ESSEX

ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 1061)

annual report 2013

Contents

Corporate Information

Board of Directors

Executive Directors

Ngiam Mia Je Patrick (Chairman)
Fang Haizhou (Managing Director)
Zhong Sheng

Independent Non-executive Directors

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

Audit Committee

Fung Chi Ying (Chairman)
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

Remuneration Committee

Yeow Mee Mooi (Chairperson)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

Nomination Committee

Yeow Mee Mooi (Chairperson)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

Corporate Governance Committee

Yeow Mee Mooi (Chairperson)
Zhong Sheng
Fung Chi Ying
Mauffrey Benoit Jean Marie

Company Secretary

Yau Lai Man MBA, ACA, CPA (practising)

Authorised Representatives

Zhong Sheng
Yau Lai Man

Auditor

BDO Limited

Website Address

www.essexbio.com

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

Room 2818
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Headquarter in the PRC

No.88
Keji 6th Road
Hi-Tech Zone
Zhuhai
Guangdong, China

Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Merchants Bank
Industrial and Commercial Bank of China (Asia) Limited

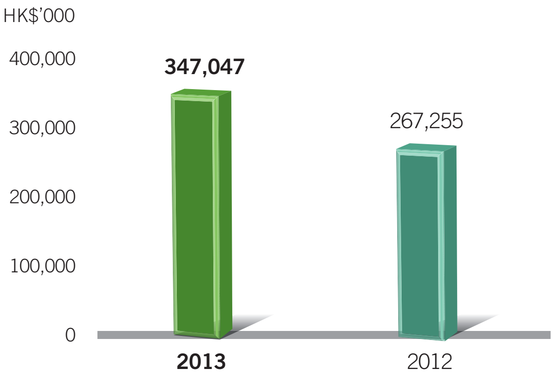
Stock Code

01061

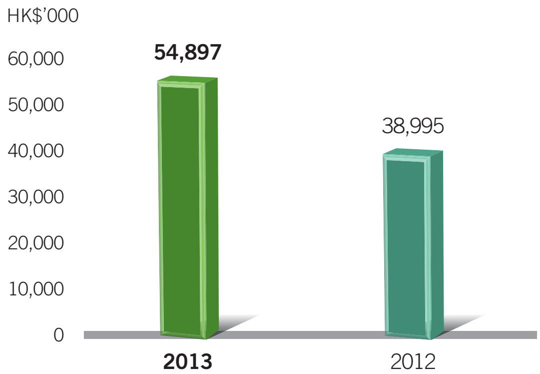
Financial Highlights

	2013 HK$'000	2012 HK$'000	% Change
Turnover	**347,047**	267,255	29.9
Profit attributable to owners of the Company	**54,897**	38,995	40.8
Basic and diluted earnings per share (HK cents)	**9.86**	7.00	40.8
Cash and cash equivalents	**54,527**	59,831	(8.9)

Turnover



Profit attributable to owners of the Company



Chairman's Statement

On behalf of the board of directors of the Company (the "Directors"), I have great pleasure in presenting the Annual Report of Essex Bio-Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013.

During the year under review, the Group completed and commissioned its Good Manufacturing Practice ("GMP") certified new factory in Zhuhai, the People's Republic of China (the "PRC"). The new factory, which has obtained GMP certificate under the new GMP guidelines (2010 version), provides state-of-the-art technology in the manufacturing facilities and advanced quality control systems, ready to take on new growth and expansion with its enlarged capacity and enhanced capability for years to come.

The Group entered into an import and service agreement with Pfizer International Trading (Shanghai) Limited ("Pfizer") on 17 February 2014. Pursuant to the import and service agreement, the Group is appointed and/or authorized by Pfizer as its exclusive importer, distributor and promoter for Xalatan® eye drops and Xalacom® eye drops (collectively the "Pfizer Eye Drops") in the Mainland China (excluding Taiwan, Hong Kong and Macau) ("China"). The Pfizer Eye Drops are medicines to lower raised pressure within the eye.

The establishment of business relationship with Pfizer will expand the range of the Group's eye drops products, benefiting the Group in striving for sustainable growth in the ophthalmology arena in China.

During the year 2013, our research and development division has delivered distinct achievements, obtained innovation patent (發明專利) protection for products applying recombinant bovine basic fibroblast growth factor. Up to the date of this report, a total of nine patents have been granted to the Group, out of which seven are innovation patents (發明專利) on the application of bFGF. These seven innovation patents will enable protection of our existing Beifuji and Beifushu series of products till 2030. The remaining two patents are utility patents (實用專利) on product packaging, which are applied in our existing Beifuji and Beifushu series of products.

Indeed, 2013 ended on a positive note with these significant achievements – a testament to the Group's commitment to having the right strategic direction, focus on executing its plans, and the relentless effort put in by members of the Group.

Financial Performance

For the year ended 31 December 2013, the Group achieved a consolidated turnover of approximately HK$347.0 million, an increase of 29.9% over previous year. Correspondingly, the Group's consolidated profits attributable to owners of the Company rose to approximately HK$54.9 million for the year ended 31 December 2013 from approximately HK$39.0 million in the previous year, an increase of 40.8%.

The Group's revenue is mainly derived from the biopharmaceutical ophthalmic drug, the Beifushu series, which accounted for over 65% of total revenue, whereas, the Beifuji series, biopharmaceutical products for surface wounds healing and treatment, contributed to the remaining revenue. With the expansion of the surgical division in 2013 to a total of 200 dedicated sales and marketing staff for this segment, the Company expects to an accelerated growth for the Beifuji series in coming years, barring unforeseen circumstances. The ophthalmic products, the Beifuji series, are expected to maintain steady growth rate in the coming years.

