Annual Report 2014

Rui Kang Pharmaceutical Group Investments Limited

銳康藥業集團投資有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

Stock Code: 8037

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Cheung Hung *(Chairman)*
Mr. Leung Pak Hou Anson
Ms. Chen Miaoping *(Chief Executive Officer)*

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Yuen Chun Fai
(appointed on 30 June 2014)
Mr. Ho Fung Shan Bob
(appointed on 14 October 2014)
Mr. Leung Ka Fai
Mr. Kwok Shun Tim
(resigned on 30 June 2014)
Mr. Yeung Chi Tit
(resigned on 4 September 2014)

AUDIT COMMITTEE
Mr. Yuen Chun Fai *(Committee Chairman)*
(appointed on 30 June 2014)
Mr. Ho Fung Shan Bob
(appointed on 14 October 2014)
Mr. Leung Ka Fai
Mr. Kwok Shun Tim *(Committee Chairman)*
(resigned on 30 June 2014)
Mr. Yeung Chi Tit
(resigned on 4 September 2014)

NOMINATION COMMITTEE
Mr. Cheung Hung *(Committee Chairman)*
Mr. Yuen Chun Fai
(appointed on 30 June 2014)
Mr. Ho Fung Shan Bob
(appointed on 14 October 2014)
Mr. Leung Ka Fai
Mr. Kwok Shun Tim
(resigned on 30 June 2014)
Mr. Yeung Chi Tit
(resigned on 4 September 2014)

REMUNERATION COMMITTEE
Mr. Yuen Chun Fai *(Committee Chairman)*
(appointed on 30 June 2014 as committee member and appointed on 4 September 2014 as Committee Chairman)
Mr. Ho Fung Shan Bob
(appointed on 14 October 2014)
Mr. Leung Pak Hou Anson
Mr. Leung Ka Fai
Mr. Kwok Shun Tim
(resigned on 30 June 2014)
Mr. Yeung Chi Tit *(Committee Chairman)*
(resigned on 4 September 2014)

COMPLIANCE OFFICER
Mr. Leung Pak Hou Anson

COMPANY SECRETARY
Mr. Lei Kin Keong, *HKICPA*

AUTHORISED REPRESENTATIVES
Mr. Leung Pak Hou Anson
Mr. Lei Kin Keong

CORPORATE INFORMATION

AUDITORS
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Certified Public Accountants
10/F., Allied Kajima Building,
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Hamilton HM 11,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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Kowloon,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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Hamilton HM 11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Union Registrars Limited
A18/F., Asia Orient Tower,
Town Place,
33 Lockhart Road,
Wan Chai,
Hong Kong

PRINCIPAL BANKERS
Bank of Guiyang
Bank of Suzhou
Dah Sing Bank, Limited
Hang Seng Bank
Shanghai Commercial Bank Limited

COMPANY WEBSITE
www.ruikang.com.hk

STOCK CODE
8037

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Rui Kang Pharmaceutical Group Investments Limited ("**Company**") and its subsidiaries (collectively, the "**Group**"), I am pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2014 ("**2014 Year**") to the shareholders of the Company.

RESULTS PERFORMANCE

During the 2014 Year, the principal activities of the Group continued to be (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the People's Republic of China ("**PRC**") and Hong Kong, and (ii) trading of securities in Hong Kong.

The Group faced a difficult and challenging year in the 2014 Year. The Group recorded net loss from continuing operations of approximately HK$82,946,000 in the 2014 Year (fifteen months ended 31 December 2013 ("**2013 Period**"): HK$75,289,000). The reason was mainly attributable to (i) the increased pressure on the cost of sales, including labour costs and raw materials costs; (ii) the decrease in the selling price for certain products due to fierce competition in the PRC, which has resulted in a drop in the gross profit margin; (iii) the increase in general administrative expenses (including but not limited to professional fees; research and development expenses; and staff costs); and (iv) an impairment loss on goodwill of approximately HK$8.2 million in respect of its subsidiary and associates (which were previously a subsidiary) taking into account of (aa) the disposal of 70% equity interests of Magical Bloom Limited and its subsidiaries; and (bb) the valuation of its subsidiary, V-Express Pharmaceutical Limited.

The loss on deemed disposal of partial interest in a joint venture of approximately HK$5.89 million was as a result of the issue of consideration shares by the joint venture company to a joint venture partner and the recognition of share-based payment for the grant of share options of approximately HK$3.4 million were attributable to the loss in the 2014 Year.

Apart from the factors mentioned aforesaid, the net loss from continuing operations in the 2014 Year also generated from the net loss on financial assets at fair value through profit or loss amounting to approximately HK$36.9 million in the 2014 Year (2013 Period: HK$23.9 million).

As at 31 December 2014, the Group's net asset value per share was HK$0.197 (2013: HK$0.408). Basic and diluted loss per share for continuing and discontinued operations of the Group for the 2014 Year was HK$0.123 (2013 Period: HK$0.167).

CHAIRMAN'S STATEMENT

BUSINESS PROSPECTS

Looking forward, due to higher pressure of labour costs and raw materials costs, the health related and pharmaceutical products and the consumer cosmetic industry in the PRC are facing plenty of challenges. The Group will adopt the "Tap New Resources and Economise on Expenditure" strategies. The Group will implement cost-saving strategies in order to minimise the impact of the increasing production costs in the health related and pharmaceutical products' segments and the Group will revamp its investment strategies in securities trading business by investing in listed securities with potential returns. The Group will continue to strengthen the health related and pharmaceutical products business through (i) expanding the wholesales channel and the Internet online sales in Hong Kong; (ii) introducing new health related products in order to enlarge the products lists; and (iii) developing and manufacturing new health related and pharmaceutical products in the PRC through the newly acquired factory held by Guiyang Shu Mei Da Pharmaceutical Co., Ltd.

In order to expand the source of income, the Group plans to participate in money lending business. One of the subsidiaries of the Company has recently obtained a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) to carry on its money lending business in Hong Kong.

In the meantime, the Directors will continue to look for and identify potential acquisition projects in relation to the health related and pharmaceutical products business with the aim of bringing better returns for the investors.

APPRECIATION

I would like to take this opportunity to express our gratitude to the members of the board of Directors, management team and all staff members for their dedication and contribution to the Group in the 2014 Year. I would also like to express our sincere gratitude and appreciation to our shareholders and business partners for their continuous support and confidence in the Group.

Cheung Hung
Chairman

Hong Kong, 17 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2014 ("**2014 Year**"), the principal activities of the Group continued to be (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the People's Republic of China ("**PRC**") and Hong Kong, and (ii) trading of securities in Hong Kong.

The Group faced a difficult and challenging year in the 2014 Year. The Group recorded net loss from continuing operations of approximately HK$82,946,000 in the 2014 Year (fifteen months ended 31 December 2013 ("**2013 Period**"): HK$75,289,000).

Turnover

The total revenue of the Group for the 2014 Year was approximately HK$140,385,000, representing an increase of 31.66% or approximately HK$33,760,000 as compared to the 2013 Period. The newly launched imported medicated oil products in the mid of the 2014 Year were sold at lower selling price in order to adapt to the PRC market and increase the sales. The significant increase in turnover is also attributable to the contribution by the several subsidiaries acquired by the Group in the 2013 Period as its full year revenue has been recognised in the 2014 Year.

Manufacturing and sale of consumer cosmetics

Consumer cosmetics segment encountered challenging market conditions during the 2014 Year. The total revenue decreased from approximately HK$59,008,000 for the 2013 Period to approximately HK$57,123,000 for the 2014 Year mainly due to the receding performance of some consumer cosmetics, which have become less competitive and being phased out in the PRC market. With a view to enhancing competitiveness and improving cash flow, the Group has reduced the sales of its some low-margin consumer cosmetics, downsized its promotion and sales team, and shifted focus on its other high-margin consumer cosmetics or health related and pharmaceutical products, which can generate higher margins and returns.

Manufacturing and sale of health related and pharmaceutical products

Health related and pharmaceutical products segment showed a significant growth during the 2014 Year. The total revenue increased from approximately HK$39,766,000 for the 2013 Period to approximately HK$80,840,000 for the 2014 Year, which was mainly due to the then subsidiary of the Company, 廣州瑩潤藥業有限公司 (In English, for identification purpose, Guangzhou Yingrun Pharmaceutical Co., Ltd.) is authorised by Ying Kut Lee Medicine Factory Ltd as the sole distributor to distribute its well recognised brands of medicated oil products including CMALO Wood Lock Oil, CMALO Red Flower Oil and Strong Haling Oil in the PRC (excluding Hong Kong and Macau) during the 2014 Year.

Trading of financial assets at fair value through profit or loss

The Group's investment portfolio comprises investments in listed securities in Hong Kong. During the 2014 Year, this segment recorded a net loss on financial assets at fair value through profit or loss amounting to HK$36.9 million (2013 Period: HK$23.9 million). The Directors will revamp the investment strategies in securities trading business by investing in listed securities with potential returns.

Gross profit and gross profit margin

The Group recorded improvement of the financial performance in the turnover and the gross profit in the 2014 Year when compared with those in the 2013 Period. However, the gross profit margin for the 2014 Year was approximately 37.71%, representing a decrease by approximately 4.35 percentage point when compared with the gross profit margin of approximately 42.06% for the 2013 Period. The decrease in the gross profit margin was mainly due to (i) the increased pressure on the cost of sales, including labour costs and raw materials costs; and (ii) the decrease in the selling price for certain products due to fierce competition in the PRC, which has resulted in a drop in the gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

The administrative expenses for the 2014 Year recorded approximately HK$48,995,000, representing an increase of approximately 27.15%, as compared with that of approximately HK$38,533,000 for the 2013 Period. The increase of such administrative expenses was mainly due to the fact that (i) the Company granted share options which recognised as share-based payment of approximately HK$3.4 million in the 2014 Year (2013 Period: HK$1.96 million); (ii) the Group incurred research and development costs of approximately HK$3.56 million in the 2014 Year (2013 Period: HK$0.55 million); (iii) the Group recorded professional fees of approximately HK$7.4 million in the 2014 Year (2013 Period: HK$4.5 million); and (iv) the Group incurred staff costs of approximately HK$26 million in the 2014 year (2013 Period: HK$22 million).

Selling and distribution expenses

Selling and distribution expenses for the 2014 Year were approximately HK$31,582,000, representing a decrease of approximately HK$4,191,000 or 11.72% compared with those expenses for the 2013 Period. Such decrease was mainly attributable to reduced advertising and promotion expenses (2014 Year: HK$15.5 million; 2013 Period: HK$20.8 million) incurred by the subsidiaries of the Company in Suzhou as a result of downsizing its promotion and sales team.

Loss on deemed disposal of partial interest in a joint venture

On 11 October 2013, one of the wholly owned subsidiary of the Company entered into a joint venture agreement with four joint venture partners and the agreement stipulated that there are consideration shares to be issued to one of the joint venture partners as that joint venture partner would assist the joint venture company to obtain the relevant licences and the permits from the PRC government authority to conduct the money lending business in the PRC. During the 2014 Year, all relevant licences and permits were obtained. The Group recorded a loss of deemed disposal of partial interest in a joint venture of approximately HK$5.89 million in the 2014 Year due to the issue of consideration shares by the joint venture company to such joint venture partner.

BUSINESS REVIEW

To further expand the source of income and enhance the productivity and efficiency of health related and pharmaceutical products, the Group has entered into an equity transfer agreement on 18 August 2014 to acquire 51% of the equity interests of 貴陽舒美達制藥廠有限公司 (in English, for identification purpose only, Guiyang Shu Mei Da Pharmaceutical Co., Ltd) ("**Shu Mei Da**"), which owns a pharmaceutical factory for manufacture of proprietary Chinese medicine products. Completion of the acquisition took place on 20 November 2014. Such acquisition offered an opportunity for the Group to adopt new production lines for manufacturing proprietary Chinese medicine products and develop production lines in the factory for manufacturing health related and pharmaceutical products.

In order to allow the Group to reallocate more resources to the manufacturing of the pharmaceutical products in the PRC and other investments when opportunities arise, the Company entered into a sale and purchase agreement with four purchasers, independent third parties, to sell 70% of the issued share capital of Magical Bloom Limited at a consideration of HK$12,600,000 on 31 December 2014 and completion of which took place on 30 January 2015. It was expected that the purchasers could bring resources and expertise in the sales and marketing of medicated oil in the PRC to benefit the operations and business of the Group. The Group will continue to hold 30% of the issued share capital of Magical Bloom Limited after the disposal so that the Group can continue to share the growth of the financial performance of such business. In the meantime, the management of the Group can focus on the development of the business in manufacturing of the health related and pharmaceutical products in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

During the 2014 Year, the English name of the Company was changed from "Longlife Group Holdings Limited" to "Rui Kang Pharmaceutical Group Investments Limited" and the Chinese name of the Company from "朗力福集團控股有限公司" to "銳康藥業集團投資有限公司". The Board considers that the new company name better reflects and emphasises the business focus of the Group in the pharmaceutical and securities investment businesses. It also provides the Company a better identification and strengthens the Company's corporate image.

OUTLOOK

Looking forward, due to higher pressure of labour costs and raw materials costs, the health related and pharmaceutical products and the consumer cosmetic industry in the PRC are facing plenty of challenges. The Group will adopt the "Tap New Resources and Economise on Expenditure" strategies. The Group will implement cost-saving strategies in order to minimise the impact of the increasing production costs in the health related and pharmaceutical products segments and the Company will revamp its investment strategies in securities trading business by investing in listed securities with potential returns. The Group will continue to strengthen the health related and pharmaceutical products business through (i) expanding the wholesales channel and the Internet online sales in Hong Kong; (ii) introducing new health related products in order to enlarge the products lists; and (iii) developing and manufacturing of new health related and pharmaceutical products through the newly acquired factory held by Shu Mei Da.

In order to expand the source of income, the Group plans to participate in money lending business. One of the subsidiaries of the Company has recently obtained a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) to carry on its money lending business in Hong Kong.

On 14 November 2014, the Company and China Renji Medical Group Limited ("**China Renji**"), the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 648), entered into a subscription agreement ("**Subscription Agreement**") pursuant to which the Company has conditionally agreed to allot and issue 257,812,500 subscription shares ("**Subscription Shares**") at the subscription price of HK$0.128 per Subscription Share to China Renji ("**Subscription**"). The completion of the Subscription took place on 23 January 2015. Details of the Subscription are disclosed in the announcements of the Company dated 14 November 2014 and 23 January 2015 and the circular of the Company dated 24 December 2014.

In view of the business nature of China Renji and its subsidiaries which is also related to healthcare industry, the Directors consider that the Subscription was a strategic cooperation between the Group and China Renji and its subsidiaries which sets ground for future business cooperation if opportunity arises which will be beneficial to the business strategy and development of the Group. On 26 February 2015, Silver Wisdom Development Limited ("**Silver Wisdom**"), a wholly-owned subsidiary of the Company, entered into the subscription agreement with New Health Elite International Limited ("**New Health**"), a direct wholly-owned subsidiary of China Renji, and pursuant to which, Silver Wisdom has conditionally agreed to subscribe for, and New Health has conditionally agreed to allot and issue, the subscription shares (representing 23% of the issued share capital of New Health as enlarged by the allotment and issue of the subscription shares) at the cash consideration of HK$4.83 million ("**NH Subscription**"). Details of the NH Subscription are set out in the announcement of the Company dated 26 February 2015. As at the date of this report, the completion of the NH Subscription has not yet taken place. It is expected that the NH Subscription will enable Group to diversify its business and revenue sources into the provision of health management and well-being services, which is the principal business activities of New Health. The Directors consider that both the Subscription and the NH Subscription will allow the Group and China Renji to explore more opportunities for potential business cooperation in the future in order to take advantage of its own expertise and introduce new income stream to the Group.

In the meantime, the Directors will continue to look for and identify potential acquisition projects in relation to the health related and pharmaceutical products business with the aim of bringing better returns for the investors.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2014, the Group held cash and bank balances (included pledged cash deposits) amounted to approximately HK$41,698,000 (2013: HK$33,466,000). As at 31 December 2014, the Group has bank and other borrowings of approximately HK$19,014,000 (2013: HK$50,096,000). As the Group's cash and bank balances and borrowings were denominated in Hong Kong dollars and Renminbi, risk in exchange rate fluctuation would not be material. The bank borrowings bore interest at prevailing market rates and repayable within one year.

As at 31 December 2014, total assets of the Group were approximately HK$327,016,000 (2013: HK$274,380,000), whereas the total liabilities were approximately HK$129,103,000 (2013: HK$146,189,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was 39% (2013: 53%).

Current ratio (defined as total current assets divided by total current liabilities) was 1.77 times (2013: 1.36 times).

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

Details of the acquisitions of subsidiaries for the 2014 Year are set out in note 28 to the consolidated financial statements. There was no disposal of subsidiaries for the 2014 Year but details of assets held for sale are set out in note 30 to the consolidated financial statements.

Details of the acquisition of assets through acquisition of a subsidiary for the 2014 Year are set out in note 29 to the consolidated financial statements.

CAPITAL STRUCTURE

The Group generally finances its operations with internal generated resources and proceeds raised from issue of new shares of the Company in the 2013 Period and the 2014 Year. As at 31 December 2014, the total issued share capital of the Company was HK$10,056,240 divided into 1,005,624,000 ordinary shares of HK$0.01 each (each, a "**Share**").

Placing of new shares under specific mandate

On 17 December 2013, the Company and RHB OSK Securities Hong Kong Limited ("**RHB**") entered into the placing agreement ("**SM Placing Agreement**") pursuant to which RHB has conditionally agreed to place, on a best endeavours basis, up to 245,000,000 shares ("**SM Placing Shares**"), to not less than six placees who and whose beneficial owners are independent third parties at a price of HK$0.204 per SM Placing Share ("**SM Placing**"), which represented (i) a discount of approximately 15.00% to the closing price of HK$0.240 per Share as quoted on the Stock Exchange on the date of the SM Placing Agreement; and (ii) a discount of approximately 13.71% to the average closing price of HK$0.2364 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the date of the SM Placing Agreement. The completion of the SM Placing took place on 25 February 2014. The Company received net proceeds of approximately HK$48.5 million from the SM Placing, which was fully utilised as intended as to approximately (i) HK$30,000,000 for the repayment of the outstanding loan; (ii) HK$5,000,000 for general working capital of the Group; and (iii) HK$13,500,000 for funding partly the acquisition of 51% of the equity interest of Shu Mei Da. The net price to the Company of each SM Placing Share was approximately HK$0.198 and the nominal value of the SM Placing Shares under the SM Placing was HK$2,450,000. Details of the SM Placing are disclosed in the announcements of the Company dated 17 December 2013 and 25 February 2014 and the circular of the Company dated 13 January 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Placing of new shares under general mandate

On 20 June 2014, the Company and Trinity Finance Investment Limited ("**Trinity**") entered into a placing agreement ("**GM Placing Agreement**") pursuant to which the Company has conditionally agreed to place through Trinity, on a best endeavours basis, up to 111,000,000 shares ("**GM Placing Shares**"), to not less than six placees who and whose beneficial owners are independent third parties at a price of HK$0.18 per GM Placing Share ("**GM Placing**"), which represented (i) a discount of approximately 8.16% to the closing price of HK$0.196 per Share as quoted on the Stock Exchange on the date of the GM Placing Agreement; and (ii) a discount of approximately 12.02% to the average closing price of HK$0.2046 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the date of the GM Placing Agreement. The completion of the GM Placing took place on 11 July 2014. The net proceeds after deduction of expenses from the GM placing were approximately HK$19.35 million, which was fully used for the general working capital as intended during the 2014 Year. The net placing price for the GM Placing was approximately HK$0.1743 per GM Placing Share and the nominal value of the GM Placing Shares under the GM Placing was HK$1,110,000. Details of the GM Placing are disclosed in the announcements of the Company dated 20 June 2014 and 11 July 2014.

