	–	–	–	–	–	86,760
			90,760	–	–	–	–	–	90,760
Eliginle participants	11 November 2009	0.2110	61,000	–	–	–	–	–	61,000
	22 January 2010	0.2488	–	–	–	–	–	–	–
			61,000	–	–	–	–	–	61,000
			151,760	–	–	–	–	–	151,760
Weighted average exercise price			0.2326	–	–	–	–	–	0.2326

As at 31 December 2013, the weighted average remaining contractual life of the share option is 4 years (2012: 7 years).

During the year ended 31 December 2013, there were 179,800,000 (2012: nil) share options granted and 102,760,000 (2012: nil) share options forfeited.

The Group recognised total expenses of approximately RMB28,923,000 (2012: nil) related to equity-settled share-based payment transactions during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

28. Equity Settled Share-based Transactions *(Continued)*

Fair value of share options and assumptions

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

	2013	2012
Fair value at measurement date	HK$0.2035	HK$0.1365
Share price	HK$0.3050	HK$0.2488
Exercise price	HK$0.3190	HK$0.2488
Expected volatility (expressed as weighted average volatility used in the modeling under binomial model)	111.500%	118.795%
Option life (expressed as weighted average life used in the modeling under binomial model)	4 years	4 years
Expected dividends	0.000%	0.000%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	2.038%	1.510%

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

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

29. Retirement Benefits Scheme

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

Under the above scheme, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

For the year ended 31 December 2013, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB58,000 (2012: RMB1,234,000) which was included in the staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

30. Materal Related Party Transactions

Save as disclosed else where in the consolidated financial statements, the Group has the following material related party transactions:

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

	2013	2012
	RMB'000	RMB'000
Short-term employees benefit	**2,871**	1,445
Retirement scheme contributions	**28**	32
Total	**2,899**	1,477

Total remuneration is included in "staff cost" (see note 7(b)).

31. Commitments

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Capital expenditure authorised and contracted for in respect of acquisition of:		
– subsidiaries (note 37)	**91,810**	–
	91,810	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

31. Commitments *(Continued)*

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

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,593**	1,354	**–**	1,354
After 1 year but within 5 years	**3,186**	–	**–**	–
	4,779	1,354	**–**	1,354

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

32. Financial Risk Management and Fair Values

(a) Financial risk factors

The Group's financial assets include cash and cash equivalents, trade and other receivables, prepayments and deposits. The Group's financial liabilities include trade and other payables, convertible notes and promissory notes.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(i) Credit risk

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

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. Normally, the Group requests the customers to pay sales deposits to reduce the credit risk exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

32. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

The Group has a concentration of credit risk in certain individual customers. At the end of each reporting period, the five largest receivable balances accounted for approximately 99.9% (2012: approximately 99%) of the trade receivable and the largest trade receivable was approximately RMB795,000 (2012: RMB1,541,000) and was approximately 29% (2012: approximately 41%) of the Group's total trade receivables. The Group seeks to minimize its risk by dealing with counterparties which have good credit history. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

In relation to the Group's deposit with bank, the Group limits its exposure to credit risk by placing deposits with financial institution with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low. Management continues to monitor the position and will take appropriate action if their ratings are changed. As at 31 December 2013 and 2012, the Group has no significant concentration of credit risk in relation to deposit with bank.

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

(ii) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and other lenders to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

32. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Liquidity risk *(Continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

The Group

	2013				
	Carrying amount RMB'000	Total Contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	5,352	5,352	5,352	–	–
	5,352	5,352	5,352	–	–

	2012				
	Carrying amount RMB'000	Total Contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	8,192	8,192	8,192	–	–
Convertible notes	97,822	98,112	98,112	–	–
Promissory notes	23,932	24,528	24,528	–	–
	129,946	130,832	130,832	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

32. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Liquidity risk *(Continued)*

The Company

	2013				
	Carrying amount RMB'000	Total Contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	4,403	4,403	4,403	–	–
	4,403	4,403	4,403	–	–

	2012				
	Carrying amount RMB'000	Total Contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	4,395	4,395	4,395	–	–
Convertible notes	97,822	98,112	98,112	–	–
	102,217	102,507	102,507	–	–

(iii) Interest rate risk

The Group's interest rate risk arises primarily from bank and other borrowings, promissory notes and convertible notes. The interest rates and maturity information of the Group's promissory notes and convertible notes are disclosed in notes 25 and 24.