New Factory Commissioned and GMP Certified

The Group ended the year with the completion and commission of its new factory at Zhuhai, the PRC. The new factory offers a manufacturing floor area of approximately 20,000 sq.m, an increase of 15,000 sq.m over the previous factory premises. Together with the state-of-the-art technology of manufacturing plant and equipment installed, the new manufacturing facilities have expanded the Group's manufacturing capacity and capability enhanced. The factory obtained GMP certification in December 2013 from China Food and Drug Administration ("CFDA") of the PRC and operations of the new factory have commenced since January 2014.

Sales and Distribution Network

The Group's sales are propelled by its robust network of independent agents/distributors and directly owned regional sales offices ("RSOs"). At present the Group has 28 RSOs spreading across major cities and provinces of the PRC, which effectively are tasked with the function of promotional program of the Group's products to and interaction with medical practitioners and hospitals. In addition, these RSOs served another vital role, as market intelligence for the Group's planning on clinical studies and research and development pipeline development.

Outlook and Prospects

Essex Bio-Technology Limited is a leading enterprise in the field of biopharmaceutical products for wounds healing and treatment. The Group has a range of ophthalmic biopharmaceutical drugs, the Beifushu series, for the treatment of various types of eye diseases, including dry eyes, keratitis, corneal abrasion, corneal surgery such as refractive surgery and cataract surgery etc. In addition, the Group's medicine for general surgery, the Beifuji series, is for use in a variety of surface wound healing and treatment, including burns, ulcers, wounds and cosmetic plastic surgery.

Chairman's Statement

In the past years, more than 65% of revenue has been contributed from the ophthalmic biopharmaceutical products, the Beifushu series. With its leading position in this field and the addition of Pfizer's products recently concluded in the agreement, the Group expects to maintain steady growth rate in the ophthalmic products.

Having built a sustainable business for the ophthalmic products, the Group is ready and determined to develop a 2nd engine of growth from its surface wound healing and treatment biopharmaceutical product, the Beifuji series. For this purpose, the Group has further expanded the surgical division in 2013 to a total of 200 dedicated sales and marketing staff, more staff will be recruited in 2014 for this segment. The Company is optimistic of experiencing an accelerated growth from the Beifuji series in coming years, barring unforeseen circumstances.

In addition, we will work strategically to seek investment opportunities and scout for new technologies and/or products.

Dividend

To reward our shareholders for their continued support, the board of Directors is proposing a final dividend of HK$0.018 per ordinary share to be approved at the upcoming annual general meeting.

Appreciation

I would like to take this opportunity to express my sincere gratitude to you, our shareholders, business associates, valued customers and each and every member of the Group for the trust and co-operation extended in making Essex Bio–Technology Limited a leading pharmaceutical Company.

Ngiam Mia Je Patrick
Chairman

Hong Kong
7 March 2014

Ngiam Mia Je Patrick

Aged 59, Mr. Ngiam is the founder of the Group, an executive Director and Chairman of the Company. He is a member of the remuneration committee and nomination committee of the Company, a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company.

Mr. Ngiam graduated in electronics engineering and has received many accolades and awards for his achievements. Notably, in 1990, he was awarded the first KPMG Singapore High Tech Entrepreneur Award. Other awards include the DHL & Singapore Press Holdings Business Award for Businessman of the Year in 1994 and the Chevalier DE L' ORDRE NATIONAL DU MERITE conferred by Le President De La Republique Francaise in 1996.

Fang Haizhou

Aged 48, Mr. Fang is an executive Director, the managing Director and the general manager of the Company. He is also a senior pharmaceutical engineer. He has a Bachelor's degree in Bio-chemical Engineering from 華南工學院 (Southern China Institute) and a Master's degree in Engineering from 華南理工大學 (Southern China University of Technology). He has been with Zhuhai Essex Bio-Pharmaceutical Company Limited since its establishment in June 1996. Mr. Fang is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Medipharma (Zhuhai) Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company.

Zhong Sheng

Aged 49, Mr. Zhong is an executive Director and is responsible for the financial management and administration of the Group. He holds a Master's degree in Industrial Economics from 廣東省社會科學院 (Guangdong Academy of Social Sciences). Mr. Zhong joined the Group in February 1999. Mr. Zhong has more than nineteen year experience in financial management and project management. Mr. Zhong is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company. Mr. Zhong is also a member of the corporate governance committee and an authorised representative of the Company.

Fung Chi Ying

Aged 59, Mr. Fung was appointed as an independent non-executive Director on 13 June 2001. Mr. Fung is a practising solicitor in Hong Kong. He is presently a partner of Adrian Yeung & Cheng, Solicitors. Mr. Fung is also the chairman of the audit committee and a member of the remuneration committee, nomination committee and corporate governance committee of the Company.

Mauffrey Benoit Jean Marie

Aged 61, Mr. Mauffrey was appointed as an independent non-executive Director on 13 June 2001. He is experienced in business development and sales and marketing in several industries in the Asia Pacific region. He is also a member of the audit committee, remuneration committee, nomination committee and corporate governance committee of the Company.