Rights issue

On 20 August 2014, the Company announced to raise approximately HK$53.6 million before expenses by way of rights issue on the basis of one rights share ("**Rights Share**") for every two existing shares in issue held on the record date at the subscription price of HK$0.16 per Rights Share ("**Rights Issue**"), which represented (i) a discount of approximately 19.60% to the closing price of HK$0.199 per Share as quoted on the Stock Exchange on 20 August 2014; and (ii) a discount of approximately 18.78% to the average closing price of approximately HK$0.197 per Share for the five consecutive trading days ended on 20 August 2014; (iii) a discount of approximately 17.78% to the average closing price of approximately HK$0.1946 per Share for the ten consecutive trading days ended on 20 August 2014; and (iv) a discount of approximately 13.98% to the theoretical ex-rights price of approximately HK$0.186 per Share based on the closing price of HK$0.199 per Share as quoted on the Stock Exchange on 20 August 2014. The completion of the Rights Issue took place on 20 October 2014. 335,208,000 Rights Shares were allotted and issued pursuant to the Rights Issue and the net proceeds after deduction of expenses from the Rights Issue were approximately HK$50.9 million. The Company intended to use (i) approximately HK$18.4 million for funding, in part, the acquisition of 51% of the equity interests of Shu Mei Da; and (ii) approximately HK$32.5 million for the general working capital of the Group, HK$10 million and HK$22.5 million for which were intended to be used for carrying out the daily operation of the Group in Hong Kong and strengthening the operations of the Group in the PRC (including but not limited to enhancing the factories and machinery of the Group) respectively. The net proceeds of approximately HK$23.5 million have been utilised as intended. The remaining net proceeds of approximately HK$27.4 million, which have not yet been utilised, remain in the bank for intended use as at 31 December 2014. The net price per Rights Share was approximately HK$0.15 and the nominal value of the Rights Shares was HK$3,352,080. Details of the Rights Issue are disclosed in the announcements of the Company dated 20 August 2014, 11 September 2014 and 17 October 2014 and the prospectus of the Company dated 19 September 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Issue of new shares under specific mandate

On 14 November 2014, the Company and China Renji, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 648), entered into the Subscription Agreement pursuant to which China Renji has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 257,812,500 Subscription Shares at the subscription price of HK$0.128 per Subscription Share, which represented (i) a discount of approximately 9.22% to the closing price of HK$0.141 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; (ii) a discount of approximately 14.89% to the average of the closing price of HK$0.1504 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement; and (iii) a discount of approximately 18.42% to the average of the closing price of HK$0.1569 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of the Subscription Agreement. The completion of the Subscription took place on 23 January 2015. The net proceeds after deduction of expenses from the Subscription was approximately HK$32.7 million, which was intended to be applied for funding any potential acquisition of equity interests in companies that the Group is currently identifying for its future development, if such acquisition materalises. If potential acquisitions or any of them do not materialise, then the unutilised net proceeds from the Subscription will be used for expanding the sales and marketing capability of the Group's health related and pharmaceutical products. As at the date of this report, the net proceeds have not yet been utilised and remain in the bank for intended use. The net price per Subscription Share was approximately HK$0.127 and the nominal value of the Subscription Shares was HK$2,578,125. Details of the Subscription are disclosed in the announcements of the Company dated 14 November 2014 and 23 January 2015 and the circular of the Company dated 24 December 2014.

FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

During the 2014 Year, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi.

When appropriate and at times of interest rate or exchange rate uncertainties or volatility, hedging instruments including interest rate swaps and foreign currency forwards contract will be used by the Group in the management of exposure affecting interest rates and foreign exchange rate fluctuations as appropriate.

CHARGES ON GROUP ASSETS

As at 31 December 2014, the Group's bank borrowings were secured by charges on its prepaid lease payments and certain buildings in the PRC with the carrying amounts of approximately HK$4,590,000 and HK$5,408,000 (2013: approximately HK$4,722,000 and HK$5,430,000 respectively).

As at 31 December 2014, listed securities held by the Group with carrying amounts of approximately HK$18,697,000 (2013: HK$49,981,000) has been charged in favour of the brokerage firms as collateral for the Group's liabilities in respect of its margin trading accounts.

Cash deposits amounting to HK$2,535,000 (2013: HK$1,374,000) were pledged to a bank for the issuance of bills payable as at 31 December 2014.

Details of the pledge of assets are set out in note 40 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

Details of the contingent liabilities are stated in note 46 to the consolidated financial statements.

CAPITAL COMMITMENT

Details of the capital commitment are stated in note 39 to the consolidated financial statements.

OPERATING LEASE COMMITMENTS

Details of the operating lease commitments are stated in note 38 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2014, the Group had approximately 417 employees (2013: 696 employees) which are mainly located in the PRC. Total staff costs for the 2014 Year was approximately HK$26 million (2013 Period: HK$22 million).

The Group remunerates its employees based on their performance, experience and the prevailing market condition. Performance related bonuses are also granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme.

Details of the retirement benefits scheme of the Group are set out in note 41 to the consolidated financial statements. On 26 May 2004, the Company approved and adopted a share option scheme ("**Expired Scheme**") which expired on 25 May 2014. No further share option shall be offered pursuant to the Expired Scheme but the Expired Scheme shall in all other respects remain in force to the extent necessary to give effect to the exercise of any outstanding share options granted prior to its expiry. Share options granted under the Expired Scheme shall continue to be valid and exercisable in accordance with the terms of the Expired Scheme.

The Company adopted a new share option scheme on 29 May 2014 for the purpose of enabling the Group to grant share options to selected participants as incentive or rewards for their contribution to the Group. The details of the share option scheme of the Company are set out in note 37 to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period are set out in note 47 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Cheung Hung ("**Mr. Cheung**"), aged 46, has been appointed as the chairman of the Company and an executive Director since 7 April 2010 and 19 January 2010 respectively. He has over 20 years of experience in securities industries.

Mr. Cheung holds a Master of Business Administration degree of an Executive MBA Programme and Bachelor's degree in Business Administration from The Chinese University of Hong Kong.

Mr. Leung Pak Hon Anson ("**Mr. Anson Leung**"), aged 48, has been appointed as an executive Director since 15 May 2013. Mr. Anson Leung has been the compliance officer of the Company since 30 May 2013.

Mr. Anson Leung has experiences in dealing in securities, fund management, corporate management and corporate finance. He was employed by Jardine Fleming Holdings Limited from February 1994 to April 1998 and ABN AMRO Asset Management (Asia) Ltd from May 1998 to August 2000 respectively. He was also employed by CITIC Capital Markets Holdings Limited as manager from September 2000 to June 2002. Mr. Anson Leung has about 12 years of experience in the management and operation of manufacture and sales of medications in the pharmaceutical industry. Mr. Anson Leung is responsible for the overall corporate strategies and business development of the Group. He is also a director of a number of subsidiaries of the Company.

Mr. Anson Leung graduated from University of Newcastle, Australia with his Bachelor of Commerce in April 1994. Mr. Anson Leung also obtained his Master of Business Administration from The University of Western Ontario, Canada in September 2001.

Ms. Chen Miaoping ("**Ms. Chen**"), aged 36, has been appointed as an executive Director and the chief executive officer of the Company since 30 May 2013 and 16 August 2013 respectively. Ms. Chen has held various senior positions in various pharmaceutical companies. She is mainly responsible for the strategic planning and daily operations of the pharmaceutical manufacturing and retailing division in the PRC. Ms. Chen has extensive experience in the pharmaceutical industry in the PRC. Ms. Chen is also a director of a number of subsidiaries of the Company.

Ms. Chen graduated from China Pharmaceutical University (中國藥科大學) with Bachelor of Science in pharmacy.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Yuen Chun Fai ("**Mr. Yuen**"), aged 36, was appointed as an independent non-executive Director on 30 June 2014. Mr. Yuen has over 12 years of experiences in the field of financial reporting, financial management and audit experience in Hong Kong, the PRC, Malaysia and Singapore. Mr. Yuen was an executive director of Cybertowers Berhad (Stock Code: 0022. KL), a company listed in the ACE Market in Malaysia, from April 2012 to June 2013, and was appointed as a non-independent non-executive director of Cybertowers Berhad, from June 2013 to February 2014. Mr. Yuen has been acting as an independent non-executive director of Ping Shan Tea Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 364) since 31 July 2014. Mr. Yuen is currently the finance director and an executive director of WLS Holdings Limited, a company whose shares are listed on GEM (Stock Code: 8021).

Mr. Yuen holds a Bachelor of Science in accounting and finance awarded by The London School of Economics and Political Science in 2002. Mr. Yuen is a fellow of the Association of Chartered Certified Accountants and is also a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. Leung Ka Fai ("**Mr. Leung KF**"), aged 36, has been an independent non-executive Director since 26 June 2013. Mr. Leung KF was employed by a law firm in Hong Kong as the community service manager. He also worked in Beta Field Capital Limited as a business director from December 2011 to February 2012 and he has worked as the China Business director in Beta Field Capital Limited since April 2013.

Mr. Leung KF has been a district council member of Sha Tin District Council since 2008. Mr. Leung KF has also been a committee member of Yunfu City of the Chinese People's Political Consultative Conference (中國人民政治協商會議雲浮市委員會) in the PRC since January 2013. Mr. Leung KF is currently a member of Sha Tin District of Fight Crime Committee (沙田區撲滅罪行委員會), a vice-chairman of Sha Tin East District in New Territories East Region of District Scout Council of Scout Association of Hong Kong (香港童軍總會新界東地域沙田東區區務委員會), and a deputy director of Youth Affair Committee of New Territories General Chamber of Commerce (新界總商會青年事務委員會). Mr. Leung KF has been a director of Hong Kong Association For The Development of Western China Limited (香港中國西部研究與發展促進會有限公司) since 2011. Mr. Leung KF was a sports ambassador (活力專員) of Sha Tin District Council from 2011 to 2012 and a convenor of Sha Tin District of Promoting Civic Awareness and Youth Affair Working Group (沙田區公民意識推廣及青少年工作小組) from 2008 to 2012.

Mr. Leung KF graduated from Upper Iowa University in December 2005. Mr. Leung KF holds a Master of Arts degree in Chinese Language and Literature from The Hong Kong Polytechnic University in October 2008, a Postgraduate Diploma in Education (Teaching in Chinese) from Hong Kong Baptist University in November 2012 and a Master of Arts degree in Sociology from The Chinese University of Hong Kong in November 2014.

Mr. Ho Fung Shan Bob ("**Mr. Ho**"), aged 32, was appointed as an independent non-executive Director on 14 October 2014. From May 2006 to October 2009, Mr. Ho worked in Winterhur Life (Hong Kong) Limited, which was re-branded as AXA Wealth Management (HK) Limited ("**AXA**") in 2007, and his last position with AXA was assistant manager. Mr. Ho has been a career representative unit manager of AIA International Limited since November 2009. Mr. Ho is currently a director of each of AWM Investment Consultancy Limited and Ling Yuen Ju Company Limited.

Mr. Ho graduated from the City University of Hong Kong in November 2006 and obtained a Bachelor of Business Administration in Marketing.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lei Kin Keong (“**Mr. Lei**”), aged 38, was appointed as the company secretary and the financial controller of the Company on 30 May 2013. Mr. Lei holds a Bachelor of Arts in Accountancy from The Hong Kong Polytechnic University. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and associate member of The Hong Kong Institute of Chartered Secretaries. Mr. Lei has extensive experiences in finance, accounting and company secretarial fields. Mr. Lei is also a director of a number of subsidiaries of the Company.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rules 17.50A(1) of the GEM Listing Rules, changes in information of the Directors are set out below:

Name of Directors	Details of Changes
Mr. Cheung Hung	– the total emoluments (excluding the share-based payment expenses of approximately HK$183,000 (2013 Period: HK$171,000)) for the 2014 Year was approximately HK$1,700,000 (2013 Period: HK$3,650,000).
Mr. Leung Pak Hou Anson	– the total emoluments (excluding the share-based payment expenses of approximately HK$183,000 (2013 Period: HK$256,000)) for the 2014 Year was approximately HK$1,023,000 (2013 Period: HK$684,000).
Ms. Chen Miaoping	– the total emoluments (excluding the share-based payment expenses of approximately HK$183,000 (2013 Period: HK$256,000)) for the 2014 Year was approximately HK$523,000 (2013 Period: HK$284,000).

CORPORATE GOVERNANCE REPORT

Pursuant to the Rule 18.44(2) of the GEM Listing Rules, the board of Directors ("**Board**") is pleased to present the corporate governance report for the year ended 31 December 2014 ("**2014 Year**"). This report highlights the key corporate governance practices of the Company.

CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company. The Board is committed to maintaining corporate governance with high standard and ensuring compliance of the legal and regulatory requirements. The Company has put in place governance practices with emphasis on the integrity, quality of disclosures, transparency and accountability for the shareholders of the Company ("**Shareholders**").

Throughout the 2014 Year, the Company has complied with the code provisions in the Corporate Governance Code ("**CG Code**") as set out in Appendix 15 to the GEM Listing Rules save for the deviation from code provision A.2.7 of the CG Code as disclosed below.

Under code provision A.2.7 of the CG Code, the chairman of the Company should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. As the chairman of the Company, Mr. Cheung Hung, is also an executive Director, the Company was unable to hold such meeting where no executive Director was present.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the required standard of dealings and its code of conduct concerning securities transactions by the Directors during the 2014 Year.

BOARD OF DIRECTORS

Composition

As at 31 December 2014, the Board comprises three executive Directors and three independent non-executive Directors as follows:

Executive Directors

Mr. Cheung Hung *(Chairman)*
Mr. Leung Pak Hou Anson
Ms. Chen Miaoping *(Chief Executive Officer)*

Independent non-executive Directors

Mr. Leung Ka Fai	
Mr. Yuen Chun Fai	(appointed on 30 June 2014)
Mr. Ho Fung Shan Bob	(appointed on 14 October 2014)

CORPORATE GOVERNANCE REPORT

On 30 June 2014, Mr. Kwok Shun Tim ("**Mr. Kwok**") resigned as an independent non-executive Director, the chairman of the audit committee of the Board ("**Audit Committee**") and a member of each the nomination committee of the Board ("**Nomination Committee**") and the remuneration committee of the Board ("**Remuneration Committee**"). Mr. Yuen Chun Fai ("**Mr. Yuen**") was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee with effect from 30 June 2014 and his biographical details were set out in the announcement of the Company dated 30 June 2014.

On 4 September 2014, Mr. Yeung Chi Tit ("**Mr. Yeung**") resigned as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each the Nomination Committee and the Audit Committee. Mr. Yuen was appointed as the chairman of the Remuneration Committee immediately after the resignation of Mr. Yeung.

Following the resignation of Mr. Yeung, the Company had only two independent non-executive Directors and two members of the Audit Committee, which fell below the minimum number requirement under Rules 5.05(1) and 5.28 of the GEM Listing Rules.

On 14 October 2014, the Company has re-complied with the minimum number requirements under Rules 5.05(1) and 5.28 of the GEM Listing Rules after the appointment of Mr. Ho Fung Shan Bob ("**Mr. Ho**") as an independent non-executive Director and a member of each the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Ho's biographical details were set out in the announcement of the Company dated 14 October 2014.

The composition of the Board reflects the combination of skills and experience in different areas with different expertises of the Directors to provide independent opinions and implement strategic plans.

There is no relationship among members of the Board and the biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this report.

Directors' Insurance

The Company has arranged appropriate insurance cover in respect of legal action against the Directors in order to compliance with code provision A.1.8 of the CG Code.

Responsibilities, accountabilities and contributions of the Board and management

The Company is governed by the Board, which is primarily responsible for formulating the overall strategy development of the Group and overseeing management, administration and operation of the Group. The Board should assume responsibility for leadership and control of the Group by directing and supervising its affairs. All Directors should make decisions objectively in the interests of the Company.

The Board reserves for its decision on all major matters relating to (i) monitoring and executing the internal control and risk management; (ii) evaluating the financial performance; (iii) seeking and evaluating of any potential material acquisition, disposal, investments or transactions; and (iv) approving appointment of Directors and other significant operational matters of the Group including setting the overall strategies and directions for the Group with a view to developing its business and enhancing return to the Shareholders.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management of the Group. The Board has reviewed the delegation to management periodically to ensure that they are remain appropriate.

CORPORATE GOVERNANCE REPORT

The biographical details of the Directors are set out in the section above headed "**Biographical Details of Directors and Senior Management**" on page 13 to page 15 of this report. Their role and function are published on the websites of the Company and the Stock Exchange. Save as disclosed in this report, none of the Directors has any relationship (including financial, business, and family or other material/relevant relationship) with each other.

All Board committees of the Company are established with defined written terms of reference.

The respective terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee have been published on the websites of the Company and the Stock Exchange.

The attendance of the Directors at the general meetings of the Company, the meetings of each of the Board, the Audit Committee, the Remuneration Committee, and the Nomination Committee during the 2014 Year are set out below:

Name of Directors	Notes	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors						
Mr. Cheung Hung		22/22	n.a.	n.a.	3/3	2/2
Mr. Leung Pak Hou Anson		22/22	n.a.	5/5	n.a.	2/2
Ms. Chen Miaoping		21/22	n.a.	n.a.	n.a.	2/2
Independent Non-executive Directors						
Mr. Kwok Shun Tim	1	11/11	3/3	2/2	2/2	0/2
Mr. Yeung Chi Tit	2	14/14	4/4	2/2	2/2	2/2
Mr. Leung Ka Fai		22/22	6/6	5/5	3/3	2/2
Mr. Yuen Chun Fai	3	11/11	3/3	3/3	1/1	0/0
Mr. Ho Fung Shan Bob	4	6/6	2/2	1/1	0/0	0/0

1. Resigned on 30 June 2014
2. Resigned on 4 September 2014
3. Appointed on 30 June 2014
4. Appointed on 14 October 2014

The Directors have received details of agenda and minutes of committee meetings in advances of and after each Board meeting respectively. The company secretary of the Company ("**Company Secretary**") has distributed relevant documents to the Directors in a timely manner to enable the Directors to make informed decisions on matters to be raised at the Board meeting. All Directors have access to the advices and services of the Company Secretary who is responsible for ensuring the procedures of the Board meetings are complied with, and in consultation with the compliance officer of the Company, advising the Board on compliance matters.

In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. Moreover, the Company Secretary have prepared minutes of the Board meetings and kept records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also has kept the minutes of the Board meetings, which are open for inspection at any reasonable time on reasonable notice by any Director.

CORPORATE GOVERNANCE REPORT

APPOINTMENT, RE-ELECTION AND REMOVAL

Pursuant to 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. All existing independent non-executive Directors are appointed for a specific term of one year.

According to Company's bye-laws, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 5.05 of the GEM Listing Rules, the Company has three independent non-executive Directors, one of them has appropriate professional qualification or accounting or related financial management expertise. The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive Directors are considered to be independent.

BOARD COMMITTEES

As part of the corporate governance practices, the Board has established the Nomination Committee, the Remuneration Committee and the Audit Committee. The Audit Committee is composed of independent non-executive Directors whereas the Nomination Committee comprises all three independent non-executive Directors and one executive Director, Mr. Cheung Hung, and the Remuneration Committee comprise all three independent non-executive Directors and one executive Director, Mr. Leung Pak Hou Anson, with terms of reference in accordance with the principles set out in the CG Code. The compositions of the various committees of the Company on 31 December 2014 were set out below:

Audit Committee

The Audit Committee is currently composed of three independent non-executive Directors, namely, Mr. Yuen Chun Fai, Mr. Ho Fung Shan Bob and Mr. Leung Ka Fai. Mr. Yuen Chun Fai has been appointed as the chairman of the Audit Committee. The financial results for the 2014 Year have been reviewed by the Audit Committee.

The principal duties of the Audit Committee is to review the Company's consolidated financial statements, annual results and annual report, interim report and quarterly reports and to advise and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Group's financial reporting and internal control procedures. In the course of doing so, the Audit Committee has met the Company's management several times and the external auditor twice during the 2014 Year. The Audit Committee established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The full terms of reference setting out the Audit Committee's authority and its role and responsibilities are available on the websites of the Company (www.ruikang.com.hk) and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee is currently composed of three independent non-executive Directors, namely Mr. Yuen Chun Fai, Mr. Leung Ka Fai, and Mr. Ho Fung Shan Bob and one executive Director, Mr. Leung Pak Hou Anson. Mr. Yuen Chun Fai has been appointed as the chairman of the Remuneration Committee.

The principal duties of the Remuneration Committee include reviewing the remuneration policies of the Directors and senior management and making recommendations to the Board for the remuneration of the Directors. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration.

The Remuneration Committee held five meetings during the 2014 Year to review the remuneration policy of the Directors and senior management of the Company assess the performance of the executive Directors and senior management of the Company and recommend remuneration package to the Board.

The Remuneration Committee established with written terms of reference in compliance with Rules 5.34 and 5.35 of the GEM Listing Rules. The full terms of reference setting out the Remuneration Committee's authority and its role and responsibilities are available on the websites of the Company (www.ruikang.com.hk) and the Stock Exchange.

Nomination Committee

The Nomination Committee is currently composed of three independent non-executive Directors, namely Mr. Yuen Chun Fai, Mr. Ho Fung Shan Bob and Mr. Leung Ka Fai and one executive Director and chairman of the Company, Mr. Cheung Hung. Mr. Cheung Hung has been appointed as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board; identifying individual suitably qualified to become members of the Board; making recommendations to the Board on selection of individual nominated for directorships; making recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive; and determining the policy for nomination of Directors.