The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant fixed-rate bank and other borrowings should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

32. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Interest rate risk *(Continued)*

Sensitivity analysis

At 31 December 2013, the Group has no borrowing at variable interest rate and fixed interest rate that expire the Group's cash flow interest rate risk and fair value interest rate risk.

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately RMB1,172,000. Other components of equity would not be affected (2012: nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in the respective interest rates over the period until the next annual reporting period.

(iv) Currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

As most of the Group's monetary assets and liabilities are denominated in Renminbi and Hong Kong dollars and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant and the Group does not employ any financial instruments for hedging purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

32. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(v) Fair values of financial instrument

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

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) 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.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instrumens that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2013 and 2012.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market 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).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

32. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(v) Fair values of financial instrument *(Continued)*

Fair value measurements recognised in the statement of financial position (Continued)

At 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Convertible notes	–	–	97,822	97,822

There were no transfer between Level 1, 2 and 3 in both years.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial liabilities	Fair value as at 31 December 2012	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
1) Convertible note financial liabilities (note 24)	Convertible note in Hong Kong RMB97,822,000	Level 3	Discount cash flow method	Weighted average cost of capital

Note: If the above unobservable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the share would decrease/increase by RMB260,800.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

33. Disposal of Subsidiaries

(a) On 16 June 2012, the Group entered into sale and purchase agreement ("S&P") to disposal of its 100% equity interest in Garner International Investments Limited and its subsidiaries to an independent third party (the "Purchaser") for cash consideration of HK$3,000,000 (equivalent to approximately RMB2,445,000). The disposal was completed on 10 October 2012. Summary of the effects of the disposal is as follows:

	RMB'000
Net liabilities disposed of:	
Plant and equipments	68,794
Inventories	9,009
Trade and other receivables	35,587
Cash and bank balances	15,150
Trade and other payables	(106,651)
Bank and other borrowings	(62,000)
Amounts due to the Group	(32,894)
Net liabilities disposed of	(73,005)

Gain on disposal of subsidiaries

	RMB'000
Consideration received	2,445
Sale loan	(32,894)
Net liabilities disposal	73,005
Release of capital reserve	7,195
Release of general fund reserve	9,025
Release of exchange reserve	7,568
Gain on disposal	66,344

The gain on disposal is included in the profit for the year from discontinued operations in the consolidated statement of profit or loss and other comprehensive income (note 11).

Net cash outflow from disposal of subsidiaries

	RMB'000
Consideration received in cash and cash equivalents	2,445
Less: cash and cash equivalent balances disposed of	(15,150)
Net cash outflow from disposal of subsidiaries	(12,705)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

33. Disposal of Subsidiaries *(Continued)*

(b) On 16 May 2013, the Group entered into sale and purchase agreement to disposal of its 100% equity interest in Merry Sky Holdings Limited to an independent third party (the "Purchaser") for cash consideration of HK$2,200,000 (equivalent to approximately RMB1,746,000). The disposal was completed on 15 June 2013. Summary of the effects of the disposal is as follows:

	RMB'000
Net assets disposed of:	
Trade and other receivables	1,587
Net assets disposed of	1,587

Gain on disposal of subsidiaries

	RMB'000
Consideration received	1,746
Net assets disposed of	(1,587)
Release of exchange reserve	(78)
Gain on disposal	81

The gain on disposal is included in the profit for the year from discontinued operations in the consolidated statement of profit or loss and other comprehensive income (note 11).

Net cash inflow from disposal of subsidiaries

	RMB'000
Consideration received in cash and cash equivalents	1,746
Less: cash and cash equivalent balances disposed of	–
Net cash inflow from disposal of subsidiaries	1,746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

33. Disposal of Subsidiaries *(Continued)*

(c) On 27 June 2013, the Group entered into sale and purchase agreement to disposal of its 100% equity interest in Jin Hao Holdings Limited and its subsidiaries to an independent third party (the "Purchaser") for cash consideration of HK$200,000 (equivalent to approximately RMB 159,360). The disposal was completed on 30 June 2013. Summary of the effects of the disposal is as follows:

	RMB'000
Net liabilities disposed of:	
Plant and equipments	1,072
Investment properties	1,700
Cash and bank balances	402
Trade and other payables	(3,576)
Net liabilities disposed of	(402)

Gain on disposal of subsidiaries

	RMB'000
Consideration received	159
Net liabilities disposed of	402
Release of exchange reserve	188
Gain on disposal	749

The gain on disposal is included in the profit for the year from continuing operation in the consolidated statement of profit or loss and other comprehensive income.