Yeow Mee Mooi

Aged 51, Ms. Yeow was appointed as an independent non-executive Director on 30 September 2004. Ms. Yeow graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor degree in business administration. Ms. Yeow further obtained her postgraduate diploma in financial management from The University of New England, Australia. Ms. Yeow is a certified practising accountant of The Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants. Ms. Yeow has over 22 years' taxation, auditing and commercial experience in Hong Kong. Ms. Yeow is now a director of a management consulting firm in Hong Kong. She is also the chairperson of the remuneration committee, nomination committee and corporate governance committee and a member of the audit committee of the Company.

Wang Xinzhi

Aged 50, Mr. Wang joined the Group on 10 November 2000 and was appointed as the general manager of Zhuhai Essex Bio-Pharmaceutical Company Limited and Essex Medipharma (Zhuhai) Company Limited, both being subsidiaries of the Company, on 1 January 2011. Mr. Wang has a Master's degree in Genetics from 復旦大學 (Fudan University) and has extensive corporate management and marketing experience in several industries in the PRC.

Sales and distribution network of the Group

The vision of Essex Bio-Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is to be a great corporation and be socially responsible. Strategically, the Group is in pursuit of innovations in biotechnology and pharmaceuticals to enhance the efficacy of healing and wellness of patients.

The Group ended the year with the completion and commission of its new factory at Zhuhai, the People's Republic of China (the "PRC"). The new factory offers a manufacturing floor area of approximately 20,000 sq.m, an increase of 15,000 sq.m over the previous factory premises. Together with the state-of-the-art technology of manufacturing plant and equipment installed, the new manufacturing facilities with advanced quality control systems have expanded the Group's manufacturing capacity and capability enhanced. The factory obtained Good Manufacturing Practice ("GMP") certification in December 2013 from China Food and Drug Administration ("CFDA") of the PRC and operations of the new factory have commenced since January 2014.

The Group entered into an import and service agreement with Pfizer International Trading (Shanghai) Limited ("Pfizer") on 17 February 2014. Pursuant to the import and service agreement, the Group is appointed and/or authorized by Pfizer as its exclusive importer, distributor and promoter for Xalatan® eye drops and Xalacom® eye drops (collectively the "Pfizer Eye Drops") in the Mainland China (excluding Taiwan, Hong Kong and Macau) ("China"). The Pfizer Eye Drops are medicines to lower raised pressure within the eye.

The establishment of business relationship with Pfizer will expand the range of the Group's eye drops products, benefiting the Group in striving for sustainable growth in the ophthalmology arena in China.

Indeed, 2013 ended on a positive note with these significant achievements – a testament to the Group's commitment to having the right strategic direction, focus on executing its plans, and the relentless effort put in by members of the Group.

Management Discussion and Analysis

Essex 2013 sales meeting

"Blow-Fill-Seal" production plant

Business Review and Prospects

During the year under review, the Group's emphasis continued primarily on manufacturing and selling of its flagship biopharmaceutical products for the treatment and healing of surface wounds and eye wounds.

For the year ended 31 December 2013, the Group achieved a revenue of approximately HK$347.0 million (2012: HK$267.3 million), representing a growth rate of 29.9%. The revenue was primarily contributed from our flagship products, the Beifushu and Beifuji series.

The Group's persistent growth performance year-on-year is a proof of clinical acceptance of its products that are well executed by its robust distribution network for sales and marketing activities in the PRC.

In the past years, more than 65% of revenue has been contributed from the ophthalmic biopharmaceutical products, the Beifushu series. With its leading position in this field and the addition of Pfizer's Eye Drops products recently concluded in the agreement, the Group expects to maintain steady growth rate in the ophthalmic products.

Having built a sustainable business for the ophthalmic products, the Group is ready and determined to develop a 2nd engine of growth from its surface wound healing and treatment product, the Beifuji series. For this purpose, the Group has expanded the surgical division in 2013 to a total of 200 dedicated sales and marketing staff, more staff will be recruited in 2014, for this segment. The Company is optimistic of experiencing an accelerated growth from the Beifuji series in coming years, barring unforeseen circumstances.

Another focus this year is to improve capacity utilization and search for new clinical applications for our products and aim for leadership position in strategic markets.

We will work strategically to seek investment opportunities and scout for new technologies and/or products.

Market Development

The Group's sales are propelled by its robust network of independent agents/distributors and directly owned regional sales offices ("RSOs"). At present the Group has 28 RSOs spreading across major cities and provinces of the PRC, which are effectively tasked with the function of promotional program of the Group's products to and interaction with medical practitioners and hospitals. In addition, these RSOs served another vital role, as market intelligence for the Group's planning on clinical studies and research and development pipeline development.

The Group's flagship products are being marketed by more than 2,600 hospitals spreading across in major cities and provinces in the PRC. During the year under review, the Group had conducted/participated in over 250 seminars and 530 market promotion activities in major cities and provinces in the PRC. Our sales and marketing team is in constant interaction with over 97,000 doctors in briefing and educating them on the clinical applications of our products.

Research and Development

The Group's technology platform is built upon a recombinant of DNA ("rDNA") more particularly the basic fibroblast growth factor ("bFGF") and its genetic engineering know-how. To capitalize on the proprietary technique on bFGF the Company plans to deliver a series of high quality products to establish itself as market leader in the arena of biopharmaceutical products for wounds healing and treatment.

Apart from its genetic engineering know-how, the Group has channeled its resources and investment in recent years to establish a new production technology platform – the Blow-Fill-Seal ("BFS"). The BFS platform would enable the Group to develop and produce a series of single dose, preservative free, eye drops. The establishment of BFS shall strengthen the Group's core competency in the field of ophthalmology.