During the 2014 Year, three meetings was held by the Nomination Committee to, among, other thing, review the structure, size and composition of the board, assess the independence of each of the independent non-executive Directors, review the board diversity policy and recommend to the Board for approval. The Nomination Committee reviewed the board diversity policy to ensure its effectiveness and considered that the Group has implemented the policy since its adoption.

The full terms of reference setting out the Nomination Committee's authority and its role and responsibilities are available on the website of the Company (www.ruikang.com.hk) and the Stock Exchange.

BOARD DIVERSITY POLICY

Pursuant to the code provision A.5.6 of the CG Code, the Board should adopt a policy concerning diversity of board members. The Nomination Committee considered diversity of Board members taking into consideration of a number of factors including but not limited to gender, age, cultural and educational background and experiences. The policy on diversity of the Board is summarised as follows:

(a) We embrace diversity by being inclusive;

(b) We believe in meritocracy irrespective of gender, age, cultural and educational background or professional experience or geography; and

(c) We believe that an optimal and balanced board should comprise of individuals with appropriate balance of difference skills, educational and industrial background, experience, independence and knowledge.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. The positions of chairman and the chief executive officer are held separately by Mr. Cheung Hung and Ms. Chen Miaoping respectively. This segregation ensures a clear distinction between the chairman's responsibility to manage the Board and the chief executive officer' responsibility, with support by the senior management, to manage the Company's business including the implementation of major strategies and initiatives adopted by the Board.

The responsibilities of the chairman is to ensure the Board to work effectively and perform its responsibilities, and all key and appropriate issues are discussed by the Board,draw up and approve the agenda for each board meeting and take into accounts, any matters proposed by others Directors for inclusion in the agenda.

COMPANY SECRETARY

The Company Secretary supports the Board and Board committees by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is appointed by the Board and reports to the chairman. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the GEM Listing Rules.

Mr. Lei Kin Keong ("**Mr. Lei**") was appointed as the Company Secretary on 30 May 2013. Mr. Lei undertook not less than 15 hours of relevant professional training to update his skills and knowledge during the 2014 Year.

He is also authorised representative of the Company under Rule 5.24 of the GEM Listing Rules and directors of several subsidiaries of the Company. The biographical detail of Mr. Lei is set out in the section of "Biographical Details of Directors and Senior Management" on page 15 of this report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

Under the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are encouraged to participate in continuous professional development.

All Directors participated continuous professional development by attending training and reviewing the materials relating to the latest development of the GEM Listing Rules and other applicable regulatory requirement during the 2014 Year in order to develop and refresh their knowledge and skills. All existing Directors have also attended training in relation to the fund raising exercise and financial reporting matter in January 2015.

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statues, laws, rules and regulations.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges their responsibilities of the preparation of the consolidated financial statements of the Group and ensures that the consolidated financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the consolidated financial statements of the Group.

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

The statement of external auditor of the Company, Cheng & Cheng Limited, Certified Public Accountants, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 32 to 33 of this report.

Internal control

The Board recognises the importance of maintaining an adequate and effective internal control system to safeguard the Group's assets against unauthorised use and disposal, and to protect the interests of shareholders of the Company. The Board assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control system.

During the 2014 Year, the Board has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control.

Auditor's remuneration

The auditor provides an objective assessment of the financial information presented by the management, and is considered one of the essential elements to ensure effective corporate governance. For the 2014 Year, the remuneration paid/payable to the auditor, Cheng & Cheng Limited, Certified Public Accountants, in respect of audit services amounted to HK$610,000 (2013 Period: HK$640,000) and non-audit service assignment amounted to HK$85,000 (2013 Period: HK$105,000). Non-audit services include due diligence exercises and advising on transactions.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investors.

During the 2014 Year, there was no change in the bye-laws of the Company.

The Company updates its shareholders on its latest business developments and financial performance through its annual report, interim report and quarterly reports, notices, announcements and circulars. The corporate website of the Company provides a communication platform to the public and the shareholders.

The Company regards the annual general meeting ("**AGM**") and special general meeting ("**SGM**") as a platform to provide an important opportunity for direct communications between the Board and the Shareholders. Shareholders are encouraged to attend the AGM and other Shareholders' meetings. The Company supports the CG Code principle to encourage shareholder's participation.

Shareholders may send any enquiries they have by addressing them to the Company Secretary in writing to:

the Company's registered office in Hong Kong at Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong or by email to info@ruikang.com.hk.

SHAREHOLDERS' RIGHTS

A. Procedures for Shareholders to Convene an Special General Meeting

According to the provision of bye-law 58 of the bye-laws of the Company, the shareholders of the Company 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 Company Secretary, to require a SGM to be called by the Board for the transaction of any business specified in such requisition. The SGM shall be held within two (2) months after the deposit of such requisition. The requisition must be lodged with the Company's principal place of business of Hong Kong (Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong).

According to the provision of bye-law 74(3) of the bye-laws of the Company, if within twenty-one (21) days of such deposit the Board fail to proceed to convene such meeting the requisitionist(s) may convene such meeting, 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.

B. Procedures for putting enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong. The Company Secretary is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Directors.

DIRECTORS' REPORT

The Directors are pleased to submits herewith their annual report ("**Report**") and the audited consolidated financial statements of the Group for the year ended 31 December 2014 ("**2014 Year**").

PLACE OF INCORPORATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Island and continued in Bermuda as an exempted company with limited liabilities in accordance with the Company Act 1981 (as amended) of Bermuda. The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company's head office and principal place of business in Hong Kong was changed from Unit 310, 3/F, Vanta Industrial Centre, 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong to Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong with effect from 12 December 2014.

CHANGE OF BOARD LOT SIZE

The board lot size of the shares of the Company for trading on the Stock Exchange was changed from 10,000 to 20,000 with effect from 22 October 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 43 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the 2014 Year, the percentage of turnover and purchase attributable to the Group's major customers and suppliers are set out below:

Turnover	
– The largest customer	9.59%
– The total of five largest customers	27.15%
Purchase	
– The largest supplier	34.73%
– The total of five largest suppliers	58.55%

As far as the Directors are aware, neither the Directors nor their associates nor any shareholders (which to the knowledge of Directors own more than 5% of the Company's issued share capital) had any interest in the five largest customers and suppliers of the Group.

RESULTS AND DIVIDEND

The results of the Group for the 2014 Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 34. The state of affairs of the Group and the Company at that date are set out in the consolidated statement of financial position which appear on page 35 and note 42 to the consolidated financial statements of this report respectively.

The Board does not recommend the payment of a dividend for 2014 Year (fifteen months ended 31 December 2013: HK$Nil).

DIRECTORS' REPORT

SHARE CAPITAL

Details of movements in the share capital of the Company during the 2014 Year are set out in note 36 to the consolidated financial statements.

SHARE OPTION SCHEME

On 26 May 2004, the Company approved and adopted a share option scheme ("**Expired Scheme**") which expired on 25 May 2014. No further share option shall be offered pursuant to the Expired Scheme but the Expired Scheme shall in all other respects remain in force to the extent necessary to give effect to the exercise of any outstanding share options granted prior to its expiry. Share options granted under the Expired Scheme shall continue to be valid and exercisable in accordance with the terms of the Expired Scheme.

The Company adopted a new share option scheme on 29 May 2014 for the purpose of enabling the Group to grant share options to selected participants as incentive or rewards for their contribution to the Group. The details of the share option scheme of the Company are set out in note 37 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the 2014 Year are set out in note 17 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the 2014 Year are set out in the consolidated statement of changes in equity.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

DISTRIBUTABLE RESERVES

For the 2014 Year, the Company's distributable reserves are set out in note 42 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors up to the date of this report were:

Executive Directors

Mr. Cheung Hung *(Chairman)*
Mr. Leung Pak Hou Anson
Ms. Chen Miaoping *(Chief Executive Officer)*

Independent Non-executive Directors

Mr. Leung Ka Fai	
Mr. Yuen Chun Fai	(appointed on 30 June 2014)
Mr. Ho Fung Shan Bob	(appointed on 14 October 2014)
Mr. Kwok Shun Tim	(resigned on 30 June 2014)
Mr. Yeung Chi Tit	(resigned on 4 September 2014)

In accordance with bye-laws 84 of the bye-laws of the Company, Mr. Cheung Hung and Mr. Leung Pak Hou Anson shall retire from office by rotation and, being eligible, offer themselves for re-election, at the forthcoming annual general meeting of the Company.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographic information of the Directors and senior management of the Group are set out on pages 13 to 15 of this report.

DIRECTOR'S SERVICE CONTRACTS

Mr. Cheung Hung, Mr. Leung Pak Hou Anson, Ms. Chen Miaoping and Mr. Leung Ka Fai have entered into revised service contracts with the Company for a term of one year commencing from 1 June 2014.

Mr. Yuen Chun Fai and Mr. Ho Fung Shan Bob have entered into the letters of appointment with the Company for a term of one year commencing from 30 June 2014 and 14 October 2014 respectively.

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

DIRECTORS' INTERESTS IN CONTRACTS

No Director had material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during or at the end of the 2014 Year.

COMPETING INTERESTS

During the 2014 Year, none of the Directors or the controlling Shareholders or their respective associates (as defined in the GEM Listing Rules) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

EMOLUMENT POLICY

The emolument policy of the Directors and senior management of the Group is set up by the remuneration committee of the Board on the basis of their merit, qualification and competence. The emoluments of the Directors are decided by the Board on the recommendation of the remuneration committee of the Board, having regard to market competitiveness, individual performance and achievement. The Company has adopted a share option scheme as an incentive to Directors and eligible participants, details of the scheme is set out in note 37 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of Directors and senior management of the Company for the 2014 Year by band is as follows:

	Number of individuals
HK$Nil to HK$1,000,000	5
HK$1,000,001 to HK$2,000,000	2

Further particulars in relation to Directors' remuneration and the five individuals with highest emoluments are set out in note 16 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company ("**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 ("**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 tof the GEM Listing Rules were as follows:

DIRECTORS' REPORT

Long positions in underlying Shares
Share options granted

Name of Directors	Nature of interest	Date of grant	Exercisable period	Exercise price per Share	Aggregate long positions in the underlying Shares	Approximate percentage in Company's issued share capital
Mr. Cheung Hung	Beneficial owner	28 August 2014	1 January 2015 to 31 December 2016	HK$0.1609	2,674,750	0.266%
Mr. Leung Pak Hou Anson	Beneficial owner	28 August 2014	1 January 2015 to 31 December 2016	HK$0.1609	2,674,750	0.266%
Ms. Chen Miaoping	Beneficial owner	28 August 2014	1 January 2015 to 31 December 2016	HK$0.1609	2,674,750	0.266%

Note:

As at 31 December 2014, the total number of the issued share of the Company was 1,005,624,000 ordinary shares of HK$0.01 each of the Company.

Save as disclosed above, none of the Directors nor the chief executives of the Company has, as at 31 December 2014, any interest or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the following persons or entities (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in Shares and underlying Shares

Name	Nature of interest	No. of Shares held	Approximate percentage
China Renji Medical Group Limited	Beneficial owner	257,812,500	25.64%

Save as disclosed above, no person or entity had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO as at 31 December 2014.

DIRECTORS' REPORT

RIGHT TO ACQUIRE COMPANY'S SECURITIES

Save as disclosed in section "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "SHARE OPTION SCHEME" above, at no time during the 2014 Year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Share in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the 2014 Year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

(a) Acquisition of a subsidiary

On 18 August 2014, the Group entered into an equity transfer agreement with two sellers, independent third parties, to acquire 51% of the equity interests of 貴陽舒美達制藥廠有限公司 (in English, for identification purpose only Guiyang Shu Mei Da Pharmaceutical Co., Ltd.) at an aggregate cash consideration of RMB25,500,000. The completion of such acquisition took place on 20 November 2014. Details of the acquisition are set out in the announcement of the Company dated 18 August 2014.

The acquisition offered an opportunity for the Group to adopt new production lines for manufacturing proprietary Chinese medicine products and develop production lines in the factory for manufacturing health related and pharmaceutical products with a view to enhancing the productivity and efficiency of its business segment of health related and pharmaceutical products.

(b) Disposal of subsidiaries

On 31 December 2014, the Group entered into a sale and purchase agreement with four purchasers, independent third parties, to dispose 70% of the equity interests of Magical Bloom Limited, together with its subsidiaries, at a cash consideration of HK$12,600,000. The completion of such disposal took place on 30 January 2015. Details of the disposal are disclosed in the announcement of the Company dated 31 December 2014. It was expected that the purchasers could bring resources and expertise in the sales and marketing of medicated oil in the PRC to benefit the operations and business of the Group. The Group will continue to hold 30% of the issued share capital of Magical Bloom Limited after the disposal so that the Group can continue to share the growth of the financial performance of such business. In the meantime, the management of the Group can focus on the development of the business in manufacturing of the health related and pharmaceutical products in the PRC.

DIRECTORS' REPORT

RELATED PARTY AND CONNECTED TRANSACTIONS

Details of related party and connected transactions of the Group during the 2014 Year are set out in note 44 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

CHARITABLE DONATIONS

During the 2014 Year, the Group made charitable donations amounting to approximately HK$63,800.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out in the financial summary on page 116 of this report. This summary does not form part of the audited consolidated financial statements.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the corporate governance report on pages 16 to 23 of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 47 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 41 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

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

DIRECTORS' REPORT

AUDITOR

The consolidated financial statements of the Group for the 2014 Year have been audited by Cheng & Cheng Limited, Certified Public Accountants. Cheng & Cheng Limited, Certified Public Accountants, will retire and a resolution to re-appoint Cheng & Cheng Limited, Certified Public Accountants, as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Rui Kang Pharmaceutical Group Investments Limited
Cheung Hung
Chairman

Hong Kong, 17 March 2015

INDEPENDENT AUDITOR'S REPORT

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司
10/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong

To the shareholders of Rui Kang Pharmaceutical Group Investments Limited
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the consolidated financial statements of Rui Kang Pharmaceutical Group Investments Limited ("**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 34 to 115, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2014, 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 these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 as to whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheng & Cheng Limited
Certified Public Accountants
Chan Shek Chi
Practising Certificate Number: P05540

Hong Kong
17 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Continuing operations			
Gross proceeds	9	**213,591**	204,204
Turnover	9	**140,385**	106,625
Cost of sales		**(87,448)**	(61,783)
Gross profit		**52,937**	44,842
Other gains and losses	10	**(35,790)**	(13,373)
Administrative expenses		**(48,995)**	(38,533)
Selling and distribution expenses		**(31,582)**	(35,773)
Loss from operation		**(63,430)**	(42,837)
Finance costs	11	**(4,433)**	(4,475)
Loss on deemed disposal of partial interest in a joint venture		**(5,892)**	–
Share of profit/(loss) of a joint venture		**83**	(191)
Impairment loss recognised on goodwill		**(8,240)**	(20,945)
Impairment loss recognised on intangible assets		**(421)**	(7,223)
Gain on deconsolidation of a subsidiary	27	**–**	1,041
Loss before tax	12	**(82,333)**	(74,630)
Income tax expenses	13	**(613)**	(659)
Loss from continuing operations		**(82,946)**	(75,289)
Discontinued operation			
Profit from discontinued operation, net of tax	12,30	**–**	28,008
Loss for the year/period		**(82,946)**	(47,281)
Other comprehensive income/(loss) for the year/period			
Items that may be reclassified subsequently to profit or loss:			
Release of exchange difference upon deconsolidation of a subsidiary		**–**	(431)
Exchange difference arising on translation of foreign operations		**77**	(1,156)
Share of exchange difference of an investment in a joint venture		**(7)**	–
Total comprehensive loss for the year/period		**(82,876)**	(48,868)
Loss attributable to:			
Owners of the Company		**(82,929)**	(47,281)
Non-controlling interests		**(17)**	–
		(82,946)	(47,281)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**(82,946)**	(48,868)
Non-controlling interests		**70**	–
		(82,876)	(48,868)
Dividends	14	**–**	–
Loss per share (HK$)	15		(Restated)
– basic and diluted		**(0.123)**	(0.167)
Loss per share – continuing operations (HK$)	15		(Restated)
– basic and diluted		**(0.123)**	(0.266)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**46,816**	17,874
Prepaid lease payments	18	**13,884**	4,606
Goodwill	19	**2,478**	24,439
Intangible assets	20	**12,169**	447
Investment in a joint venture	21	**22,963**	28,789
		98,310	76,155
CURRENT ASSETS			
Prepaid lease payments	18	**370**	116
Held for trading securities	22	**18,697**	49,981
Inventories	23	**63,880**	56,869
Trade and bills receivables	24	**28,068**	24,277
Deposits, prepayments and other receivables	25	**32,896**	33,516
Tax recoverable		**453**	–
Pledged cash deposits	26	**2,535**	1,374
Cash and cash equivalents	26	**39,163**	32,092
		186,062	198,225
Assets classified as held for sale	30	**42,644**	–
		228,706	198,225
CURRENT LIABILITIES			
Trade and bills payables	31	**21,048**	25,764
Other payables and accruals	32	**68,945**	69,901
Bank and other borrowings	33	**19,014**	50,096
Tax payable		**29**	428
		109,036	146,189
Liabilities associated with assets classified as held for sale	30	**20,067**	–
		129,103	146,189
NET CURRENT ASSETS		**99,603**	52,036
NET ASSETS		**197,913**	128,191
CAPITAL AND RESERVES			
Share capital	36	**10,056**	3,144
Reserves		**159,214**	125,047
Equity attributable to owners of the Company		**169,270**	128,191
Non-controlling interests		**28,643**	–
TOTAL EQUITY		**197,913**	128,191

The consolidated financial statements on pages 34 to 115 were approved and authorised for issue by the board of Directors on 17 March 2015 and are signed on its behalf by:

Cheung Hung
DIRECTOR

Leung Pak Hou Anson
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Special reserve HK$'000 (Note a)	Convertible notes equity reserve HK$'000	Statutory surplus reserve fund HK$'000 (Note b)	Statutory enterprise expansion fund HK$'000 (Note c)	Exchange reserves HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 October 2012	115,208	88,984	11,412	22,443	–	15,479	3,098	25,279	(175,406)	106,497	318	106,815
Loss for the period	–	–	–	–	–	–	–	–	(47,281)	(47,281)	–	(47,281)
Other comprehensive loss:												
Release of exchange difference upon deconsolidation of a subsidiary	–	–	–	–	–	–	–	(431)	–	(431)	–	(431)
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(1,156)	–	(1,156)	–	(1,156)
Total comprehensive loss for the period	–	–	–	–	–	–	–	(1,587)	(47,281)	(48,868)	–	(48,868)
Issuing convertible notes for acquisition of subsidiaries	–	–	–	–	4,710	–	–	–	–	4,710	–	4,710
Share issued on conversion of convertible notes (Note 35)	23,000	–	–	–	(4,710)	–	–	–	–	18,290	–	18,290
Recognition of equity settled share-based payment expenses (Note 37)	–	–	1,962	–	–	–	–	–	–	1,962	–	1,962
Acquisition of subsidiaries (Note 28)	19,000	26,600	–	–	–	–	–	–	–	45,600	–	45,600
Capital reorganisation (Note 36)	(154,064)	(115,584)	–	212,948	–	–	–	–	56,700	–	–	–
Disposal of a subsidiary (Note 30)	–	–	–	–	–	–	–	–	–	–	(318)	(318)
At 31 December 2013 and 1 January 2014	**3,144**	**–**	**13,374**	**235,391**	**–**	**15,479**	**3,098**	**23,692**	**(165,987)**	**128,191**	**–**	**128,191**
Loss for the year	–	–	–	–	–	–	–	–	(82,929)	(82,929)	(17)	(82,946)
Other comprehensive income/(loss):												
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(10)	–	(10)	87	77
Share of exchange difference of an investment in a joint venture	–	–	–	–	–	–	–	(7)	–	(7)	–	(7)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	(17)	(82,929)	(82,946)	70	(82,876)
Cancellation of share options	–	–	(1,801)	–	–	–	–	–	1,801	–	–	–
Lapse of share options	–	–	(11,573)	–	–	–	–	–	11,573	–	–	–
Recognition of equity settled share-based payment expenses (Note 37)	–	–	3,385	–	–	–	–	–	–	3,385	–	3,385
Acquisition of a subsidiary (Note 28)	–	–	–	–	–	–	–	–	–	–	28,573	28,573
Issue of ordinary shares	6,912	120,033	–	–	–	–	–	–	–	126,945	–	126,945
Less: Shares issue expenses	–	(6,305)	–	–	–	–	–	–	–	(6,305)	–	(6,305)
At 31 December 2014	**10,056**	**113,728**	**3,385**	**235,391**	**–**	**15,479**	**3,098**	**23,675**	**(235,542)**	**169,270**	**28,643**	**197,913**

Notes:

a. Special reserve of approximately HK$22,443,000 represents the difference between the paid-up capital and share premium of the subsidiary acquired and the nominal value of the Company's shares issued for the acquisition at the time of the Group reorganisation on 26 May 2004.