Net cash outflow from disposal of subsidiaries

	RMB'000
Consideration received in cash and cash equivalents	159
Less: cash and cash equivalent balances disposed of	(402)
Net cash outflow from disposal of subsidiaries	(243)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

33. Disposal of Subsidiaries *(Continued)*

(d) On 22 February 2013, the Group entered into sale and purchase agreement to disposal of its 100% equity interest in 珠海市奥美斯美容有限公司 to an independent third party (the "Purchaser") for cash consideration of HK$8,500,000 (equivalent to approximately RMB6,787,000). The disposal was completed on 19 March 2013. Summary of the effects of the disposal is as follows:

	RMB'000
Net assets disposed of:	
Cash and bank balances	64
Trade and other receivables	5,063
Tax payables	(1,298)
Net assets disposed of	3,829

Loss on disposal of subsidiary

	RMB'000
Consideration received	6,787
Release of goodwill	(6,821)
Net assets disposed of	(3,829)
Release of exchange reserve	89
Loss on disposal	(3,774)

The loss on disposal is included in the profit for the year from continuing operation in the consolidated statement of profit or loss and other comprehensive income.

Net cash inflow from disposal of subsidiaries

	RMB'000
Consideration received in cash and cash equivalents	6,787
Less: cash and cash equivalent balances disposed of	(64)
Net cash inflow from disposal of subsidiaries	6,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

34. Accounting Estimates and Judgements

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade debtors, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write offs would be higher than estimated.

(b) Impairment for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Depreciation and amortisation

Plant and equipments are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

34. Accounting Estimates and Judgements *(Continued)*

(d) Provision for income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, the management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Impairment for goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

(f) Valuation of investment properties

Investment properties are included in the statement of financial position at their fair value, which is assessed annually by independent qualified valuers, after taking into consideration all readily available information and current market environment.

The methodology and assumptions adopted in the property valuations are mentioned in note 16.

(g) Impairment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

35. Contingent Liabilities

As at 31 December 2013, the Group and the Company had no significant contingent liabilities (31 December 2012: Nil).

36. Non-cash Transactions

(i) During the year ended 31 December 2013, the Group has granted share option to certain directors and eligible participants of approximately RMB28,923,000.

(ii) On 15 April 2013, partial convertible note with the principal amount of approximately HK$19,458,000 (equivalent up to approximately RMB15,643,000) out of HK$120,000,000 (equivalent to approximately RMB96,480,000) were exercised and converted into approximately 194,578,000 issued shares at the conversion price of HK$0.1 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2013

37. Events after the Reporting Period

(a) On 26 November 2013, the Company and the Vendors entered into the Agreement, pursuant to which the Vendors agreed to dispose of and the Purchaser agreed to acquire the entire equity interest of the Double Win International Investments Limited and its subsidiaries at the consideration of HK$130,000,000 (equivalent to approximately RMB102,466,000). The consideration of HK$130,000,000, HK$13,520,000 (equivalent to approximately RMB10,656,000) was satisfied by cash, HK$116,480,000 (equivalent to approximately RMB91,810,000) was satisfied by the issue of the convertible notes. The acquisition was completed on 3 January 2014, please refer to the Company's announcement dated 3 January 2014 for details.

(b) On 5 February 2014, the Company's announcement announced the Company proposed increase in the authorised share capital of the Company from HK$200,000,000 (dividend into 2,000,000,000 shares) to HK$1,000,000,000 (divided into 10,000,000,000 shares) by the creation of an additional 8,000,000,000 shares.

(c) On 16 January 2014, the Company received notices from Sonic Phoenix Limited and Keep Up Overseas Limited (collectively, the "Noteholders"), requesting for the conversion of the Convertible Notes in the principal amount of HK$58,240,000 (equivalent to approximately RMB45,905,000) and HK$58,240,000 (equivalent to approximately RMB45,905,000) respectively. For details, please refer to the announcement dated 16 January 2014.

38. Comparative

Certain comparative amounts have been reclassified to conform with current year's presentation.

39. Authorisation for Issue of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 March 2014.