During the year 2013, our research and development division has delivered distinct achievements, obtained innovation patent（發明專利）protection for products applying recombinant bovine basic fibroblast growth factor. Up to the date of this report, a total of nine patents have been granted to the Group, out of which seven are innovation patents（發明專利）on the application of bFGF. These seven innovation patents will enable protection of our existing Beifuji and Beifushu series of products till 2030. The remaining two patents are utility patents（實用專利）on product packaging, which are applied in our existing Beifuji and Beifushu series of products.

Financial Review

During the year under review, the Group achieved turnover of approximately HK$347.0 million (2012: HK$267.3 million), representing a growth rate of 29.9%.

The Group's gross profit has grown in tandem with expanded sales. The gross profit for the year ended 31 December 2013 was approximately HK$310.9 million (2012: HK$243.7 million), an increase of 27.6%.

The current year profit attributable to owners of the Company was approximately HK$54.9 million compared to the previous year's approximately HK$39.0 million, an increase of 40.8%.

The distribution and selling expenses this year were approximately HK$212.0 million as compared to the previous year's approximately HK$168.0 million, an increase of 26.2%, which is mainly due to hiring of 100 new staff for promotion of the wound healing and treatment products and organization of seminars for product training and awareness.

The administrative expenses for the year under review were approximately HK$25.6 million compared to approximately HK$26.8 million of last year. Administrative expenses were curtailed by 4.4% due to better costs control by the Group.

The Group had cash and cash equivalents of approximately HK$54.5 million as at 31 December 2013 (2012: HK$59.8 million).

The bank borrowings as at 31 December 2013 were RMB40 million (equivalent to approximately HK$50.8 million). They are repayable within five years and bear interest at prevailing interest rate and are secured by certain assets of the Group's subsidiary.

The total finance costs of the Group for the year ended 31 December 2013 were HK$4.0 million, from which HK$2.0 million was capitalized in construction in progress and HK$2.0 million was charged to profit or loss for the year ended 31 December 2013.

Future Plans for material investments or capital assets

Save as disclosed in this report, as at 31 December 2013, the Group does not have an immediate plan for any other material investments or acquisition of material capital assets.

Liquidity and Financial Resources

As at 31 December 2013, the Group had cash and cash equivalents of approximately HK$54.5 million as compared to approximately HK$59.8 million as at 31 December 2012.

The Group monitors its capital structure on the basis of a net debts-to-adjusted capital ratio. For this purpose, the Group defines net debts as total debts (which include interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents. Adjusted capital comprises all components of equity. The net debts-to-adjusted capital ratio as at 31 December 2013 was 28.9% (2012: 36.6%).

Charges on Group Assets

As at 31 December 2013, the Group's certain assets with carrying amount in aggregate of approximately HK$129.7 million were pledged to secure its bank facility.

Capital Commitments

As at 31 December 2013, the Group had no material capital commitments (2012: HK$16.4 million).

Contingent Liabilities

As at 31 December 2013, the Group did not have any significant contingent liabilities (2012: Nil).

Foreign Exchange Exposure

It is the Group's policy to borrow and deposit cash in local currencies to minimize currency risk.

Treasury Policy

The Group generally financed its operations with internally generated cash flows, bank and other borrowings. The Group placed these resources into interest-bearing bank accounts opened with PRC and Hong Kong banks and earned interests in accordance with the PRC and Hong Kong banks rates. Bank deposits were mainly denominated in Renminbi and Hong Kong Dollar.

Employees

As at 31 December 2013, the Group had a total of 551 full-time employees. The aggregate remuneration of the Group's employees, including that of the Directors, for the year under review and the preceding year amounted to approximately HK$32.9 million and approximately HK$24.4 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the Directors depending on the financial performance of the Group. Details of the share option scheme of the Company are disclosed in note 32 to the financial statements.

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2013 and expiring on 26 June 2016 unless terminated by either party by giving the other not less than six months' written notice. The annual remuneration of each executive Directors was fixed in his service agreements and he is also entitled to a discretionary annual bonus of such amount (if any) as the Board may determined in its discretion from time to time having regard to the operating results of the Group and his performance in the relevant financial year, provided that (a) the aggregate amount of the discretionary annual bonuses payable to all directors of the Company in any financial year shall not exceed 5% of the consolidated net profit after taxation and non-controlling interests but before extraordinary items of the Company as shown in its consolidated audited accounts for such financial year ("Net Profit"); (b) the Net Profit for such financial year exceeds HK$30,000,000; and (c) the amount of the discretionary annual bonus payable to each director of the Company in respect of any financial year shall not exceed 1.3 times of his annual basic salary as a director of the Company in respect of such financial year. The discretionary annual bonus, if any, shall be payable in respect of each financial year of the Company within three (3) months after the issue of the consolidated audited accounts of the Group for such financial year.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level.

Report of the Directors

The directors (the "Directors") of the Company are pleased to present their report and the audited financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 34 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 36 to 86. The Directors have recommended the payment of a final dividend of HK$0.018 per share for the financial year ended 31 December 2013 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 16 May 2014. The final dividend will be payable on 26 May 2014.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 30 April 2014 to Monday, 5 May 2014, both days inclusive, for ascertaining shareholders' right to attend and vote at the forthcoming annual general meeting to be held on Monday, 5 May 2014. During this period, no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 29 April 2014. The register of members of the Company will be closed from Wednesday, 14 May 2014 to Friday, 16 May 2014 for ascertaining shareholders' entitlement to the proposed final dividend. No transfer of shares will be registered during this period. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Monday, 5 May 2014, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 13 May 2014.