   The Company recorded the special reserve of approximately HK$212,948,000 after setting off of the capital reduction and the cancellation of the share premium with the accumulated losses as at the date of the change of domicile and the capital reorganisation of the Company ("**Capital Reorganisation**") which became effective on 28 August 2013 and 19 September 2013 respectively.

b. Pursuant to the articles of association of certain subsidiaries of the Company in the People's Republic of China ("**PRC**"), those subsidiaries should transfer not less than 10% of net profit to the statutory surplus reserve fund, while the rest of the subsidiaries of the Company in the PRC can make appropriation of net profit to the statutory surplus reserve fund on a discretionary basis.

   The statutory surplus reserve fund can be used to offset previous year's losses, expand the existing operations or convert into additional capital of those PRC subsidiaries.

c. Pursuant to the articles of association of certain subsidiaries of the Company in the PRC, those subsidiaries can make appropriation of net profit to the statutory enterprise expansion fund on a discretionary basis.

   The statutory enterprise expansion fund can be used to expand the capital of those subsidiaries by means of capitalisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	**1.1.2014– 31.12.2014 HK$'000**	1.10.2012– 31.12.2013 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(82,333)**	(46,622)
Adjustments for:			
Write-down of obsolete stocks	12	**928**	1,352
Impairment loss recognised on intangible assets		**421**	7,223
Impairment loss recognised on goodwill		**8,240**	20,945
Depreciation of property, plant and equipment	12	**2,421**	1,965
Finance costs	11	**4,433**	4,528
Amortisation of prepaid lease payments	12	**136**	144
Amortisation of intangible assets	12	**–**	3
Share-based payment expenses	12	**3,385**	1,962
Loss on deemed disposal of partial interest in a joint venture		**5,892**	–
Share of (profit)/loss of a joint venture		**(83)**	191
Interest income	10	**(208)**	(747)
Dividend income	10	**(33)**	(114)
Gain on disposal of discontinued operation	30	**–**	(27,391)
Reversal of impairment losses for trade debts	10	**–**	(4,575)
Net gain on disposal of property, plant and equipment	10	**–**	(128)
Fixed assets written off	10	**820**	651
Gain on disposal of intangible assets	10	**–**	(3,246)
Gain on deconsolidation of a subsidiary		**–**	(1,041)
Net loss on financial assets at fair value through profit or loss	10	**36,916**	23,910
Operating cash flows before movements in working capital		**(19,065)**	(20,990)
Increase in inventories		**(15,045)**	(6,990)
Increase in trade and bills receivables		**(4,946)**	(702)
Increase in deposits, prepayments and other receivables		**(2,187)**	(30,443)
Increase in trade and bills payables		**7,881**	8,037
(Decrease)/increase in other payables and accruals		**(195)**	6,310
Net fund used in trading of financial assets at fair value through profit or loss		**(5,632)**	(7,177)
Cash used in operations		**(39,189)**	(51,955)
Income taxes paid		**(822)**	(195)
NET CASH USED IN OPERATING ACTIVITIES		**(40,011)**	(52,150)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	1.1.2014–31.12.2014 HK$'000	1.10.2012–31.12.2013 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(2,763)**	(4,614)
Purchases of intangible assets		**–**	(75)
Proceeds from disposal of property, plant and equipment		**–**	442
Proceeds from disposal of intangible assets		**–**	3,748
Investment in a joint venture		**–**	(28,980)
Net cash (outflow)/inflow arising on acquisition of subsidiaries	28	**(26,736)**	590
Net cash outflow arising on acquisition of assets through acquisition of a subsidiary	29	**(4,008)**	–
Net cash inflow arising on disposal of assets held for sale	30(c)	**–**	500
Net cash inflow arising on disposal of discontinued operation	30(c)	**–**	27,468
Interest received		**208**	747
Dividend received		**33**	114
NET CASH USED IN INVESTING ACTIVITIES		**(33,266)**	(60)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(50,096)**	(22,228)
Interest paid		**(4,433)**	(4,528)
Increase in pledged cash deposits		**(1,161)**	(1,374)
New bank and other borrowings raised		**19,014**	75,097
Net proceeds from issue of shares		**120,640**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**83,964**	46,967
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**10,687**	(5,243)
Effect of foreign exchange rate changes		**(3)**	(942)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		**32,092**	38,277
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		**42,776**	32,092
Represented by:			
Cash and bank balances	26	**39,163**	32,092
Cash and cash equivalents included in assets classified as held for sale	30	**3,613**	–
		42,776	32,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. General Information

Rui Kang Pharmaceutical Group Investments Limited ("**Company**", together with its subsidiaries, the "**Group**") was incorporated and registered as an exempted company in the Cayman Islands under the Company Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 June 2003. On 29 August 2013, the Company deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and the principal place of business of the Company in Hong Kong is located at Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong.

The issued shares of the Company have been listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") since 17 June 2004.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). Other than those subsidiaries established in the People's Republic of China ("**PRC**") whose functional currency is Renminbi ("**RMB**"), the functional currency of the Company and its subsidiaries is HK$. The reason for selecting HK$ as its presentation currency is because the Company is a public company listed on GEM, where most of the investors are located in Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the PRC and Hong Kong and (ii) trading of securities in Hong Kong.

The Company announced on 26 June 2013 that the financial year end date of the Company changed from 30 September to 31 December commencing from the financial year of 2013. Accordingly, the financial statements for the current period cover a period of twelve months from 1 January 2014 to 31 December 2014. The corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and related notes cover a period of fifteen months from 1 October 2012 to 31 December 2013 and therefore may not be comparable with the amounts shown for the year ended 31 December 2014.

Such changes was due to a number of the subsidiaries of the Company incorporated in the PRC are statutorily required to have their financial year ending on 31 December, the change of financial year end date of the Company is to conform all the year end dates of companies within the Group and facilitate the Company to prepare its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies

Basis of Preparation

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

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss ("**FVTPL**") which have been measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 the characteristics of the asset or liability if market participants would take those characteristics 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 HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 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.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

2. Summary of Significant Accounting Policies – *Continued*

Basis of Consolidation – *Continued*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total consolidated comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing 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, a gain or loss is recognised in profit or loss and 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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate.

Investments in subsidiaries

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

The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of loss of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), 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 joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – *Continued*

Investments in joint ventures – *Continued*

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

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture 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 the equity method is discontinued.

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

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.

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

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

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

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

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 made 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Business combinations – *Continued*

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.

Goodwill

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

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

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

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress, less their residual values, if any, over their estimated useful lives, using straight-line method, as follows:

Land and Buildings	Over remaining unexpired terms of the relevant lease or 20 years
Furniture, fixtures and office equipment	3-10 years
Motor vehicles	3-10 years
Plant and machinery	3-20 years
Leasehold improvement	5 years or over the terms of the lease, if shorter

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Property, plant and equipment – *Continued*

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments. Prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the period of the rights.

Intangible assets (other than goodwill)

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 with finite useful lives are carried at cost less accumulated amortisation and any 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 are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible assets 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:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

2. Summary of Significant Accounting Policies – *Continued*

Intangible assets (other than goodwill) – *Continued*

Internally-generated intangible assets – Research and development costs – *Continued*

The amount initially recognised for internally-generated intangible asset 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 any accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired in a business combination.

Patents are amortised on a straight-line basis over their estimated useful lives of 10 years. Pharmaceutical licences with indefinite useful lives are not amortised. Amortisation of research and development costs begins when development is complete and the asset is available for use, and it is amortised over the period of expected future benefit.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or 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.

Financial instruments

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

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

The Group's financial assets are classified into following specified categories: financial assets at FVTPL 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset 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 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 asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for the debt instruments, other than those financial assets classified as at FVTPL.

2. Summary of Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

Financial assets – *Continued*

Financial assets at FVTPL

Financial assets at FVTPL of the Group are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item.

Loans and receivables

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

Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where 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 assets have been affected.

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

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

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

- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

Financial assets – *Continued*

Impairment of financial assets – *Continued*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or other 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.

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

Financial liabilities and equity

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

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

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.

Financial liabilities

Financial liabilities (including trade and bills payables, other payables and accruals and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

Convertible notes

The component parts of convertible notes issued by the Group 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 classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised in which case the balance stated in convertible notes equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

Derecognition

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

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

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

2. Summary of Significant Accounting Policies – *Continued*

Inventories

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

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

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

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

Non-current assets (or disposal groups) held for sale and discontinued operations

(i) Non-current assets (or disposal groups) held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Non-current assets (or disposal groups) held for sale and discontinued operations – *Continued*

(ii) 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 (see (i) above) if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of profit or loss and other comprehensive income, 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.

Impairment losses on tangible and intangible assets (other than goodwill – see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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. 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when goods are delivered and title has passed to customers.

Sales of financial assets at FVTPL are recognised on a trade date basis.

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

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Rental income received under operating leases is recognised as other operating income in equal instalments over the 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 granted are recognised in the consolidated statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Taxation – *Continued*

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year/period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the 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 the exchange rates prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Foreign currencies – *Continued*

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of joint arrangements that do not result in the Group losing joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserves.

Provisions

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals rising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Leasing – *Continued*

The Group as lessee – *Continued*

Leasehold land and buildings

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 except for those that are classified and accounted for as investment properties under the fair value model. 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.

Borrowing costs

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

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

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

Retirement benefits costs

Payments to state-managed retirement benefits scheme and Mandatory Provident Fund Schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Equity-settled share-based payment transactions

Share options granted to directors ("**Directors**"), employees and service providers of the Group

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies – *Continued*

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

3. Going Concern Convention

In preparing the consolidated financial statements, the Directors have given careful consideration to the liquidity of the Group as the Group has sustained operating losses for 5 consecutive years and incurred loss of approximately HK$82,946,000 for the year ended 31 December 2014 (fifteen months ended 31 December 2013: HK$47,281,000).

In order to improve the situation, the Group will adopt the "Tap New Resources and Economise on Expenditure" strategies. The Group will implement cost-saving strategies in order to minimise the impact of the increasing production costs in the health related and pharmaceutical products business and the Group will revamp its investment strategies in securities trading business by investing in quality listed securities. The Group will continue to strengthen the health related and pharmaceutical products business through (i) expanding of the wholesales channel and the Internet sales in Hong Kong and introducing new health related products in order to enlarge of the products lists of healthcare business in Hong Kong; and (ii) developing and manufacturing of new health related and pharmaceutical products through the newly acquired factory in the PRC.

In the opinion of the Directors, as the measures described above accomplish the expected results, the Directors are satisfied that the Group is able to have sufficient working capital to meet in full its financial obligations as they fall due in the foreseeable future and be able to return to a commercially viable concern. As at 31 December 2014, the net current assets of the Group were approximately HK$99.6 million. The Company allotted and issued 257,812,500 new shares to China Renji Medical Group Limited ("**China Renji**") by way of subscription ("**Subscription**") at the subscription price of HK$0.128 per share and the completion of the Subscription took place on 23 January 2015. The aggregate net proceeds of the Subscription, after deduction of expenses, were approximately HK$32.7 million. Details of the Subscription are disclosed in the announcements of the Company dated 14 November 2014 and 23 January 2015 and the circular of the Company dated 24 December 2014.

Accordingly, the Directors considered that it is appropriate to prepare the consolidated financial statements on a going concern basis.

4. Application of New and Revised HKFRSs

In the current year, the Group has applied a number of new and revised HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2014:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011)	Investment Entities
HK (IFRIC) – Interpretation 21	Levies

The application of these new and revised HKFRSs and new interpretation of HK (IFRIC) has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early adopted the following new and revised HKFRSs that have been issued but not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle [1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle [1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle [2]
Amendments to HKAS 1	Disclosure Initiative [2]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions [1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation [2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants [2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements [2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exemption [2]
Amendments HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations [2]
HKFRS 9	Financial Instruments [4]
HKFRS 14	Regulatory Deferred Accounts [2]
HKFRS 15	Revenue from Contracts with Customers [3]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018

The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the Group's financial performance and positions and/or on the disclosures set out in these consolidated financial statements.

5. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives and impairment of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives, residual values and related depreciation and amortisation charges for the property, plant and equipment and intangible assets (other than goodwill) with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charges where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation and amortisation expense in the future periods.

The Group reviews tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recovered. Assessing the impairment loss requires a determination of fair value which is based on the best estimates and information available.

Assessment of goodwill impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

Allowance for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

5. Critical Accounting Judgment and Key Sources of Estimation Uncertainty – *Continued*

Allowance for bad and doubtful debts

Management regularly reviews the recoverability and age of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the current credit worthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying amount. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2014, the carrying amounts of trade and bills receivables are approximately HK$28,068,000 (2013: HK$24,277,000), net of allowance for doubtful debts of approximately HK$407,000 (2013: HK$14,432,000). While the carrying amounts of deposits, prepayments and other receivables are approximately HK$32,896,000 (2013: HK$33,516,000), net of allowance for doubtful debts of approximately HK$800,000 (2013: HK$800,000).

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

6. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt (which includes bank and other borrowings as detailed in note 33), cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves. The Directors review the capital structure on a regular basis. As a part of this review, the Directors consider the cost of capital and the associated risks and take appropriate actions to adjust the Group's capital structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

7. Financial Instruments

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, cash and cash equivalents, trade and bills payables, other payables and accruals, bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2014 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

As at 31 December 2014, the Group has certain concentration of credit risk as 37% (2013: 45%) of the total trade receivables were due from the Group's top five largest customers. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are financial institutions with high credit ratings.

Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest-rate risk mainly arises from bank and other borrowings as detailed in note 33. Bank and other borrowings were issued at fixed rates, exposing the Group to fair value interest-rate risk. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Currency risk

Most of the Group's monetary assets and liabilities are denominated in RMB and HK$, and the Group conducts its business transactions principally in RMB and HK$. The exchange rate risk of the Group is not significant.

7. Financial Instruments – *Continued*

a. Financial risk management objectives and policies – *Continued*

Liquidity risk

The Group has implemented several measures to improve its working capital position and net financial position during the year/period, details of which are set out in note 3.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

The Group has no covenants with banks for the banking facilities granted.

The Group's remaining contractual maturity for its financial liabilities are set out in the following table. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	On demand or within one year HK$'000	**More than one year less than two years HK$'000**	**More than two years less than five years HK$'000**	**Total undiscounted cash flow HK$'000**	**Carrying amount HK$'000**
2014					
Financial liabilities					
Trade and bills payables	**21,048**	**–**	**–**	**21,048**	**21,048**
Other payables and accruals	**68,945**	**–**	**–**	**68,945**	**68,945**
Bank and other borrowings	**19,014**	**–**	**–**	**19,014**	**19,014**
	109,007	**–**	**–**	**109,007**	**109,007**

	On demand or within one year HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
2013					
Financial liabilities					
Trade and bills payables	25,764	–	–	25,764	25,764
Other payables and accruals	69,901	–	–	69,901	69,901
Bank and other borrowings	50,096	–	–	50,096	50,096
	145,761	–	–	145,761	145,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

7. Financial Instruments – *Continued*

b. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The Directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to the corresponding carrying amounts due to their short-term maturities.

c. Categories of financial instruments

	2014 **HK$'000**	2013 HK$'000
Financial assets		
Financial assets at FVTPL	**18,697**	49,981
Loans and receivables (including cash and cash equivalents)		
Trade and bills receivables	**28,068**	24,277
Deposits and other receivables	**28,783**	24,240
Pledged cash deposits	**2,535**	1,374
Cash and cash equivalents	**39,163**	32,092
	117,246	131,964
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and bills payables	**21,048**	25,764
Other payables and accruals	**68,945**	69,901
Bank and other borrowings	**19,014**	50,096
	109,007	145,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

7. Financial Instruments – *Continued*

d. Other price risk

The Group's held for trading securities are measured at fair value at end of the reporting period. Therefore, the Group is exposed to equity security price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

In respect of the held for trading securities, the following table demonstrates the impact on loss before tax and equity if the quoted market price of the Group's listed securities had been 5% (2013: 5%) higher/lower.

	Carrying amount of equity investments HK$'000	Increase or decrease in loss before tax HK$'000	Increase or decrease in equity HK$'000
2014			
Investments listed in Hong Kong			
– Held for trading securities	**18,697**	**935**	**935**
2013			
Investments listed in Hong Kong			
– Held for trading securities	49,981	2,499	2,499

8. Segment Information

Information reported to the Group's executive Directors, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group is principally engaged in (i) the manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials, equipment in the PRC and Hong Kong and (ii) trading of securities in Hong Kong. Trading of synthetic rubber business was regarded as discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

8. Segment Information – *Continued*

Segment information in respect of business segments is presented as below:

Segment turnover and results
For the year ended 31 December 2014

	Manufacturing and sale of consumer cosmetics HK$'000	Manufacturing and sale of health related and pharmaceutical products HK$'000	Trading of financial assets at FVTPL HK$'000	Investment in a joint venture HK$'000	Others HK$'000	Continuing operations HK$'000	Discontinued operation HK$'000	Total HK$'000
Gross proceeds – Segment turnover (Note)	57,123	80,840	73,206	–	2,422	213,591	–	213,591
Segment results	2,517	112	(39,483)	83	(681)	(37,452)	–	(37,452)
Other gains						1,946	–	1,946
Impairment loss recognised on goodwill						(8,240)	–	(8,240)
Impairment loss recognised on intangible assets						(421)	–	(421)
Loss on deemed disposal of partial interest in a joint venture						(5,892)	–	(5,892)
Unallocated corporate expenses						(27,841)	–	(27,841)
Finance costs						(4,433)	–	(4,433)
Loss before tax						(82,333)	–	(82,333)
Income tax expenses						(613)	–	(613)
Loss for the year						(82,946)	–	(82,946)
For the fifteen months ended 31 December 2013								
Gross proceeds – Segment turnover (Note)	59,008	39,766	97,579	–	7,851	204,204	120,437	324,641
Segment results	(1,887)	(7,042)	(25,285)	(191)	897	(33,508)	765	(32,743)
Other gains						11,188	24	11,212
Impairment loss recognised on goodwill						(20,945)	–	(20,945)
Impairment loss recognised on intangible assets						(7,223)	–	(7,223)
Gain on deconsolidation of a subsidiary						1,041	–	1,041
Gain on disposal of discontinued operation						–	27,391	27,391
Unallocated corporate expenses						(20,708)	–	(20,708)
Finance costs						(4,475)	(53)	(4,528)
(Loss)/profit before tax						(74,630)	28,127	(46,503)
Income tax expenses						(659)	(119)	(778)
(Loss)/profit for the period						(75,289)	28,008	(47,281)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

8. Segment Information – *Continued*

Segment turnover and results – *Continued*

Note: Reconciliation of total segment turnover to the Group's consolidated turnover:

	1.1.2014–31.12.2014 HK$'000	1.10.2012–31.12.2013 HK$'000
Gross proceeds	**213,591**	204,204
Less: Gross proceeds from trading of securities	**(73,206)**	(97,579)
Consolidated turnover	**140,385**	106,625

Segment assets and liabilities

As at 31 December 2014

	Manufacturing and sale of consumer cosmetics HK$'000	Manufacturing and sale of health related and pharmaceutical products HK$'000	Trading of financial assets at FVTPL HK$'000	Investment in a joint venture HK$'000	Others HK$'000	Continuing operations HK$'000	Discontinued operation HK$'000	Total HK$'000
Assets								
Segment assets	**53,930**	**149,659**	**30,197**	**22,963**	**22,687**	**279,436**	**–**	**279,436**
Unallocated corporate assets						**47,580**	**–**	**47,580**
Total assets						**327,016**	**–**	**327,016**
Liabilities								
Segment liabilities	**36,983**	**49,583**	**2,929**	**–**	**1,135**	**90,630**	**–**	**90,630**
Unallocated corporate liabilities						**38,473**	**–**	**38,473**
Total liabilities						**129,103**	**–**	**129,103**
As at 31 December 2013								
Assets								
Segment assets	57,726	51,590	50,102	28,789	23,226	211,433	–	211,433
Unallocated corporate assets						62,947	–	62,947
Total assets						274,380	–	274,380
Liabilities								
Segment liabilities	33,408	32,069	7,840	–	3,815	77,132	–	77,132
Unallocated corporate liabilities						69,057	–	69,057
Total liabilities						146,189	–	146,189

8. Segment Information – *Continued*

Other segment information

For the year ended 31 December 2014

	Manufacturing and sale of consumer cosmetics HK$'000	Manufacturing and sale of health related and pharmaceutical products HK$'000	Trading of financial assets at FVTPL HK$'000	Investment in a joint venture HK$'000	Others HK$'000	Continuing operations HK$'000	Discontinued operation HK$'000	Total HK$'000
Capital expenditures	**342**	**1,079**	**–**	**–**	**1,342**	**2,763**	**–**	**2,763**
Share of profit of a joint venture	**–**	**–**	**–**	**(83)**	**–**	**(83)**	**–**	**(83)**
Amortisation of prepaid lease payments	**69**	**65**	**–**	**–**	**2**	**136**	**–**	**136**
Depreciation of property, plant and equipment	**772**	**1,054**	**–**	**–**	**595**	**2,421**	**–**	**2,421**
Fixed assets written off	**78**	**742**	**–**	**–**	**–**	**820**	**–**	**820**
Write-down of obsolete stocks	**85**	**765**	**–**	**–**	**78**	**928**	**–**	**928**
For the fifteen months ended 31 December 2013								
Capital expenditures	2,149	1,521	–	–	944	4,614	–	4,614
Share of loss of a joint venture	–	–	–	191	–	191	–	191
Amortisation of prepaid lease payments	83	58	–	–	3	144	–	144
Amortisation of intangible assets	–	–	–	–	3	3	–	3
Depreciation of property, plant and equipment	870	661	–	–	434	1,965	–	1,965
Fixed assets written off	–	–	–	–	651	651	–	651
Write-down of obsolete stocks	782	542	–	–	28	1,352	–	1,352
Net gain on disposal of property, plant and equipment	(74)	(51)	–	–	(3)	(128)	–	(128)
Gain on disposal of intangible assets	–	–	–	–	(3,246)	(3,246)	–	(3.246)
Reversal of impairment losses for trade debts	(2,646)	(1,834)	–	–	(95)	(4,575)	–	(4,575)

8. Segment Information – *Continued*

Geographical information

The Group operates in two principal geographical areas which are the PRC and Hong Kong. The segment of trading of financial assets at FVTPL is being carried out in Hong Kong.

The Group's turnover from external customers is set out below by the geographical location of the customers:

(a) Turnover from external customers

	1.1.2014– 31.12.2014 HK$000	1.10.2012– 31.12.2013 HK$000
Continuing operations		
The PRC	**131,196**	98,392
Hong Kong	**9,189**	8,233
	140,385	106,625
Discontinued operation		
Hong Kong	**–**	120,437
	–	120,437

(b) Non-current assets

	2014 HK$000	2013 HK$000
The PRC	**78,294**	58,365
Hong Kong	**20,016**	17,790
	98,310	76,155

Information about major customers

Turnover from a single customer contributing over 10% of the total turnover of the Group during the year/period is as follows:

	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Customer A (Note)	**–**	17,631
Customer B (Note)	**–**	12,662

Note: Turnover from manufacturing and sale of consumer cosmetics and health related products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

9. Turnover

The principal activities of the Group are (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the PRC and Hong Kong, and (ii) trading of securities in Hong Kong.

Gross proceeds represents the amounts received and receivables from sales of goods less sales tax and discounts, if any, and sales proceeds arising from financial assets at FVTPL during the year ended 31 December 2014.

	1.1.2014– 31.12.2014 HK$000	1.10.2012– 31.12.2013 HK$000
Continuing operations		
Manufacturing and sale of consumer cosmetics	**57,123**	59,008
Manufacturing and sale of health related and pharmaceutical products	**80,840**	39,766
Manufacturing and sale of health supplement wine	**639**	1,818
Manufacturing and sale of dental materials and equipment	**1,783**	6,033
	140,385	106,625
Gross proceeds from trading of securities	**73,206**	97,579
Gross proceeds	**213,591**	204,204
Discontinued operation		
Trading of synthetic rubber	**–**	120,437
	–	120,437

Note: The gross proceeds from trading of securities were recorded in other gains and losses after setting off the relevant cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

10. Other Gains and Losses

	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Continuing operations		
Net loss on financial assets at FVTPL	**(36,916)**	(23,910)
Interest income	**208**	747
Rental income	**180**	419
Sundry income	**1,525**	1,959
Dividend income	**33**	114
Fixed assets written off	**(820)**	(651)
Gain on disposal of intangible assets	**–**	3,246
Net gain on disposal of property, plant and equipment	**–**	128
Reversal of impairment losses for trade debts	**–**	4,575
	(35,790)	(13,373)
Discontinued operation		
Sundry income	**–**	24
	–	24

Net loss on financial assets at FVTPL consists of net unrealised loss on fair value changes of HK$2,921,000 (fifteen months ended 31 December 2013: net unrealised gain on fair value changes of HK$664,000) and net realised loss of HK$33,995,000 (fifteen months ended 31 December 2013: HK$24,574,000) for the year ended 31 December 2014.

11. Finance Costs

	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Continuing operations		
Interest expenses:		
– bank borrowings wholly repayable within five years	**1,466**	1,596
– other borrowings wholly repayable within five years	**2,967**	2,867
– imputed interest of convertible notes	**–**	12
	4,433	4,475
Discontinued operation		
Interest expenses:		
– bank borrowings wholly repayable within five years	**–**	53

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

12. Loss Before Tax

	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Loss before tax has been arrived at after (crediting)/charging:		
Continuing operations		
Staff costs (including Directors' emoluments as set out in note 16)		
– Salaries and other benefits	**20,016**	17,385
– Share-based payment expenses	**3,385**	1,962
– Retirement benefits scheme contributions	**2,220**	2,683
	25,621	22,030
Reversal of impairment losses for trade debts	**–**	(4,575)
Amortisation of prepaid lease payments	**136**	144
Amortisation of intangible assets	**–**	3
Auditor's remuneration	**695**	745
Cost of inventories recognised as expenses	**87,448**	61,783
Depreciation of property, plant and equipment	**2,421**	1,965
Write-down of obsolete stocks	**928**	1,352
Operating lease charges: minimum lease payments:		
– Office premises, warehouses and staff quarters	**2,350**	3,010
Discontinued operation		
Cost of inventories recognised as expenses	**–**	119,659

13. Income Tax Expenses

	1.1.2014–31.12.2014 HK$'000	1.10.2012–31.12.2013 HK$'000
Continuing operations		
The amount comprises:		
Current tax:		
– The PRC Enterprise Income Tax	**730**	96
– Hong Kong Profits Tax	**–**	563
	730	659
Deferred tax:		
– Current year/period	**(117)**	–
	613	659
Discontinued operation		
The amount comprises:		
Current tax:		
– Hong Kong Profits Tax	**–**	119

Hong Kong Profits Tax is calculated at 16.5% (fifteen months ended 31 December 2013: 16.5%) of the estimated assessable profit arising in Hong Kong during the year ended 31 December 2014.

The subsidiaries in the PRC are subject to the PRC Enterprise Income Tax at 25% (fifteen months ended 31 December 2013: 25%), except for a subsidiary, 貴陽舒美達制藥廠有限公司 (in English, for identification purpose only, Guiyang Shu Mei Da Pharmaceutical Co., Ltd) ("**Shu Mei Da**"), which is accredited with high and new technology enterprise status and thus enjoys a preferential tax rate of 15%.

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax expenses in the respective tax jurisdictions.

The income tax expenses for the year/period can be reconciled to the loss per the consolidated statement of profit or loss and other comprehensive income as follows:

	1.1.2014–31.12.2014 HK$'000	1.10.2012–31.12.2013 HK$'000
Continuing operations		
Loss before tax	**82,333**	74,630
Tax at respective applicable tax rates	**(13,198)**	(12,610)
Tax effect of expenses not deductible for tax purposes	**7,936**	11,380
Tax effect of origination and reversal of temporary difference	**(76)**	22
Tax effect of income not taxable for tax purposes	**(441)**	(2,667)
Tax effect of tax losses not recognised	**6,392**	4,309
Tax relief for the year/period	**–**	(10)
Others	**–**	235
Income tax expenses for the year/period	**613**	659
Discontinued operation		
Profit before tax	**–**	736
Tax at respective applicable tax rates	**–**	119
Tax effect for non-deductible expense	**–**	–
Income tax expenses for the year/period	**–**	119

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

14. Dividends

No dividend was paid or proposed during the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (fifteen months ended 31 December 2013: HK$Nil).

15. Loss Per Share

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year ended 31 December 2014 and fifteen months ended 31 December 2013.

For continuing and discontinued operations

	1.1.2014–31.12.2014	1.10.2012–31.12.2013 (Restated)
Loss attributable to the owners of the Company (HK$'000)	**(82,929)**	(47,281)
Weighted average number of ordinary shares in issue ('000)	**673,304**	283,456
Basic loss per share (HK$)	**(0.123)**	(0.167)

For continuing operations

	1.1.2014–31.12.2014	1.10.2012–31.12.2013 (Restated)
Loss attributable to the owners of the Company (HK$'000)	**(82,929)**	(47,281)
Less: Profit attributable to the owners of the Company from discontinued operation (HK$'000)	–	28,008
Loss attributable to the owners of the Company from continuing operations (HK$'000)	**(82,929)**	(75,289)
Weighted average number of ordinary shares in issue ('000)	**673,304**	283,456
Basic loss per share (HK$)	**(0.123)**	(0.266)

For discontinued operation

Basic earnings per share for the discontinued operation for the year ended 31 December 2014 is HK$Nil (fifteen months ended 31 December 2013: HK$0.099) based on the profit attributable to the owners of the Company from the discontinued operation of approximately HK$Nil for the year ended 31 December 2014 (fifteen months ended 31 December 2013: HK$28,008,000).

No diluted loss per share has been presented for the year ended 31 December 2014 and for the fifteen months ended 31 December 2013 as there was no dilutive potential ordinary share outstanding during the year/period.

The weighted average number of ordinary shares used in the calculation of the basic and diluted loss per share has been retrospectively adjusted for the rights issue of the Company, the completion of which took place on 20 October 2014.

16. Directors' and Employees' Emoluments

(a) Directors' emoluments

Details of emoluments paid by the Group to the Directors during the year ended 31 December 2014 and the fifteen months ended 31 December 2013 are as follows:

For the year ended ended 31 December 2014

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Performance-related bonuses HK$'000	Share-based payment expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors						
Mr. Cheung Hung	–	1,700	–	183	–	1,883
Mr. Leung Pak Hou Anson	–	1,006	–	183	17	1,206
Ms. Chen Miaoping	–	486	–	183	37	706
	–	3,192	–	549	54	3,795
Independent non-executive Directors						
Mr. Yeung Chi Tit (resigned on 4 September 2014)	81	–	–	–	–	81
Mr. Kwok Shun Tim (resigned on 30 June 2014)	60	–	–	–	–	60
Mr. Leung Ka Fai	120	–	–	–	–	120
Mr. Yuen Chun Fai (appointed on 30 June 2014)	60	–	–	–	–	60
Mr. Ho Fung Shan Bob (appointed on 14 October 2014)	26	–	–	–	–	26
	347	–	–	–	–	347
Total	347	3,192	–	549	54	4,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

16. Directors' and Employees' Emoluments – *Continued*

(a) Directors' emoluments – *Continued*

For the fifteen months ended 31 December 2013

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Performance-related bonuses HK$'000	Share-based payment expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors						
Mr. Cheung Hung	–	1,650	2,000	171	–	3,821
Mr. Leung Pak Hou Anson (appointed on 15 May 2013)	–	673	–	256	11	940
Ms. Chen Miaoping (appointed on 30 May 2013)	–	262	–	256	22	540
Mr. Wang Zhixin (resigned on 30 May 2013)	–	248	–	–	7	255
Mr. See Ching Chuen (resigned on 15 May 2013)	–	112	–	–	–	112
	–	2,945	2,000	683	40	5,668
Independent non-executive Directors						
Mr. Yeung Chi Tit	150	–	–	–	–	150
Mr. Kwok Shun Tim (appointed on 8 February 2013)	108	–	–	26	–	134
Mr. Leung Ka Fai (appointed on 26 June 2013)	62	–	–	–	–	62
Mr. Chong Cha Hwa (resigned on 28 February 2013)	50	–	–	–	–	50
Mr. Sham Chi Keung William (resigned on 26 June 2013)	88	–	–	–	–	88
	458	–	–	26	–	484
Total	458	2,945	2,000	709	40	6,152

None of the Directors waived or agreed to waive any emoluments paid by the Group and no incentive payment for joining the Group or compensation for loss of office was paid or payable to any Director of the Company during the year ended 31 December 2014 and the fifteen months ended 31 December 2013.

16. Directors' and Employees' Emoluments – *Continued*

(b) Employees' emoluments

Out of the five individuals with the highest emoluments in the Group, three (fifteen months ended 31 December 2013: three) were Directors whose emoluments, details are set out in note (a) above. The emoluments of the remaining two (fifteen months ended 31 December 2013: two) individuals for the year ended 31 December 2014 were as follows:

	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Salaries and other benefits	**1,026**	723
Share-based payment expenses	**585**	512
Retirement benefits scheme contributions	**34**	23
	1,645	1,258

	Number of individuals	
	1.1.2014– 31.12.2014	1.10.2012– 31.12.2013
Emoluments bands		
HK$Nil – HK$1,000,000	**2**	2

No emoluments were paid by the Group to the five individuals with highest emoluments as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2014 and the fifteen months ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

17. Property, Plant and Equipment

	Land and Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 October 2012	17,814	2,602	576	6,321	1,121	–	28,434
Exchange realignment	516	85	15	210	36	–	862
Additions	384	379	136	2,413	1,302	–	4,614
Acquisition of subsidiaries	–	1,292	1,633	10	458	–	3,393
Disposals	–	(14)	–	(1,495)	–	–	(1,509)
Written off	–	(326)	–	–	(1,121)	–	(1,447)
At 31 December 2013 and at 1 January 2014	18,714	4,018	2,360	7,459	1,796	–	34,347
Exchange realignment	(114)	(25)	(16)	(48)	(11)	2	(212)
Additions	–	357	155	1,684	159	408	2,763
Acquisition of a subsidiary	5,029	1,594	655	22,111	–	–	29,389
Acquisition of assets through acquisition of a subsidiary	3,655	–	1,439	–	–	–	5,094
Classified as held for sale	–	(344)	(109)	–	–	–	(453)
Written off	–	(753)	(165)	(630)	(457)	–	(2,005)
At 31 December 2014	**27,284**	**4,847**	**4,319**	**30,576**	**1,487**	**410**	**68,923**
Accumulated depreciation and impairment loss							
At 1 October 2012	7,016	2,075	137	4,607	449	–	14,284
Exchange realignment	263	66	9	138	16	–	492
Acquisition of subsidiaries	–	926	687	5	105	–	1,723
Charge for the period	827	164	234	502	238	–	1,965
Eliminated on disposals	–	(11)	–	(1,184)	–	–	(1,195)
Written off	–	(179)	–	–	(617)	–	(796)
At 31 December 2013 and at 1 January 2014	8,106	3,041	1,067	4,068	191	–	16,473
Exchange realignment	(139)	(50)	(17)	(69)	(3)	–	(278)
Acquisition of a subsidiary	735	356	260	2,437	–	–	3,788
Acquisition of assets through acquisition of a subsidiary	–	–	1,151	–	–	–	1,151
Charge for the year	742	236	492	665	286	–	2,421
Eliminated on classified as held for sale	–	(234)	(29)	–	–	–	(263)
Written off	–	(618)	(115)	(200)	(252)	–	(1,185)
At 31 December 2014	**9,444**	**2,731**	**2,809**	**6,901**	**222**	**–**	**22,107**
Carrying amounts							
At 31 December 2014	**17,840**	**2,116**	**1,510**	**23,675**	**1,265**	**410**	**46,816**
At 31 December 2013	10,608	977	1,293	3,391	1,605	–	17,874

17. Property, Plant and Equipment – *Continued*

	2014 **HK$'000**	2013 HK$'000
The carrying amounts of the Group's land and building comprise:		
Leasehold land and buildings in Hong Kong under medium-term leases (Note)	**3,636**	–
Buildings in the PRC under medium-term leases	**14,204**	10,608
	17,840	10,608

Note: Owner-occupied leasehold land in Hong Kong is included in property, plant and equipment as the allocations between the land and buildings elements cannot be measured reliably.

As at 31 December 2014, certain buildings of the Group in the PRC with aggregate carrying amount of approximately HK$5,408,000 (2013: HK$5,430,000) have been pledged to secure bank borrowings granted to the Group (Note 40).

The management considered that no impairment loss should be recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 (fifteen months ended 31 December 2013: HK$Nil).

18. Prepaid Lease Payments

The Group's prepaid lease payments represented leasehold land located in the PRC held under medium-term leases.

	2014 **HK$'000**	2013 HK$'000
Carrying amounts at the beginning of the reporting period	**4,722**	4,678
Exchange realignment	**13**	188
Acquisition of subsidiaries	**9,655**	–
Amortisation	**(136)**	(144)
Carrying amounts at the end of the reporting period	**14,254**	4,722
Analysed for reporting purpose as:		
Current assets	**370**	116
Non-current assets	**13,884**	4,606
	14,254	4,722

The prepaid lease payments are amortised over the period of the rights of 38 to 45 years.

At 31 December 2014, the Group's prepaid lease payments amounting to approximately HK$4,590,000 (2013: HK$4,722,000) were pledged to secure bank borrowings granted to the Group (Note 40).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

19. Goodwill

	HK$'000
Cost	
At 1 October 2012	–
Acquisition of subsidiaries	45,384
At 31 December 2013 and 1 January 2014	45,384
Acquisition of a subsidiary	2,478
Classified as held for sale	(42,351)
At 31 December 2014	**5,511**
Accumulated impairment	
At 1 October 2012	–
Impairment recognised for the period	20,945
At 31 December 2013 and 1 January 2014	20,945
Impairment recognised for the year	8,240
Eliminated on classified as held for sale	(26,152)
At 31 December 2014	**3,033**
Carrying amounts	
At 31 December 2014	**2,478**
At 31 December 2013	24,439

All goodwill arose as a result of acquisition of businesses.

Impairment tests for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the following cash-generating units. The carrying amounts of goodwill as at the end of the reporting period are allocated as follows:

	2014 **HK$'000**	2013 HK$'000
Trading and wholesales of pharmaceutical products business (Note a)	**–**	24,439
Marketing and sale of health related products business (Note b)	**–**	–
Research and development of patented products business (Note c)	**–**	–
Manufacture and sale of Chinese medicine products business (Note d)	**2,478**	–
	2,478	24,439

The recoverable amounts of the cash-generating units are determined based on the value in use calculations. These calculations use cash flow projections based on financial budgets approved by the management of the Company covering a five-year period. Cash flows beyond the five-year period are assumed to remain constant.

The estimate growth rates used are comparable to the growth rate for the industry. The basis of the recoverable amounts of the above cash-generating units and their major underlying assumptions are summarised below:

19. Goodwill – *Continued*

(a) Trading and wholesales of pharmaceutical products business – Acquisition of Icy Snow Limited and its subsidiaries, V-Express Pharmaceutical Limited and 廣州瑩潤藥業有限公司 (In English, for identification purposes, Guangzhou Yingrun Pharmaceutical Co., Ltd.) ("Ying Run") (collectively, "Icy Snow Group")

Key assumptions used in the calculation of value in use were discount rate, growth rate and budgeted cash flow forecast. The discount rate of 16.00% (2013: 15.90%) was based on 10-year China Sovereign Bond yield of 3.65% (2013: 4.78%) as at 31 December 2014, adjusted for a risk premium of 3.84% (2013: 3.00%) to reflect specific risks related to the cash-generating units. Cash Flow, beyond the five-year period was projected by using a steady growth rate of 2.00% (2013: 3.00%).

Based on the valuation report of the Icy Snow Group prepared by RHL Appraisal Limited, an impairment loss of approximately HK$20,342,000 was recognised during the fifteen months ended 31 December 2013. The impairment loss was mainly due to the following events taking place during the six months ended 31 December 2013: (i) one of the key suppliers ceased to supply pharmaceutical drugs to the Icy Snow Group from September 2013 due to change in shareholders of the suppliers; (ii) there was a decrease in the selling price of four major pharmaceutical products of the Icy Snow Group and increase in the purchase costs of such four products; and (iii) one of the key suppliers for the supply of a pharmaceutical drug, Codeine, has outsourced to its contracted manufacturer instead of manufacturing by its own plants, the purchase cost of Codeine has been increased.