Financial Summary

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on pages 87 to 88. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 18 to the financial statements.

Share Capital and Share Options

There was no movement in the Company's authorised share capital during the year under review. Details of the Company's share capital and details of the Company's share option scheme as approved by the shareholders of the Company at the annual general meeting held on 3 May 2013 (the "Scheme") are set out in notes 30 and 32 respectively to the financial statements.

Summary of the Scheme

(a) Purpose of the Scheme:

To provide the Eligible Participants (as defined below) with the opportunity of acquiring an equity interest in the Company with the view to (i) motivate them to optimise their performance and efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain ongoing business relationship with them whose contributions are, will or expected to be beneficial to the Group.

(b) Participants of the Scheme:

Any director, officer, employee or officer employed by any company in the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate") (whether full time or part time) ("Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or (iii) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate ("Eligible Participants").

The basis of eligibility of any of the above classes of Eligible Participants to the grant of any right(s) to subscribe for Share(s) (as defined below) granted pursuant to this Scheme ("Options") shall be determined by the Board from time to time on the basis of their contribution to the Group and/or the Affiliate(s) in line with the purposes of the this Scheme.

(c) (i) Total number of ordinary shares of HK$0.10 each in the capital of the Company (the "Shares") available for issue under the Scheme as at the date of this annual report:

89,350,000 Shares

(ii) Percentage of the issued share capital that it represents as at the date of this annual report:

16.05%

(d) Maximum entitlement of each Eligible Participant under the Scheme:

Not to exceed 1% of the Shares in issue in any 12-month period unless approved by shareholders of the Company

(e) Period within which the Shares must be taken up under an option:

Within 10 years from the date on which the option is offered or such shorter period as the Board may determine

(f) Minimum period for which an option must be held before it can be exercised:

No minimum period unless otherwise determined by the Board

(g) (i) Price payable on application or acceptance of the option:

HK$1.00

(ii) The period within which payments or calls must or may be made:

14 days after the offer date of an option

(iii) The period within which loans for the purposes of the payments or calls must be repaid:

Not applicable

(h) Basis of determining the exercise price:

The exercise price shall be determined by the Board and notified to each grantee and shall not be less than the highest of:

(a) the closing price of a Share as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheet on the date of grant of the relevant Option, which must be a business day;

(b) an amount equivalent to the average closing price of a Share as stated in The Stock Exchange of Hong Kong Limited 's daily quotations sheets for the 5 business days immediately preceding the date of grant of the relevant Option; and

(c) the nominal value of a Share.

(i) The remaining life of the Scheme:

Approximately 9 years (expiring on 2 May 2023)

Details of Share Options Granted

Details of share options granted to the Directors of the Company are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and the relevant movement(s) during the financial year is set out below.

The following table discloses movements in the Company's share options held by each of the Directors, the substantial shareholders of the Company, the employees of the Company in aggregate and other participant granted under the Scheme during the year ended 31 December 2013:

Participants	**Date of grant**	**Exercisable period**	**Exercise price HKD**	**Outstanding as at 31.12.2013**
Fang Haizhou	30.10.2013	30.04.2014 – 29.10.2018	2.3	700,000
Director	30.10.2013	30.10.2014 – 29.10.2018	2.3	700,000
	30.10.2013	30.04.2015 – 29.10.2018	2.3	700,000
	30.10.2013	30.10.2015 – 29.10.2018	2.3	700,000
	30.10.2013	30.04.2016 – 29.10.2018	2.3	700,000
Zhong Sheng	30.10.2013	30.04.2014 – 29.10.2018	2.3	700,000
Director	30.10.2013	30.10.2014 – 29.10.2018	2.3	700,000
	30.10.2013	30.04.2015 – 29.10.2018	2.3	700,000
	30.10.2013	30.10.2015 – 29.10.2018	2.3	700,000
	30.10.2013	30.04.2016 – 29.10.2018	2.3	700,000
Ngiam Mia Je Patrick	30.10.2013	30.04.2014 – 29.10.2018	2.3	100,000
Director and substantial shareholder	30.10.2013	30.10.2014 – 29.10.2018	2.3	100,000
	30.10.2013	30.04.2015 – 29.10.2018	2.3	100,000
	30.10.2013	30.10.2015 – 29.10.2018	2.3	100,000
	30.10.2013	30.04.2016 – 29.10.2018	2.3	100,000
Ngiam Mia Kiat Benjamin	30.10.2013	30.04.2014 – 29.10.2018	2.3	100,000
Non-executive director of a wholly-owned subsidiary of the Company and substantial shareholder	30.10.2013	30.10.2014 – 29.10.2018	2.3	100,000
	30.10.2013	30.04.2015 – 29.10.2018	2.3	100,000
	30.10.2013	30.10.2015 – 29.10.2018	2.3	100,000
	30.10.2013	30.04.2016 – 29.10.2018	2.3	100,000
Total for directors of the Group				**8,000,000**

Participants	Date of grant	Exercisable period	Exercise price HKD	Outstanding as at 31.12.2013
Employees	30.10.2013	30.04.2014 – 29.10.2018	2.3	2,300,000
	30.10.2013	30.10.2014 – 29.10.2018	2.3	2,300,000
	30.10.2013	30.04.2015 – 29.10.2018	2.3	2,300,000
	30.10.2013	30.10.2015 – 29.10.2018	2.3	2,300,000
	30.10.2013	30.04.2016 – 29.10.2018	2.3	2,300,000
Total for employees				**11,500,000**
An investor relations consultant	30.10.2013	30.04.2014 – 29.10.2016	2.3	1,250,000
	30.10.2013	30.10.2014 – 29.10.2016	2.3	1,250,000
Total for an investor relations consultant				**2,500,000**
Total for the Scheme				**22,000,000**

No options were exercised, cancelled or lapsed during the year.