Based on the valuation report of the Icy Snow Group prepared by RHL Appraisal Limited and in light of the completion of the disposal of 70% of the equity interests in Magical Bloom Limited and its subsidiaries, Longlife Group Holdings Limited and Yingrun, taking place on 30 January 2015 as mentioned in note 30, the management of the Company reassessed the recoverable amounts of the cash-generating unit as at 31 December 2014. As a result, impairment loss of approximately HK$8,240,000 was recognised during the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

19. Goodwill – *Continued*

(b) Marketing and sale of health related products business – Acquisition of Kingston Holdings Limited and its subsidiaries ("Kingston Group")

The completion of the acquisition of the Kingston Group took place in November 2013. The management of the Company prepared cash flow forecast based on the existing products lists as at 31 December 2013 without taking into consideration any plans which are not yet implemented as at 31 December 2013. The cash flow forecast recorded negative cash inflow, leading to an impairment loss on the goodwill. The discount rate and the average growth rate used were 9.01% and 6.33% respectively. The carrying amount was lower than its recoverable amount and the goodwill of approximately HK$522,000 was considered to be fully impaired during the fifteen months ended 31 December 2013.

(c) Research and development of patented products business – Acquisition of Jet Rich Investment Limited and its subsidiary ("Jet Rich Group")

Key assumptions used in the calculation of value in use were discount rate, growth rate and budgeted cash flow forecast. The discount rate of 13.84% was based on the 10-year China Government Bond Generic Bid Yield of 4.62% as at 31 December 2013, adjusted with the market risk premium of 14.405% and the specific risk of 3.81% to the cash-generating units. The average growth rate used was 3.01%. Cash flow, beyond first five years was projected by using a steady growth rate of 3.01% according to the valuation report prepared by Ascent Partner Valuation Services Limited. The carrying amount was lower than its recoverable amount. The goodwill of HK$80,000 was considered to be fully impaired during the fifteen months ended 31 December 2013. The impairment was mainly due to the delay of the proposed plan in relation to the development of factory for manufacturing Chinese medicine products of the Jet Rich Group and the intangible assets cannot be used in other cash-generating unit.

(d) Manufacture and sale of Chinese medicine products business – Acquisition of Shu Mei Da

Key assumptions used in the calculation of value in use were discount rate, growth rate and budgeted cash flow forecast. The discount rate of 14% was based on the 10-year China Government Bond Generic Bid Yield of 3.661%, adjusted for a risk premium of 3.84% to reflect specific risks related to the cash-generating units. Cash Flow, beyond the 10-year was projected by using a steady growth rate of 3.00%. During the year ended 31 December 2014, no impairment loss on goodwill of Shu Mei Da was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

20. Intangible Assets

	Patents HK$'000	Pharmaceutical licences HK$'000	Research and development costs HK$'000	Total HK$'000
Cost				
At 1 October 2012	–	–	–	–
Acquisition of subsidiaries	64	–	8,094	8,158
Additions	–	–	75	75
Disposal	–	–	(502)	(502)
Exchange alignment	–	–	(47)	(47)
Impairment	(64)	–	(7,173)	(7,237)
At 31 December 2013 and 1 January 2014	–	–	447	447
Acquisition of subsidiaries	–	12,132	–	12,132
Exchange alignment	–	37	(26)	11
Impairment	–	–	(421)	(421)
At 31 December 2014	**–**	**12,169**	**–**	**12,169**
Accumulated amortisation and impairment				
At 1 October 2012	–	–	–	–
Acquisition of subsidiaries	11	–	–	11
Provided for the period	3	–	–	3
Impairment	(14)	–	–	(14)
At 31 December 2013, 1 January 2014 and 31 December 2014	**–**	**–**	**–**	**–**
Carrying amounts				
At 31 December 2014	**–**	**12,169**	**–**	**12,169**
At 31 December 2013	–	–	447	447

The recoverable amounts of patents and research and development costs are determined based on value in use calculation of the Jet Rich Group as discussed above and an impairment loss of HK$421,000 (fifteen months ended 31 December 2013: HK$7,223,000) was recognised during the year ended 31 December 2014.

The recoverable amounts of pharmaceutical licences are determined based on value in use calculation of Shu Mei Da as discussed above and no impairment loss was recognised during the year ended 31 December 2014.

21. Investment in a Joint Venture

	2014 HK$'000	2013 HK$'000
Share of net assets	**22,963**	28,789

Pursuant to a joint venture agreement entered into between an indirect wholly-owned subsidiary of the Company and five joint venture partners on 11 October 2013 in relation to the establishment of a joint venture company, Trillion Epoch Limited ("**Trillion Epoch**"), all parties have the rights to assets and obligations to liabilities to Trillion Epoch, the Group has accounted it as joint venture.

Details of the Group's investment in Trillion Epoch, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name	Place of incorporation/ registration/operation	Particulars of issued and paid up capital	Proportion of ownership interest/ voting right/profit sharing 2014 Indirect	2013 Indirect	Principal activities
Trillion Epoch Limited	BVI	Ordinary share capital US$25,000	**6.136%**	7.67%	Investment holding of subsidiaries which carry on money lending business in the PRC

Trillion Epoch is an unlisted corporate entity whose quoted market price is not available. During the year ended 31 December 2014, Trillion Epoch allotted and issued 5,000 consideration shares to Champion Ease Limited, one of the joint venture partners, leading to a dilution of the Group's investment in Trillion Epoch from 7.67% to 6.136%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

21. Investment in a Joint Venture – *Continued*

Summarised financial information of Trillion Epoch, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Summarised statement of financial position

	2014 **HK$'000**	2013 HK$'000
Current assets	**345,185**	376,486
Non-current assets	**31,570**	40
Current liabilities	**(2,529)**	(1,179)
Included in the above assets and liabilities:		
Cash and cash equivalents	**4,308**	136,144

Summarised statement of profit or loss and other comprehensive income

	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Turnover	**73,054**	562
Loss for the year/period	**(1,001)**	(2,489)
Other comprehensive loss for the year/period	**(120)**	–
Total comprehensive loss for the year/period	**(1,121)**	(2,489)
Included in the above loss for the year/period:		
Depreciation	**(136)**	–
Interest income	**47**	562
Income tax expenses	**(13,633)**	–

Reconciled to the Group's interest in Trillion Epoch

	2014 **HK$'000**	2013 HK$'000
Gross amounts of Trillion Epoch's net assets	**374,226**	375,347
The Group's effective interest	**6.136%**	7.67%
The Group's share of Trillion Epoch's net assets	**22,963**	28,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

22. Held for Trading Securities

Financial assets at FVTPL as at 31 December 2014 and 2013 comprise:

	2014 HK$'000	2013 HK$'000
Fair value		
Securities listed in Hong Kong held for trading	**18,697**	49,981

All the financial assets at FVTPL are denominated in Hong Kong dollars.

Securities listed in Hong Kong held for trading

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
As at 31 December 2014	**18,697**	**–**	**–**	**18,697**
As at 31 December 2013	49,981	–	–	49,981

During the year ended 31 December 2014 and the fifteen months ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

23. Inventories

	2014 HK$'000	2013 HK$'000
Raw materials	**9,362**	8,410
Work in progress	**4,182**	2,797
Finished goods	**50,336**	45,662
	63,880	56,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

24. Trade and Bills Receivables

	2014 HK$'000	2013 HK$'000
Trade and bills receivables	**28,475**	38,709
Less: Allowance for bad and doubtful debts	**(407)**	(14,432)
	28,068	24,277

The Group has a policy of allowing an average credit period of 90 days to its trade customers. The following is an aged analysis of trade and bill receivables net of allowance at the end of the reporting period:

	2014 HK$'000	2013 HK$'000
0 – 90 days	**17,599**	19,825
91 – 180 days	**3,815**	3,073
181 – 365 days	**4,588**	1,185
Over 365 days	**2,066**	194
	28,068	24,277

Ageing analysis of trade receivables past due but not impaired:

	2014 HK$'000	2013 HK$'000
Less than 90 days past due	**3,815**	3,073
91 – 275 days past due	**4,588**	1,185
Over 275 days past due	**2,066**	194
	10,469	4,452

Trade receivables that were past due but not impaired related to customers that had a good repayment record with the Group. Based on past experience, the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

24. Trade and Bills Receivables – *Continued*

Impairment losses in respect of trade receivables are recorded using an allowance accounts unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for bad and doubtful debts is as follows:

	2014	2013
	HK$'000	HK$'000
Balance at beginning of the reporting period	**14,432**	18,367
Exchange realignment	**(111)**	640
Reversal of impairment losses for trade debts	**–**	(4,575)
Uncollectible amounts written off	**(13,914)**	–
Balance as the end of the reporting period	**407**	14,432

The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. At the end of the reporting period, included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of approximately HK$407,000 (2013: HK$14,432,000).

Included in the trade and bills receivables are the following amounts denominated in a currency other than the presentation currency:

	2014		2013	
	RMB'000	**HK$'000**	RMB'000	HK$'000
	21,220	**26,898**	17,309	22,017

25. Deposits, Prepayments and Other Receivables

	2014	2013
	HK$'000	HK$'000
Rental deposits	**644**	631
Prepayment	**4,113**	9,276
Others receivables	**16,642**	23,488
Cash held in margin accounts with stock brokers	**11,497**	121
	32,896	33,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

25. Deposits, Prepayments and Other Receivables – *Continued*

At the end of each of the reporting period, included in the allowance for doubtful debts were individually impaired other receivables with an aggregate balance of approximately HK$800,000 (2013: HK$800,000). The individually impaired receivables are recognised based on the aging analysis and current business relationship.

Included in the deposits, prepayments and other receivables are the following amounts denominated in a currency other than the presentation currency:

	2014		2013	
	RMB'000	**HK$'000**	RMB'000	HK$'000
	12,314	**15,609**	22,192	28,227

26. Cash and Bank Balances

Cash and bank balances comprise short-term bank deposits carry interest at prevailing deposit rates.

	2014	2013
	HK$'000	HK$'000
Cash and bank balances	**41,698**	33,466
Less: pledged cash deposits	**(2,535)**	(1,374)
Cash and cash equivalents	**39,163**	32,092

Cash deposits amounting to HK$2,535,000 (2013: HK$1,374,000), which are all denominated in RMB were pledged to a bank for the issuance of bills payable.

Included in cash and bank balances, there is a total balance amounting to RMB11,840,000 (equivalent to HK$15,008,000) (2013: RMB17,109,000 (equivalent to HK$21,761,000)) denominated in RMB which is not a freely convertible currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

27. Deconsolidation of a subsidiary

In January 2013, the Company applied to the Suqian State Tax Bureau in relation to deregistration of Jiangsu Longlife Special Equipment Technology Company Limited.

The Directors considered the Group's control over the aforementioned subsidiary has been lost. For the purpose of appropriate presentation and in order to allow the public to evaluate the performance of the Group, the aforementioned subsidiary was excluded from the Group's consolidation.

The details of gain on deconsolidation of a subsidiary are as follows:

	1.10.2012– 31.12.2013 HK$'000
Inventory	77
Trade receivable	19
Prepayments	17
Other receivables	47
Other payables	(32)
Receipt in advance	(13)
Net assets	115
Release of exchange reserves	(1,156)
Gain on deconsolidation of a subsidiary	(1,041)

28. Acquisition of Subsidiaries

For the year ended 31 December 2014

(a) On 18 August 2014, Goldcore Holdings Limited, an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with two independent third parties to acquire 51% of the equity interests of Shu Mei Da at a cash consideration of RMB25,500,000 (equivalent to approximately HK$32,217,000). The completion of the acquisition of Shu Mei Da took place on 20 November 2014. Details of the acquisition of Shu Mei Da are set out in the announcement of the Company dated 18 August 2014.

	Shu Mei Da HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	25,601
Prepaid lease payments	9,655
Intangible assets	12,132
Inventories	4,411
Trade and other receivables	7,149
Cash and cash equivalents	5,481
Trade and other payables	(6,117)
Net assets	58,312
Goodwill arising on acquisition:	
Consideration transferred	32,217
Plus: Non-controlling interests	28,573
Less: Net assets acquired	(58,312)
Goodwill arising on acquisition	2,478
Consideration satisfied by:	
Cash paid	32,217
Net cash outflow arising on acquisition:	
Consideration paid in cash	(32,217)
Cash and cash equivalents acquired	5,481
	(26,736)

Impact of acquisition on the results of the Group

Shu Mei Da contributed turnover of approximately HK$3,674,000 and net loss of approximately of HK$34,000 respectively to the Group for the period from the acquisition date to 31 December 2014.

If the acquisition had been completed on 1 January 2014, Shu Mei Da would have contributed turnover of approximately HK$23,739,000 and net loss of approximately HK$13,499,000 respectively to the Group for the year ended 31 December 2014.

The unaudited pro-forma financial information set out above is for illustrative purpose only on the effect of the acquisition of Shu Mei Da having been completed at the beginning of the year ended 31 December 2014. The unaudited pro-forma financial information set out above is not necessarily an indication of turnover and results of the continuing operations of the Group nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

28. Acquisition of Subsidiaries – *Continued*

For the fifteen months ended 31 December 2013

(a) On 10 May 2013, the Company completed the acquisition of (i) the entire issued share capital of Icy Snow Limited and its subsidiaries and (ii) all the shareholder's loans owing by such companies to the vendor of such acquisition at an aggregate consideration of HK$45,600,000. The Company issued an aggregate of 190,000,000 shares of HK$0.10 each of the Company ("**Consideration Shares**") credited as fully paid at the issue price of HK$0.24 per Consideration Share, to the vendor for satisfying the consideration of the acquisition of the Icy Snow Group.

Pursuant to the sale and purchase agreement dated 7 March 2013 entered into between the vendor and the Company ("**Icy Snow SPA**"), the vendor has irrevocably and unconditionally guaranteed to the Company that the unaudited consolidated net profit after taxation of the Icy Snow Group for the year ending 31 December 2013, 31 December 2014 and 31 December 2015 shall in aggregate be not less than HK$12,000,000 ("**Guaranteed Accumulated Profits**"). If the Guaranteed Accumulated Profits are not met, the vendor shall pay to the Company a shortfall compensation which shall be equal to 11 times of the difference between the Guaranteed Accumulated Profits and the actual aggregate audited consolidated net profit of Icy Snow Limited after taxation for the three years ending 31 December 2015 ("**Accumulated Actual Net Profits**"). In the event that the unaudited consolidated net profit after taxation of the Icy Snow Group for the three years ending 31 December 2015 are equal to or more than HK$24,000,000, the Company shall pay to the vendor a sum of HK$3,000,000 in cash as bonus payment. Details of the acquisition of the Icy Snow Group are set out in the announcements of the Company dated 7 March 2013, 10 May 2013 and 17 June 2013.

The Group has not recognised any contingent assets or contingent liabilities which might arise from the contingent consideration as (i) the unaudited consolidated net profit after taxation of the Icy Snow Group for the two years ended 31 December 2014 was approximately HK$6,334,000; and (ii) the Directors consider that the Icy Snow Group will be able to meet the Guaranteed Accumulated Profits and the Accumulated Actual Net Profits will not be equal to or more than HK$24,000,000.

(b) On 3 June 2013, the Group entered into a sale and purchase agreement ("**Jet Rich SPA**") to acquire (i) the entire issued share capital of Jet Rich Investment Limited and its subsidiary, namely 北京創新美凱科技開發有限公司 (in English for identification purpose, Beijing Chuangxin Meikai Technology Development Co., Ltd.) and (ii) all the shareholder's loan owing by such companies to the vendor, at an aggregate consideration of HK$27,000,000.

Pursuant to the supplemental agreement dated 5 July 2013 supplemental to the Jet Rich SPA, the consideration was satisfied by (i) issuing convertible notes in aggregate principal amount of HK$23,000,000 at the initial conversion price of HK$0.10 (subject to adjustment) per conversion share to the vendor; and (ii) settling the remaining consideration of HK$4,000,000 in cash on completion. Completion of such acquisition took place on 26 July 2013.

The vendor exercised the conversion rights attached to the convertible notes in full on 5 August 2013 and a total of 230,000,000 conversion shares of HK$0.10 each of the Company at the initial conversion price of HK$0.10 per conversion share were allotted and issued by the Company to the vendor on 6 August 2013. Details of the acquisition of the Jet Rich Group are set out in the announcements of the Company dated 3 June 2013, 4 June 2013, 5 July 2013, 9 July 2013 and 26 July 2013.

28. Acquisition of Subsidiaries – *Continued*

For the fifteen months ended 31 December 2013 – *Continued*

(c) On 1 November 2013, Dynasty Well Limited, a direct wholly-owned subsidiary of the Company, entered into sale and purchase agreement to acquire the entire issued share capital of Kingston Group Holdings Limited and its subsidiaries, namely Health International Limited and Town Health Choice Limited at the consideration of HK$3,000,000. Such consideration was satisfied in cash upon completion and the completion of the acquisition of the Kingston Group took place on 8 November 2013. Details of the acquisition of the Kingston Group are set out in the announcement of the Company dated 1 November 2013.

	The Jet Rich Group HK$000	The Icy Snow Group HK$'000	The Kingston Group HK$'000	Total HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:				
Property, plant and equipment	1,172	491	7	1,670
Intangible assets	8,147	–	–	8,147
Inventories	–	4,744	2,290	7,034
Trade and other receivables	13,808	8,619	981	23,408
Tax recoverable	–	69	–	69
Cash and cash equivalents	3,809	3,933	(152)	7,590
Trade and other payables	(16,025)	(20,848)	(648)	(37,521)
Tax payable	(13)	(144)	–	(157)
Net assets/(liabilities)	10,898	(3,136)	2,478	10,240
Goodwill arising on acquisition:				
Consideration transferred	10,979	41,645	3,000	55,624
Less: Net (assets)/liabilities acquired	(10,898)	3,136	(2,478)	(10,240)
Goodwill arising on acquisition	81	44,781	522	45,384
Consideration satisfied by:				
Cash paid	4,000	–	3,000	7,000
Convertible notes	23,000	–	–	23,000
Share issued, at fair value	–	45,600	–	45,600
Less: Assignment of debts	(16,021)	(3,955)	–	(19,976)
	10,979	41,645	3,000	55,624
Net cash (outflow)/inflow arising on acquisition:				
Consideration paid in cash	(4,000)	–	(3,000)	(7,000)
Cash and cash equivalents acquired	3,809	3,933	(152)	7,590
	(191)	3,933	(3,152)	590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

28. Acquisition of Subsidiaries – *Continued*

For the fifteen months ended 31 December 2013 – *Continued*

Impact of acquisitions on the results of the Group

The Jet Rich Group, the Icy Snow Group and the Kingston Group contributed turnover of approximately HK$Nil, HK$19,653,000 and HK$787,000 (including HK$541,000 of intergroup sales from the Kingston Group to the Icy Snow Group) respectively, and net profit of approximately of HK$1,819,000, net loss of approximately HK$1,274,000 and HK$370,000 respectively to the Group for the period from the relevant the acquisitions dates to 31 December 2013.

If all three acquisitions had been completed on 1 October 2013, the Jet Rich Group, the Icy Snow Group and the Kingston Group would have contributed an aggregate of turnover of approximately HK$123,990,000 and an aggregate of net loss of approximately HK$77,409,000 to the Group for the fifteen months ended 31 December 2013.

The unaudited pro-forma financial information set out above is for illustrative purpose only on the effects of the acquisitions of the Jet Rich Group, the Icy Snow Group and the Kingston Group having been completed at the beginning of the fifteen months ended 31 December 2013. The unaudited pro-forma financial information set out above is not necessarily an indication of turnover and results of the continuing operations of the Group nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

29. Acquisition of assets through acquisition of a subsidiary

For the year ended 31 December 2014

On 4 November 2014, Luxury Sun Holdings Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to acquire the entire issued share capital of Pherson Limited at a cash consideration of HK$3,980,000 and the acquisition-related direct costs was HK$32,352. The completion of the acquisition of Pherson Limited took place on the same date.

Pherson Limited is engaged in property holding and its principal asset is a residential unit in a building constructed on a leasehold land in Hong Kong. The consideration was determined based on the fair value of such residential unit as of 4 November 2014. The acquisition was treated as an acquisition of assets as the transaction involved the acquisition of a residential unit in a building constructed on a leasehold land in Hong Kong only.

	Pherson Limited HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	3,943
Other receivables	14
Cash and cash equivalents	4
Tax recoverable	168
Deferred tax liabilities	(117)
Net assets	4,012
Consideration satisfied by:	
Cash paid (including acquisition-related direct costs)	4,012
Net cash outflow arising on acquisition:	
Consideration paid in cash	(4,012)
Cash and cash equivalents acquired	4
	(4,008)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

30. Assets Held for Sale/Discontinued Operation

For the year ended 31 December 2014

(a) On 31 December 2014, Icy Snow Limited, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with four independent third parties to dispose of 70% of the equity interests in Magical Bloom Limited, together with its subsidiaries, Longlife Group Holdings Limited and 廣州瑩潤藥業有限公司 (In English, for identification purpose, Guangzhou Yingrun Pharmaceutical Co., Ltd.) (collectively, the "**Disposed Group**") at an aggregate cash consideration of HK$12,600,000. The completion of the disposal took place on 30 January 2015.

The revenue generated by the Disposed Group is mainly derived from the sales of medicated oil products which were launched in the beginning of 2014. Taking into account the keen competition in the sales of medicated oil products and the Group intends to allocate more resources to the manufacturing of the pharmaceutical products in the PRC and other investments when opportunities arise, the Directors consider that such disposal represents an opportunity for the Group to realise its investment in the Disposed Group. Details of the disposal of the Disposed Group are disclosed in the announcement of the Company dated 31 December 2014.

The major classes of assets and liabilities classified as held for sale as at 31 December 2014 which have been presented separately in the consolidated statement of financial position, are as follows:

	The Disposed Group HK$'000
Property, plant and equipment	190
Goodwill	16,199
Inventories	11,517
Trade and bills receivable	7,721
Deposits, prepayments and other receivables	3,404
Cash and cash equivalents	3,613
Total assets classified as held for sale	42,644
Trade payables	13,557
Other payables and accruals	5,918
Tax payable	592
Total liabilities associated with assets classified as held for sale	20,067
Net assets classified as held for sale	22,577

For the fifteen months ended 31 December 2013

(a) At the end of April 2012, the Company first became aware of announcement issued by China Food and Drug Administration ("**CFDA**"), accusing the Zhejiang Xinda Zhongshan Capsules Company Limited ("**ZS Capsules**"), an indirectly owned subsidiary of the Company, has committed serious misconduct. As a result, The CFDA has directed Zhejiang Food and Drug Administration to revoke the manufacturing and production licence of ZS Capsules in accordance with the statutory procedures, and relevant individuals are under criminal investigation by the relevant authorities.

Pursuant to a sale and purchase agreement dated 14 December 2012, the Group disposed of its 61.11% shares in ZS Capsules for an aggregate consideration of HK$500,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

30. Assets Held for Sale/Discontinued Operation – *Continued*

For the fifteen months ended 31 December 2013 – *Continued*

(b) On 26 March 2013, the Company and Joystar (BVI) Auto Inter-Parts Limited entered into a sale and purchase agreement in relation to the disposal of the entire issued capital of Sinogate Energy Limited ("**Sinogate**"), a wholly-owned subsidiary of the Company. The consideration of such disposal of HK$28 million was satisfied in cash upon completion, which took place on 21 May 2013. Sinogate and its subsidiaries carried out all of the Group's trading of synthetic rubber business. Immediately after completion, Sinogate and its subsidiaries ceased to be subsidiaries of the Company. The Company recognised and recorded the gain on disposal of approximately HK$27 million as profit from discontinued operation with such disposal.

During the fifteen months ended 31 December 2013, profit for the period from discontinued operation was mainly attributable to the gain arising from the business of trading synthetic rubber.

The results of the discontinued operation included in the consolidated statements of profit or loss and other comprehensive income for the fifteen months ended 31 December 2013 are set out below:

	Sinogate HK$'000
Turnover	120,437
Cost of sales	(119,659)
Gross profit	778
Other gains and losses	15
Administrative expenses	(4)
Profit from operation	789
Finance costs	(53)
Profit before tax	736
Income tax expenses	(119)
Profit for the period from discontinued operation	617
Gain on disposal of discontinued operation	27,391
Profit attributable to:	
Owners of the Company	28,008
Cash flows from discontinued operation	
Net cash used in operating activities	(14,884)
Net cash used in financing activities	(53)
Net cash outflow	(14,937)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

30. Assets Held for Sale/Discontinued Operation – *Continued*

For the fifteen months ended 31 December 2013 – *Continued*

(c) Gain on disposal of assets held for sale/discontinued operation

	ZS Capsules HK$'000	Sinogate HK$'000	Total HK$'000
Net Assets classified as held for sale	818	–	818
Trade deposit paid in advance	–	23,261	23,261
Cash and cash equivalents	–	532	532
Unsecured other borrowings	–	(15,000)	(15,000)
Trade and other payables	–	(460)	(460)
Tax payable	–	(119)	(119)
Receipt in advance	–	(7,605)	(7,605)
Net assets disposed of	818	609	1,427
Gain on disposal of discontinued operation	–	27,391	27,391
Non-controlling interests	(318)	–	(318)
Cash and total consideration received	500	28,000	28,500
Net cash inflow arising on disposal of discontinued operation and assets held for sale			
Consideration received in cash	500	28,000	28,500
Cash and cash equivalents related to disposal of subsidiaries and assets held for sale	–	(532)	(532)
	500	27,468	27,968

31. Trade and Bills Payables

	2014 HK$'000	2013 HK$'000
Trade payables	**18,513**	24,390
Bills payables	**2,535**	1,374
	21,048	25,764

The following is an aged analysis of trade and bills payables at the end of the reporting period:

	2014 HK$'000	2013 HK$'000
0 – 90 days	**10,320**	11,195
91 – 180 days	**4,271**	2,395
181 – 365 days	**2,802**	6,606
Over 365 days	**3,655**	5,568
	21,048	25,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

31. Trade and Bills Payables – *Continued*

Included in trade and bills payables are the following amounts denominated in currencies other than the presentation currency:

	2014		2013	
	RMB'000	HK$'000	RMB'000	HK$'000
	16,463	20,868	20,205	25,699

32. Other Payables and Accruals

	Notes	2014 HK$'000	2013 HK$'000
Salary and wages payables		2,095	3,897
Receipt in advance		4,976	8,060
Accruals and others	(a)	44,276	41,878
Amount due to an ex-director, Mr. Yang Honggen	(b)	17,598	16,066
		68,945	69,901

Notes:

(a) Accruals and others include HK$2,529,000 (2013: HK$7,520,000) of margin payable which are generated from financial assets at FVTPL with interest rate of 8.25% per annum for the year ended 31 December 2014 (fifteen months ended 31 December 2013: ranged from 8% to 12% per annum).

(b) Included in the amount due to an ex-director is the balance of RMB8,444,000 (equivalent to HK$10,704,000) (2013: RMB7,146,000 (equivalent to HK$9,089,000)), which is unsecured, bearing interest based on the rate quoted by the People's Bank of China, and repayable on demand. Except for the balance mentioned, the remaining amount is unsecured, interest-free and repayable on demand.

Included in the other payables and accruals are the following amounts denominated in a currency other than the presentation currency:

	2014		2013	
	RMB'000	HK$'000	RMB'000	HK$'000
	48,602	61,608	43,897	55,834

33. Bank and Other Borrowings

	2014	2013
	HK$'000	HK$'000
Secured bank borrowings	**19,014**	19,079
Unsecured other borrowings	**–**	31,017
	19,014	50,096
Carrying amounts repayable: Less than one year	**19,014**	50,096

All of the Group's secured bank borrowings are denominated in RMB.

Included in unsecured other borrowings are the following amounts dominated in a currency other than presentation currency:

	2014		2013	
	RMB'000	**HK$'000**	RMB'000	HK$'000
	–	**–**	800	1,017

At 31 December 2014, secured bank borrowings of approximately HK$19,014,000 (2013: HK$19,079,000) were secured by certain buildings and prepaid lease payments of the Group with aggregate carrying amounts of approximately HK$9,998,000 (2013: HK$10,152,000) and guaranteed by the legal representative of a subsidiary in the PRC, which was an ex-director of the Company.

The bank borrowings carried interest floating at 135% of prime rate offered by the People's Bank of China.

The other borrowings carried interest at 12% per annum and the balance was fully repaid during the year.

34. Deferred Taxation

At the end of the reporting period, the Group had unused tax losses arising in the PRC and Hong Kong of of approximately HK$140,580,000 (2013: HK$120,246,000) and HK$123,360,000 (2013: HK$83,257,000) respectively available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits stream. Under current tax regulation, tax losses arising in the PRC can be carried forward for 5 years from the year in which the respective loss arose while the tax losses arising in Hong Kong can be carried forward indefinitely.

35. Convertible Notes

On 26 July 2013, the Company issued convertible notes with an aggregated principal amount of HK$23,000,000 with a term of three years as partial consideration for the acquisition of 100% beneficial interest in Jet Rich Investment Limited and its subsidiary. The notes are unsecured and carry 7% interest rate per annum. The note is convertible into ordinary shares of the Company at a conversion price of HK$0.1 per conversion share at any time during the period commencing from the date of issue of convertible notes.

The convertible notes contain a liability component, a derivative component and an equity component. At the initial recognition on 26 July 2013 which was the issue date of the convertible notes, the fair value of the embedded derivatives portion of the convertible notes were determined by an independent professional valuer, Ascent Partners Valuation Service Limited, the liability component of the convertible notes at the issue date is the residual amount after recognising the fair value of the embedded derivatives and subsequently carried at amortised cost using an effective interest rate of 14.50% per annum.

The convertible noteholder exercised its conversion right attached to the convertible notes in full on 5 August 2013 and a total of 230,000,000 conversion shares of HK$0.10 each of the Company at an initial conversion price of HK$0.10 per conversion share were allotted and issued by the Company to the convertible noteholder on 6 August 2013.

	Liability component HK$'000	Derivative financial assets HK$'000	Equity component HK$'000	Total HK$'000
At the date of issue, net of issue expense	21,810	(3,520)	4,710	23,000
Imputed interest charged	12	–	–	12
Issue of new shares upon conversion of convertible notes	(21,822)	3,520	(4,710)	(23,012)
At 31 December 2013	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

36. Share Capital

		Number of shares'000	Share capital HK$'000
Authorised:			
Ordinary shares of HK$0.10 each			
At 1 October 2012		2,000,000	200,000
Ordinary shares of HK$0.50 each			
Share consolidation	*Note c (ii)(1)*	(1,600,000)	–
Ordinary shares of HK$0.01 each			
Share subdivision	*Note c (ii)(3)*	19,600,000	–
At 31 December 2013, 1 January 2014 and 31 December 2014		**20,000,000**	**200,000**
Issued and fully paid:			
Ordinary shares of HK$0.10 each			
At 1 October 2012		1,152,080	115,208
New issue of Consideration Shares	*Note a*	190,000	19,000
Shares issued upon conversion of convertible notes	*Note b*	230,000	23,000
Ordinary shares of HK$0.50 each			
Share consolidation	*Note c (ii)(1)*	(1,257,664)	–
Ordinary shares of HK$0.01 each			
Capital reduction	*Note c (ii)(2)*	–	(154,064)
At 31 December 2013 and 1 January 2014		314,416	3,144
Issue of ordinary shares by placing	*Note d*	356,000	3,560
Issue of ordinary shares by way of rights issue	*Note e*	335,208	3,352
At 31 December 2014		**1,005,624**	**10,056**

Notes:

(a) On 10 May 2013, the Company completed the acquisition of the Icy Snow Group (please refer to Note 28 above). The Company allotted and issued an aggregate of 190,000,000 Consideration Shares, credited as fully paid, at the issue price of HK$0.24 per Consideration Share to the vendor of such acquisition for satisfying the consideration of such acquisition.

(b) On 5 July 2013, the Company issued convertible notes in the aggregate principal amount of HK$23,000,000 at the initial conversion price of HK$0.10 per conversion share as partial consideration for the acquisition of the Jet Rich Group. The convertible note holder exercised its conversion right attached to the convertible notes in full on 5 August 2013 and a total of 230,000,000 conversion shares of HK$0.10 each of the Company at an initial conversion price of HK$0.10 per conversion share were allotted and issued by the Company to the convertible noteholder on 6 August 2013.

36. Share Capital – *Continued*

Notes: – Continued

(c) Pursuant to special resolutions passed at the extraordinary general meeting of the Company on 19 August 2013 in relation to the Capital Reorganisation, among other things:

(i) the entire amount standing to the credit of the share premium account of the Company was cancelled and transferred to an account of the Company designated as the special reserve of the Company on 19 August 2013; and

(ii) on 19 September 2013, the Company had undergone the Capital Reorganisation in the following manner:

(1) every 5 existing shares of HK$0.10 each of the Company were consolidated into 1 share of HK$0.50 ("**Consolidated Share**");

(2) the issued share capital of the Company was reduced through a cancellation of the paid up capital of the Company to the extent of HK$0.49 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share was reduced from HK$0.50 into HK$0.01 ("**Capital Reduction**"); and

(3) each of the authorised but unissued consolidated shares of HK$0.50 each was sub-divided into 50 new shares of HK$0.01 each.

Details of the Capital Reorganisation were set out in the circular of the Company dated 26 July 2013 and the announcements of the Company dated 5 July 2013, 19 July 2013, 13 August 2013, 19 August 2013 and 29 August 2013.

(d) On 17 December 2013 and 20 June 2014, the Company and the placing agents, RHB OSK Securities Hong Kong Limited ("**RHB**") and Trinity Finance Investment Limited ("**Trinity**"), entered into the placing agreements pursuant to which RHB and Trinity had conditionally agreed to place, on a best endeavours basis, up to 245,000,000 and 111,000,000 shares, to not less than six and six placees who and whose beneficial owners are independent third parties at a price of HK$0.204 and HK$0.18 per placing share, respectively. The conditions precedent of the placing agreements had been fulfilled and the completion of the placing took place, and the Company allotted and issued 245,000,000 and 111,000,000 ordinary shares of HK$0.01 each on 25 February 2014 and 11 July 2014 respectively.

(e) On 20 August 2014, the Company announced to raise approximately HK$53.6 million before expenses by way of rights issue on the basis of one rights share ("**Rights Share**") for every two existing shares in issue held on the record date at the subscription price of HK$0.16 per Rights Share ("**Rights Issue**"). The Company and Kingston Securities Limited ("**Kingston**") entered into an underwriting agreement on 20 August 2014, pursuant to which Kingston conditionally agreed to fully underwrite all the Rights Shares that might fail to be issued. The completion of the Rights Issue took place on 20 October 2014. 335,208,000 Rights Shares were allotted and issued pursuant to the Rights Issue and the net proceeds after deduction of expenses from the Rights Issue are approximately HK$50.9 million.

37. Share Option Scheme

(a) Scheme

The share option scheme adopted by the Company on 26 May 2004 ("**Expired Scheme**") was expired on 25 May 2014 and a new share option scheme ("**Existing Scheme**") was approved to be adopted by the shareholders of the Company on 29 May 2014. The Existing Scheme will remain in force for 10 years from that date, unless other terminated earlier by shareholders in a general meeting. As a result, the Company can no longer grant any further options under the Expired Scheme. The Existing Scheme adopted is for the purpose of providing incentives and rewards to eligible participates who contribute to success of the Group's operations with the same terms as the Expired Scheme as detailed below.

Eligible participants of the Existing Scheme include the Directors, including Independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entity provides research, development or other technological support to the Group, any non-controlling shareholder in the Company's subsidiaries, and adviser to business development of the Group.

37. Share Option Scheme – *Continued*

(a) Scheme – *Continued*

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of approval of the Existing Scheme. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted shall be determined by the Directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Company's shares.

(b) Options granted

Movement in number of share options

	1.1.2014–31.12.2014		1.10.2012–31.12.2013	
	Weighted average exercise price HK$ per share	**Number of shares**	Weighted average exercise price HK$ per share	Number of shares
At the beginning of the year/period	**0.7827**	**47,000,000**	1.3229	24,000,000
Granted during the year/period	**0.1722**	**46,300,000**	0.2190	23,000,000
Adjustment for Rights Issue (Note)	**–**	**4,676,310**	–	–
Lapsed during the year/period	**0.7134**	**(46,339,940)**	–	–
Cancelled during the year/period	**1.7750**	**(2,100,000)**	–	–
At the end of the year/period	**0.1609**	**49,536,370**	0.7827	47,000,000

Note: The number of outstanding share options and exercise price per share have been retrospectively adjusted for the Rights Issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

37. Share Option Scheme – *Continued*

(b) Options granted – *Continued*

Movement in number of share options – Continued

	Date of grant	Exercisable period	Exercise price per share HK$	Number of share options: Outstanding as at 1 January 2014	Granted during the year (Note f)	Adjustment due to Rights Issue	Lapsed during the year	Cancelled during the year (Note b)	Exercised during the year	Outstanding as at 31 December 2014
Directors	9 April 2010	9 April 2010 to 8 April 2020	1.775	1,000,000	–	–	–	(1,000,000)	–	–
Employees and service provider	9 April 2010	9 April 2010 to 8 April 2020	1.775	9,000,000	–	–	(7,900,000) (Note c)	(1,100,000)	–	–
Employees and service provider	22 March 2012	22 March 2012 to 21 March 2015	1.000	14,000,000	–	–	(14,000,000) (Note c)	–	–	–
Directors	31 December 2013	31 December 2013 to 31 December 2014	0.2047 (Note d)	8,300,000	–	559,200	(8,859,200) (Note d)	–	–	–
Employees and service provider	31 December 2013	31 December 2013 to 31 December 2014	0.2047 (Note e)	14,700,000	–	880,740	(15,580,740) (Note e)	–	–	–
Directors	28 August 2014	1 January 2015 to 31 December 2016	0.1609 (Note g)	–	7,500,000	524,250	–	–	–	8,024,250 (Note g)
Employees and service provider	28 August 2014	1 January 2015 to 31 December 2016	0.1609 (Note h)	–	38,800,000	2,712,120	–	–	–	41,512,120 (Note h)
Exercisable options				47,000,000	46,300,000	4,676,310	(46,339,940)	(2,100,000)	–	49,536,370
Weighted average exercise price (HK$)				0.7827	0.1722	–	0.7134	1.7750	–	0.1609

Notes:

(a) Upon the expiration of the Expired Scheme on 25 May 2014, share options granted under the Expired Scheme remain outstanding until they lapse in accordance with the terms of the Expired Scheme. The Existing Scheme was adopted by the Company on 29 May 2014.

(b) 1,100,000 share options and 1,000,000 share options on 9 April 2010 were surrendered on 29 August 2014 and 30 August 2014 respectively.

(c) 7,900,000 share options granted on 9 April 2010 and 14,000,000 share options granted on 22 March 2012 were lapsed on 27 August 2014 respectively.

(d) 300,000 share options granted on 31 December 2013 lapsed on 2 July 2014. As a result of the Rights Issue, the number of share options was adjusted from 8,000,000 to 8,559,200 and the exercise price per share was adjusted from HK$0.219 to HK$0.2047 with effect from 20 October 2014. 8,559,200 share options lapsed on 31 December 2014.

(e) 2,100,000 share options granted on 31 December 2013 lapsed on 21 July 2014. As a result of the Rights Issue, the number of share options was adjusted from 12,600,000 to 13,480,740 and the exercise price per share was adjusted from HK$0.219 to HK$0.2047 with effect from 20 October 2014. 13,480,740 share options lapsed on 31 December 2014.

(f) On 28 August 2014, 46,300,000 share options were granted to 13 eligibles persons as to (i) 7,500,000 share options to three Directors, (ii) 30,800,000 share options to eight employees of the Group and (iii) 8,000,000 share options to two consultants of the Group.

(g) As a result of the Rights Issue, the number of share options was adjusted from 7,500,000 to 8,024,250 and the exercise price per share was adjusted from HK$0.1722 to HK$0.1609 with effect from 20 October 2014.

(h) As a result of the Rights Issue, the number of share options was adjusted from 38,800,000 to 41,512,120 and the exercise price per share was adjusted from HK$0.1722 to HK$0.1609 with effect from 20 October 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

37. Share Option Scheme – *Continued*

(b) Options granted – *Continued*

Details of the share options granted

2014:

Date of grant	**Exercisable period**	**Number of share options granted**	**Exercise price# HK$**	**Fair value at date of grant HK$**
28 August 2014	1 January 2015 – 31 December 2016 (Note b)	**49,536,370**	**0.1609**	**0.0731**
		49,536,370		

2013:

Date of grant	Exercisable period	Number of share options granted	Exercise price# HK$	Fair value at date of grant HK$
9 April 2010	9 April 2010 – 8 April 2020 (Note a)	10,000,000	1.7750	0.8660
22 March 2012	22 March 2012 – 21 March 2015 (Note a)	14,000,000	1.0000	0.2025
31 December 2013	31 December 2013 – 31 December 2014 (Note b)	23,000,000	0.2190	0.0853
		47,000,000		

The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other relevant changes in the share capital of the Company.