The valuation of share options is set out in note 32 to the financial statements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

Reserves

Details of movements in the reserves of the Company and of the Group during the year under review are set out in note 31 to the financial statements and in the consolidated statement of changes in equity on page 39, respectively.

Distributable Reserves

As at 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands as detailed in note 31 to the financial statements, amounted to HK$2,222,058. Before the date of this report, subsidiaries of the Company had declared dividends to the Company and the Company's reserves available for distribution, calculated in accordance with the relevant provisions of the Companies Law of the Cayman Islands, amounted to HK$22,222,058, of which HK$10,021,500 has been proposed as a final dividend for the year.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 33.7% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 20.5% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 59.6% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 13.6% of the Group's total purchases.

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

Report of the Directors

Directors

The Directors during the year and up to the date of this report were:

Executive Directors:

Ngiam Mia Je Patrick (Chairman)
Fang Haizhou (Managing Director)
Zhong Sheng

Independent non-executive Directors:

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

In accordance with the Company's articles of association and as recommended by the nomination committee of the Company, Mauffrey Benoit Jean Marie and Yeow Mee Mooi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting to be held on Monday, 5 May 2014.

Directors' Service Contracts

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2013 and expiring on 26 June 2016 unless terminated by either party by giving the other not less than six months' written notice.

Details of the appointments of the independent non-executive Directors are set out in the Corporate Governance Report on page 25 of this report.

Save as disclosed in note 11 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as are specified in Sections 161 and 161A of the Companies Ordinance (Chapter 32, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

Directors' Interests in Contracts of Significance

No contract of significance in relation to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year under review.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules were as follows:

Long positions in ordinary shares of the Company:

Name	**Capacity**	**Number of ordinary shares in the Company**	**Approximate percentage of interest in the Company's issued share capital as at 31 December 2013**
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	153,145,667 *(Notes 1 and 2)*	27.51%
Fang Haizhou	Beneficial owner	4,738,300	0.85%
Zhong Sheng	Beneficial owner	2,869,150	0.52%

Notes:

1. *146,479,000 shares were registered in the name of Ngiam Mia Je Patrick.*

2. *6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which was wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares, Ngiam Mie Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.*

Set out below are particulars of interests (all being personal interests) in options to subscribe for ordinary shares of the Company granted/exercisable under the Scheme held by Directors of the Company in office during the financial year:

Number of share options granted under the Scheme:

Name of Director	**Date granted** (Day/Month/Year)	**As at 31 December 2013**	**Subscription price per share** HK$	**Period during which rights exercisable** (Day/Month/Year)
Ngiam Mia Je Patrick	30/10/2013	500,000	2.3	30/04/2014 – 29/10/2018
Fang Haizhou	30/10/2013	3,500,000	2.3	30/04/2014 – 29/10/2018
Zhong Sheng	30/10/2013	3,500,000	2.3	30/04/2014 – 29/10/2018

Note: No share option of the Company held by Directors lapsed or was exercised or cancelled during the financial year ended 31 December 2013.

Save as disclosed above, as at 31 December 2013, none of the Directors and the chief executive of the Company or their respective associates had any interest and short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the Part XV of the SFO) which was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year under review were rights to acquire benefits by means of the acquisition of shares or underlying shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouses or minor children to acquire such rights in the Company or any other body corporate.

Substantial Shareholders and Other Persons Who Are Required to Disclose Their Interests Pursuant to Part XV of the SFO

As at 31 December 2013, the following persons or entities, other than a Director or chief executive of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Capacity	Number of ordinary shares in the Company	Approximate percentage of interest in the Company's issued share capital as at 31 December 2013
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	151,220,667 *(Note 1)*	27.16%
Lauw Hui Kian	Family interest	153,645,667 *(Note 2)*	27.60%

Notes:

1. (a) *144,554,000 shares were registered directly in the name of Ngiam Mia Kiat Benjamin.*

   (b) *6,666,667 shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.*

2. *Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,645,667 shares in which Ngiam Mia Je Patrick was interested of which 500,000 shares are Ngiam Mia Je Patrick's interest in option to subscribe for ordinary shares of the Company granted/exercisable under the Scheme.*

Save as disclosed above, as at 31 December 2013, no other persons or entities (other than the directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and Chief Executive's interests and short positions in the shares, underlying shares and debentures above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

Connected and Related Party Transactions

Details of the related party transactions for the year under review are set out in note 39 to the financial statements. There were no transactions during the year to be disclosed as connected and related party transactions in accordance with the requirements of the Listing Rules and accounting principles generally accepted in Hong Kong.

Competition and Conflict of Interests

None of the Directors and substantial shareholders of the Company and any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

Auditor

BDO Limited will retire and a resolution for the re-appointment of auditor of the Company will be proposed at the forthcoming annual general meeting to be held on Monday, 5 May 2014.

Corporate Governance

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year under review. Please refer to the Corporate Governance Report on pages 25 to 33 of this report.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick
Chairman

Hong Kong
7 March 2014

Corporate Governance Practices

The Company is committed to achieving good corporate governance practices by emphasising its accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the financial year ended 31 December 2013.