Notes:

(a) Following the Capital Reorganisation becoming effective on 29 August 2013, the number of shares granted on 9 April 2010 to be issued upon exercise of the share options under the Expired Scheme was adjusted from 50,000,000 to 10,000,000 and the exercise price per share was adjusted from HK$0.3550 to HK$1.7550. The number of the shares granted on 22 March 2012 to be issued upon exercise of the share options under the Expired Scheme was adjusted from 70,000,000 to 14,000,000 and the exercise price per share was adjusted from HK$0.2000 into HK$1.0000.

(b) The average fair value of the share options granted during the year ended 31 December 2014 is HK$0.0731 each (fifteen months ended 31 December 2013: HK$0.0853). Options were priced using the Black-Scholes Option Pricing Model. As it requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historical volatility of the share prices of the Company over a period that is equal to the expected life before the grant date.

The vesting period of the share options is from the date of grant until the commencement of the exercise period. The share options would be fully exercisable from the commencement of the exercise period.

The fair value of the shares options granted in the year as determined by using the Black-Scholes Option Pricing Model was approximately HK$3,385,000 was recognised in profit or loss during the year ended 31 December 2014 (fifteen months ended 31 December 2013: HK$1,962,000).

The significant inputs into the model are as follows:

Date of grant	28 August 2014	31 December 2013
Fair value at measurement date	HK$0.0731	HK$0.0853
Share price	HK$0.1722	HK$0.2190
Exercise price per share	HK$0.1722	HK$0.2190
Expect volatility	100.9360%	101.6550%
Option life	1 year and 4 months	1 year
Expected dividend yield	0%	0%
Risk – free interest rate	0.19%	0.19%

38. Operating Lease Commitments

Operating lease commitments – the Group as a lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises, warehouses and staff quarters which fall due as follows:

	2014 **HK$'000**	2013 HK$'000
Within one year	**1,221**	2,019
From the second to fifth year inclusive	**15**	1,832
	1,236	3,851

Leases are negotiated and rentals are fixed for terms of 1 year to 3 years (2013: 1 year to 3 years).

Operating lease commitments — the Group as a lessor

At the end of the reporting period, the Group as a lessor had total future minimum lease payments receivable under non-cancellable operating leases as set out below:

Land and buildings

	2014 **HK$'000**	2013 HK$'000
Within one year	**114**	120
From the second to fifth year inclusive	**31**	394
	145	514

Plant and machinery

	2014 **HK$'000**	2013 HK$'000
Within one year	**12**	6
In the second to fifth year inclusive	**19**	25
	31	31

39. Capital Commitment

	2014	2013
	HK$'000	HK$'000
Authorised but not contracted for	**25,438**	25,438

On 29 September 2013, the Group has established an indirect wholly-owned wholly foreign-owned enterprise ("**WFOE**") in Guizhou, the PRC, pursuant to the cooperation agreement dated 28 June 2013 entered with 貴州紅花崗區經濟開發區管委會 (in English, for identification purpose, Guizhou Hong Hua Gang District Economic Development District Management Committee), in relation to the cooperation for the investment and construction of a pharmaceutical factory in Hong Hua Gang Economic Development District, Guizhou Province, the PRC. The registered capital of WFOE is RMB30,000,000 and the Group has paid the registered capital of RMB10,000,000. The remaining capital commitment was RMB20,000,000 (equivalent to approximately HK$25,438,000).

40. Pledge of Assets

At the end of the reporting period, the following assets were pledged by the Group to secure financing facilities:

	2014	2013
	HK$'000	HK$'000
Property, plant and equipment	**5,408**	5,430
Prepaid lease payments	**4,590**	4,722
Held for trading securities	**18,697**	49,981
Pledged cash deposits	**2,535**	1,374
Cash held in margin accounts with stock brokers included in "Deposits, prepayments and other receivables"	**11,497**	121
	42,727	61,628

41. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme subject to a maximum of HK$1,250 per month prior to 1 June 2013 and HK$1,500 per month from 1 June 2014, which contribution is matched by employees.

The employees in the PRC are members of respective state-managed defined contribution retirement benefits schemes operated by the local government. The employer and the employees are obliged to make contributions at a certain percentage of the basic payroll under rules of the schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total contributions payable to the above schemes by the Group and charged to the consolidated statement of profit or loss and other comprehensive income were approximately HK$2,220,000 (fifteen months ended 31 December 2013: HK$2,683,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

42. Statement of Financial Position of the Company

	2014 HK$'000	2013 HK$'000
NON CURRENT ASSETS		
Property, plant and equipment	**411**	266
Investments in subsidiaries	**24,439**	24,439
	24,850	24,705
CURRENT ASSETS		
Prepayments and other receivables	**3,028**	4,044
Amounts due from subsidiaries (Note a)	**306,052**	228,305
Cash and cash equivalents	**10,352**	5,849
	319,432	238,198
CURRENT LIABILITIES		
Other payables and accruals	**1,082**	2,859
Amounts due to subsidiaries (Note a)	**10,233**	36,620
	11,315	39,479
NET CURRENT ASSETS	**308,117**	198,719
NET ASSETS	**332,967**	223,424
CAPITAL AND RESERVES		
Share capital	**10,056**	3,144
Reserves (Note b)	**322,911**	220,280
	332,967	223,424

Notes:

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

(b) Reserves

	Share premium HK$'000	Share options reserve HK$'000	Special reserve HK$'000	Convertible notes equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 October 2012	**88,984**	**11,412**	**–**	**–**	**(56,901)**	**43,495**
Loss and other comprehensive loss for the period	–	–	–	–	(5,841)	(5,841)
Issuing convertible notes for acquisition of subsidiaries	–	–	–	4,710	–	4,710
Shares issued on conversion of convertible notes	–	–	–	(4,710)	–	(4,710)
Recognition of equity settled share-based payment expenses	–	1,962	–	–	–	1,962
Acquisition of subsidiaries	26,600	–	–	–	–	26,600
Capital reorganisation	(115,584)	–	212,948	–	56,700	154,064
At 31 December 2013 and 1 January 2014	**–**	**13,374**	**212,948**	**–**	**(6,042)**	**220,280**
Loss and total comprehensive loss for the year	–	–	–	–	(14,482)	(14,482)
Cancellation of share options	–	(1,801)	–	–	1,801	–
Lapse of share options	–	(11,573)	–	–	11,573	–
Recognition of equity-settled share-based payment expenses	–	3,385	–	–	–	3,385
Issue of ordinary shares	120,033	–	–	–	–	120,033
Less: Share issues expenses	(6,305)	–	–	–	–	(6,305)
At 31 December 2014	**113,728**	**3,385**	**212,948**	**–**	**(7,150)**	**322,911**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

42. Statement of Financial Position of the Company – *Continued*

(b) Reserves – Continued

As at 31 December 2014, the aggregate amount of reserves of the Company available for distribution to owners of the Company was approximately HK$319,526,000 (2013: HK$206,906,000). The distributable reserves which include the Company's share premium, special reserve, other reserve and accumulated losses, under the Companies Act 1981 of Bermuda, are distributable to owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company is still able to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

43. Particulars of Subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2014 and 2013 are as follows:

Name	Place of incorporation/ registration/ operation	Particulars of issued and paid up capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing 2014 Direct	2014 Indirect	2013 Direct	2013 Indirect	Principal activities
Dynasty Well Limited	BVI	Ordinary share US$1	**100%**	**–**	100%	–	Investment holding
Splendid Rich Holdings Limited	BVI	Ordinary share US$100	**100%**	**–**	100%	–	Trading of securities
Wallfaith Company Limited	BVI	Ordinary share US$100	**100%**	**–**	100%	–	Investment holding
Icy Snow Limited	BVI	Ordinary share US$1	**100%**	**–**	100%	–	Investment holding
Suzhou Longlifu Health Food Co., Ltd (蘇州朗力福保健品有限公司) (Note a)	The PRC	Registered capital RMB70,000,000	**–**	**100%**	–	100%	Manufacturing and sale of health related products, household commodities and health supplement wine
V-Express Pharmaceutical Limited	Hong Kong	Ordinary share HK$1	**–**	**100%**	–	100%	Trading of pharmaceutical and healthcare products
Allied View International Limited	BVI	Ordinary share US$1	**–**	**100%**	–	100%	Investment holding
Kingston Group Holdings Limited	BVI	Ordinary share US$101	**–**	**100%**	–	100%	Investment holding
Jet Rich Investment Limited	Hong Kong	Ordinary share HK$11	**–**	**100%**	–	100%	Investment holding
Suzhou Longlifu Trading Co., Limited (蘇州朗力福商貿有限公司) (Note b)	The PRC	Registered capital RMB5,000,000	**–**	**100%**	–	100%	Trading of household commodities and health related products
Suzhou Longlife Medical Devices Co., Limited (蘇州朗力福醫療器械有限公司) (Note b)	The PRC	Registered capital RMB5,000,000	**–**	**100%**	–	100%	Sale of dental materials and equipment
Suzhou Beautiful Biochemistry Co., Ltd (蘇州別特福生化有限公司) (Note a)	The PRC	Registered capital US$3,800,000	**–**	**100%**	–	100%	Manufacturing of household commodities for daily use
Ultra Leap Holdings Limited	Hong Kong	Ordinary share HK$1	**–**	**100%**	–	100%	Trading of securities
Guangzhou Yingrun Pharmaceutical Co., Limited (廣州瑩潤葯業有限公司) (Notes a & b)	The PRC	Registered capital RMB1,800,000	**–**	**100%**	–	100%	Wholesale of Chinese medicines and medical devices

43. Particulars of Subsidiaries – *Continued*

Name	Place of incorporation/ registration/ operation	Particulars of issued and paid up capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing 2014 Direct	2014 Indirect	2013 Direct	2013 Indirect	Principal activities
Guizhou Yi Kang Dai Pharmaceutical Co., Limited (貴州益康達藥業有限公司) (Notes a, b & e)	The PRC	Registered capital RMB30,000,000	–	**100%**	–	100%	Manufacturing and sale of Chinese medicine
Beijing Chuangxin Meikai Technology Development Co., Ltd (北京創新美凱科技開發有限公司) (Note a & b)	The PRC	Registered capital HK$30,000,000	–	**100%**	–	100%	Research and development of medicine centre
Healthy International Limited	Hong Kong	Ordinary share HK$10,000	–	**100%**	–	100%	Marketing and sale of health supplements, slimming pills and beauty products
Town Health Choice Limited	Hong Kong	Ordinary share HK$1	–	**100%**	–	100%	Sale of health supplements, traditional Chinese medicines, Slimming pills and beauty products
Guiyang Shu Mei Da Pharmaceutical Co. Ltd (貴陽舒美達製藥廠有限公司) (Notes c and d)	The PRC	Registered capital RMB50,000,000	–	**51%**	–	–	Manufacture and sale of proprietary Chinese medicine products and research and development of proprietary Chinese medicine products
Pherson Limited (Note d)	Hong Kong	Ordinary share HK$500,000	–	**100%**	–	–	Property holding

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or asset of the Group. To give details of other subsidiaries would, in the opinion of the Directors, results in particulars of excessive length.

The English names of all the PRC subsidiaries are for identification purpose only.

Notes:

a. These subsidiaries are wholly-foreign owned enterprises established in the PRC

b. These subsidiaries are limited companies established in the PRC

c. The subsidiary is a sino-foreign equity joint venture enterprise established in the PRC

d. These subsidiaries were acquired during the year ended 31 December 2014

e. The subsidiary was formerly known as Guizhou Chang Shou Chang Le Pharmaceutical Plant Co., Limited (貴州長壽長樂制葯廠有限公司)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

43. Particulars of Subsidiaries – *Continued*

The total non-controlling interests at the end of the reporting period are HK$28,643,000, which are all attributable to Shu Mei Da.

Details of non-wholly owned subsidiary that have material non-controlling interests

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

Name	Place of incorporation/ registration/ operation	Percentage of ownership interest/voting rights held by non-controlling interests 2014	2013	Loss attributable to non-controlling interests 1.1.2014- 31.12.2014 HK$'000	1.10.2012- 31.12.2013 HK$'000	Accumulated non-controlling interests 2014 HK$'000	2013 HK$'000
Shu Mei Da (Note)	The PRC	49%	–	17	–	28,643	–

Note: No comparative information for 2013 is required to be disclosed as Shu Mei Da was newly-acquired during the year 2014.

Summarised financial information in respect of Shu Mei Da that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Summarised statement of financial position

	2014 HK$'000	2013 HK$'000
Non-current assets	46,857	–
Current assets	17,650	–
Current liabilities	(6,052)	–
Net assets	58,455	–
Equity attributable to owners of the Company	29,812	–
Non-controlling interests	28,643	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

43. Particulars of Subsidiaries – *Continued*

Summarised statement of profit or loss and other comprehensive income

	1.1.2014-31.12.2014 HK$'000	1.10.2012-31.12.2013 HK$'000
Turnover	**3,674**	–
Other gains and losses	**(499)**	–
Expenses	**(3,209)**	–
Loss before tax	**(34)**	–
Income tax expenses	**–**	–
Loss for the year/period	**(34)**	–
Loss attributable to owners of the Company	**(17)**	–
Loss attributable to the non-controlling interests	**(17)**	–
Loss for the year/period	**(34)**	–
Other comprehensive income attributable to owners of the Company	**90**	–
Other comprehensive income attributable to the non-controlling interests	**87**	–
Other comprehensive income for the year/period	**177**	–
Total comprehensive income attributable to owners of the Company	**73**	–
Total comprehensive income attributable to the non-controlling interests	**70**	–
Total comprehensive income for the year/period	**143**	–
Dividends paid to non-controlling interests	**–**	–

Summarised statement of cash flows

	1.1.2014-31.12.2014 HK$'000	1.10.2012-31.12.2013 HK$'000
Net cash outflow from operating activities	**(1,274)**	–
Net cash outflow from investing activities	**(423)**	–
Net cash inflow from financing activities	**–**	–
Net cash outflow	**(1,697)**	–

Note: The summarised statement of profit or loss and other comprehensive income and summarised statement of cash flows of Shu Mei Da only include the results from the acquisition date to 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

44. Related Party and Connected Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amount paid to the Company's Directors and other key management members is as follows:

	1.1.2014– 31.12.2014 HK$'000	1.10.2012– 31.12.2013 HK$'000
Short-term employee benefits	**4,817**	6,747
Post-employment benefits	**34**	52
	4,851	6,799

The remuneration of the Directors and key executives is determined by the remuneration committee of the board of Directors with regard to the individual performance and market trends.

(b) Transactions with related parties

Details of the transactions with related parties during the fifteen months ended 31 December 2013:

On 15 November 2010, the Company and Capital VC Limited, the ex-substantial shareholder of the Company, jointly entered into a tenancy agreement for the lease of office premises for 3 years. Under the tenancy agreement, the Company shared 50% of the rent on a cost basis. The Company ceased to rent such premises on 4 July 2013.

The Directors have confirmed that the joint tenancy agreement as disclosed above falls under the definition of continuing connected transaction in Chapter 20 of the GEM Listing Rules and that should be exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 20 of the GEM Listing Rules.

45. Major Non-Cash Transactions

Except for the note 28 to the consolidated financial statements, there is no additional major non-cash transactions to be disclosed as at 31 December 2014 and 2013.

46. Contingent Liabilities

At 31 December 2013, the Company provided a corporate guarantee to a financial institution with respect to certain facilities of HK$30,000,000 granted to and utilised by an indirect wholly-owned subsidiary of the Group.

In the opinion of the Directors, no material liabilities as at 31 December 2013 was arisen from the above corporate guarantee in the ordinary course of business and the fair value of the corporate guarantee granted by the Company was immaterial.

The corporate guarantee was released upon repayment of the other borrowings during the year ended 31 December 2014.

47. Events after the Reporting Period

On 14 November 2014, the Company entered into a subscription agreement with an independent third party, China Renji, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 648), China Renji has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 257,812,500 subscription shares at the subscription price of HK$0.128 per subscription share. The completion of the Subscription took place on 23 January 2015 and China Renji became the largest shareholder of the Company since then. Details of the Subscription are disclosed in the announcements of the Company dated 14 November 2014 and 23 January 2015 and the circular of the Company dated 24 December 2014.

On 31 December 2014, Icy Snow Limited, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with four independent third parties to dispose of 70% of the equity interests in Magical Bloom Limited. For details, please refer to Note 30 above. The completion of the disposal took place on 30 January 2015 and members of the Disposed Group ceased to be subsidiaries of the Company and became associates of the Company since then. Details of the disposal are disclosed in the announcement of the Company dated 31 December 2014.

On 26 February 2015, Silver Wisdom Development Limited ("**Silver Wisdom**"), an indirect wholly-owned subsidiary of the Company, entered into a subscription agreement with New Health Elite International Limited ("**New Health**"), a direct wholly-owned subsidiary of China Renji, and pursuant to which, Silver Wisdom has conditionally agreed to subscribe for, and New Health has conditionally agreed to allot and issue 23 subscription shares of New Health at the cash consideration of HK$4.83 million ("**NH Subscription**"). Following the completion of the NH subscription, New Health will become an associate of the Group. Details of the NH Subscription are disclosed in the announcement of the Company dated 26 February 2015. Up to the date of approving these consolidated financial statements, the NH Subscription is yet to complete.

On 5 March 2015, the board of Directors proposed that every 5 existing shares of HK$0.01 each in the issued and unissued share capital of the Company will be consolidated into 1 share of HK$0.05 in the issued and unissued share capital of the Company ("**Share Consolidation**"). The authorised share capital of the Company will be HK$200,000,000 divided into 4,000,000,000 consolidated shares of HK$0.05 each, of which 252,687,300 consolidated shares will be in issue immediately following the Share Consolidation becoming effective. Details of the Share Consolidation are disclosed in the announcement of the Company dated 5 March 2015 and the circular of the Company dated 13 March 2015. The Share Consolidation is conditional upon, among other conditions, the approval by the shareholders of the Company. A special general meeting has been convened to be held on 31 March 2015 for considering and approving the Share Consolidation by the shareholders of the Company.

48. Comparative Figures

Certain comparative figures have been restated to conform with the current year's presentation.

FINANCIAL SUMMARY

Results

	For the period/year				
	1.10.2009– 30.9.2010 HK$'000	1.10.2010– 30.9.2011 HK$'000	1.10.2011– 30.9.2012 HK$'000	1.10.2012– 31.12.2013 HK$'000	**1.1.2014– 31.12.2014 HK$'000**
Turnover	84,184	45,017	110,109	227,062	**140,385**
Cost of sales	(43,700)	(41,124)	(63,672)	(181,442)	**(87,448)**
Gross profit	40,484	3,893	46,437	45,620	**52,937**
Other gains and losses	9,968	3,233	(7,646)	15,082	**(35,790)**
Impairment loss recognised on goodwill	–	–	–	(20,945)	**(8,240)**
Impairment loss recognised on intangible assets	–	–	–	(7,223)	**(421)**
Loss on deemed disposal of partial interest in a joint venture	–	–	–	–	**(5,892)**
Share of (loss)/profit of a joint venture	–	–	–	(191)	**83**
Restructuring and redundancy cost	(2,107)	–	–	–	**–**
Administrative expenses	(33,951)	(23,491)	(33,138)	(38,545)	**(48,995)**
Selling and distribution expenses	(27,715)	(22,903)	(24,550)	(35,773)	**(31,582)**
Other expenses	(2,967)	(3,074)	–	–	**–**
Finance costs	(1,730)	(3,253)	(3,795)	(4,528)	**(4,433)**
Loss before tax	(18,018)	(45,595)	(22,692)	(46,503)	**(82,333)**
Income tax expenses	(47)	(445)	(86)	(778)	**(613)**
Loss for the period/year	(18,065)	(46,040)	(22,778)	(47,281)	**(82,946)**
Loss attributable to:					
Owners of the Company	(16,465)	(43,555)	(20,698)	(47,281)	**(82,929)**
Non-controlling interests	(1,600)	(2,485)	(2,080)	–	**(17)**
Loss for the period/year	(18,065)	(46,040)	(22,778)	(47,281)	**(82,946)**

Assets and liabilities

	As at				
	30.9.2010 HK$'000	30.9.2011 HK$'000	30.9.2012 HK$'000	31.12.2013 HK$'000	**31.12.2014 HK$'000**
Total assets	247,518	195,829	190,925	274,380	**327,016**
Total liabilities	(100,801)	(98,100)	(84,110)	(146,189)	**(129,103)**
Total equity	146,717	97,729	106,815	128,191	**197,913**
Non-controlling interests	(4,724)	(2,405)	(318)	–	**(28,643)**
Equity attributable to owners of the Company	141,993	95,324	106,497	128,191	**169,270**