Directors' Securities Transactions

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all the Directors have confirmed that they have fully complied with the required standards and provisions as set out in the Model Code throughout the financial year ended 31 December 2013.

Board of Directors

The Board of Directors, which currently comprises six Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Profiles of Directors and Senior Management. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

To improve the transparency and independency of the corporate governance of the Company, the chairman and the managing Director (who is responsible for the day-to-day management of the Company's business) of the Company are segregated and are not exercised by the same individual since August 2005. Ngiam Mia Je Patrick is the chairman of the Board and an executive Director, and Fang Haizhou is the managing Director and an executive Director.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi are the independent non-executive Directors. Each of their term of appointment is two years commencing from 30 September 2012, determinable by either party serving not less than one month's written notice on the other.

Board of Directors *(Continued)*

All Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

The Company arranged appropriate insurance cover in respect of legal actions against Directors.

The Board held a full board meeting for each quarter.

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances. The Board is delegated with the authority and responsibility for the management of the Group. In addition, the Board has also established various Board committees, including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the corporate governance committee (the "Corporate Governance Committee") (together, the "Board Committees") and has delegated various responsibilities to them.

The Company has adopted the practice of holding regular Board meetings at least four times a year. Apart from regular board meetings, the Board will meet on other occasions when a board level decision on a particular matter is required. Each of the members of the Board has full access to relevant information at the meetings.

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

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

Four Board meetings and one annual general meeting were held during the year ended 31 December 2013. The attendance record for the Board meetings and general meeting is as follows:

Directors	**Board Meetings Attendance**	**General Meeting Attendance**
Executive Directors		
Ngiam Mia Je Patrick	4/4	1/1
Fang Haizhou	4/4	1/1
Zhong Sheng	4/4	1/1
Independent Non-executive Directors		
Fung Chi Ying	4/4	1/1
Mauffrey Benoit Jean Marie	4/4	1/1
Yeow Mee Mooi	4/4	1/1

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by individual Directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2013 is recorded in the table below:

Directors	**Reading regulatory updates**	**Attending external seminars/ programmes**
Executive Directors		
Ngiam Mia Je Patrick	✔	✔
Fang Haizhou	✔	✔
Zhong Sheng	✔	✔
Independent Non-executive Directors		
Fung Chi Ying	✔	✔
Mauffrey Benoit Jean Marie	✔	✔
Yeow Mee Mooi	✔	✔

Remuneration Committee

The Remuneration Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the Chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors. The majority of the members of the Remuneration Committee are independent non-executive Directors.

New terms of reference of the Remuneration Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and the making of recommendations to the board of the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Remuneration Committee *(Continued)*

The Company has adopted the model whereby the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors.

During the year under review, one meeting of the Remuneration Committee was held. Details of the attendance of the Remuneration Committee meeting are as follows:

Members	**Attendance**
Yeow Mee Mooi (chairperson)	1/1
Ngiam Mia Je Patrick	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

The Remuneration Committee has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors and has assessed the performance of the Directors. The Remuneration Committee considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

Nomination Committee

The Nomination Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the Chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

New terms of reference of the Nomination Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The role and function of the Nomination Committee include recommending the appointment and removal of Directors. The Nomination Committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review. The Nomination Committee also reviews the structure, size and composition of the Board and assesses the independence of the independent non-executive Directors.

In addition, the Board adopted a board diversity policy on 7 March 2014 (the "Policy"). Under the Policy, the Company recognizes the benefits of board diversity and supports the principle that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring.

Nomination Committee *(Continued)*

The Company believes that a diverse board will include and make good use of the difference in skills, experience and background, technical and industry experience, ethnicity, gender, age, nationality, knowledge and length of service and other qualities of the members of the Board. These factors will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective function of the Board as a whole.

The Nomination Committee reviews and assesses the composition of the Board and makes recommendation to the Board on the appointment of new Directors. The Nomination Committee will also review the structure, size and diversity of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business. The Board will continue to review its composition from time to time taking into consideration specific needs for the Group's business.

During the year under review, one meeting of the Nomination Committee was held. Details of the attendance of the Nomination Committee meeting are as follows:

Members	Attendance
Yeow Mee Mooi (chairperson)	1/1
Ngiam Mia Je Patrick	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

During the meeting, the Nomination Committee considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association, Mauffrey Benoit Jean Marie and Yeow Mee Mooi will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Audit Committee

The Company established the Audit Committee in June 2001. The Audit Committee comprises three members, namely Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi, all being independent non-executive Directors. The chairman of the Audit Committee is Fung Chi Ying.

New terms of reference of the Audit Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The main responsibilities of the Audit Committee are to review and supervise the financial statements and the auditors' reports and monitor the integrity of the financial statements of the Group. Other responsibilities include the appointment of auditor, approval of the auditor's remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also responsible for overseeing the financial reporting system and internal control system and their effectiveness.

The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal control, risk management and financial reporting. External auditor and the Directors are invited to attend the committee meetings as and when necessary. The Audit Committee also serves as a channel of communication between the Board and the external auditor.

The Audit Committee held 4 meetings during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Members	**Attendance**
Fung Chi Ying (chairman)	4/4
Mauffrey Benoit Jean Marie	4/4
Yeow Mee Mooi	4/4

The work performed by the Audit Committee during the year under review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2013, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2013 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly. The Group's unaudited interim results for the six months ended 30 June 2013 and the audited annual results for the year ended 31 December 2013 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been duly made.

Corporate Governance Committee

The Corporate Governance Committee was established on 23 March 2012. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Zhong Sheng, an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

Terms of reference of the Corporate Governance Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012.

The role and function of the Corporate Governance Committee include developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

The Corporate Governance Committee held 1 meeting during the year under review. Details of the attendance of the Corporate Governance Committee meetings are as follows:

Members	**Attendance**
Yeow Mee Mooi (chairperson)	1/1
Zhong Sheng	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

During the year under review, the work performed by the Corporate Governance Committee included reviewing and monitoring appropriate training and continuous professional development of the Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

Company Secretary

Yau Lai Man, the company secretary of the Company, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the year ended 31 December 2013.

Auditor's Remuneration

During the year under review, the Group has paid in aggregate of HK$578,000 and HK$75,100 to the external auditor for its audit and non-audit services respectively.

Shareholders' Rights

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to put forward proposals at a general meeting

Shareholders may suggest proposals relating to the Company to be discussed at a general meeting by sending written requisition to the Board or the company secretary of the Company and following the procedures set out in the paragraph headed "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

Procedures for shareholders to propose a person for election as a director

Subject to applicable laws and regulations, including Companies Law, Cap. 22 (as revised and amended) of the Cayman Islands and the Listing Rules, and the memorandum and articles of association of the Company as amended from time to time, the Company may by ordinary resolution in general meeting elect any person to be a director of the Company either to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. A shareholder of the Company may propose a person for election as a director of the Company by lodging a written notice to that effect at the head office and principal place of business of the Company in Hong Kong for the attention of the Company Secretary of the Company or at the branch register of members of the Company.

In order for the Company to inform shareholders of the Company of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The minimum length of the period during which such a written notice is given shall be at least seven days and the period for lodgement of such a written notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Shareholders' Rights *(Continued)*

Procedures for directing shareholders' enquiries to the Board

Shareholders may direct their queries to the Board and may at any time make a request for the Company's information to the extent such information is publicly available through the company secretary of the Company whose contact details are as follows:

Address:	Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
Fax:	(852) 2587 7363
Email:	essex@essexbio.com

Directors' and Auditor's Responsibilities for Accounts

The Directors are responsible for the preparation of financial statements for each financial period which gives a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2013, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The external auditor of the Group have also stated their reporting responsibility in the auditor's report of the consolidated financial statements.

Internal Control

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group. The Board is also responsible for making appropriate assertions on the adequacy of internal control and procedures. The Board reviews the effectiveness of these systems on a regular basis through the Audit Committee.

Investor Relations and Communication with Shareholders

The Company has established the following communication channels with shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders; (ii) the opportunity for shareholders to raise comments and exchange views with the Board during each annual general meeting; (iii) providing the latest and key information of the Group through the website of the Company; and (iv) the Company's share registrar serves the shareholders in respect of all share registration matters.

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TO THE SHAREHOLDERS OF ESSEX BIO-TECHNOLOGY LIMITED
（億勝生物科技有限公司）
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Essex Bio-Technology Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 36 to 86, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

BDO Limited
Certified Public Accountants
Li Yin Fan
Practising Certificate Number: P03113

7 March 2014
Hong Kong

Consolidated Statement Of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
Turnover	7	**347,046,987**	267,255,167
Cost of sales		**(36,114,212)**	(23,563,134)
Gross profit		**310,932,775**	243,692,033
Other revenue	8	**1,751,491**	2,427,379
Distribution and selling expenses		**(212,001,745)**	(168,012,021)
Administrative expenses		**(25,573,935)**	(26,754,610)
Finance costs	10	**(2,046,527)**	(1,701,743)
Profit before income tax expense	9	**73,062,059**	49,651,038
Income tax expense	14	**(18,165,363)**	(10,655,902)
Profit for the year		**54,896,696**	38,995,136
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**5,315,972**	697,797
Total comprehensive income for the year		**60,212,668**	39,692,933
Profit attributable to owners of the Company		**54,896,696**	38,995,136
Total comprehensive income attributable to owners of the Company		**60,212,668**	39,692,933
Earnings per share – Basic and diluted	17	**HK9.86 cents**	HK7.00 cents

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$	2012 HK$
Non-current assets			
Property, plant and equipment	18	**185,687,092**	149,126,817
Land use rights	19	**7,544,668**	7,363,056
Goodwill	20	**2,602,414**	2,506,707
Other intangible assets	21	**15,897,463**	9,714,695
Deferred tax assets	28	**–**	1,650,348
Convertible note receivable	25	**–**	2,700,130
Total non-current assets		**211,731,637**	173,061,753
Current assets			
Inventories	22	**6,448,962**	4,308,725
Trade and other receivables	23	**108,707,434**	93,213,617
Deposits and prepayments	24	**2,896,790**	1,328,072
Convertible note receivable	25	**2,700,130**	–
Cash and cash equivalents	26	**54,526,652**	59,830,972
		175,279,968	158,681,386
Total assets		**387,011,605**	331,743,139
Current liabilities			
Trade and other payables	27	**77,174,067**	55,846,628
Bank borrowings – secured	29	**50,767,864**	73,818,898
Taxation		**314,826**	1,683,156
		128,256,757	131,348,682
Net current assets		**47,023,211**	27,332,704
Total assets less current liabilities		**258,754,848**	200,394,457
Non-current liabilities			
Trade and other payables	27	**–**	1,968,504
Deferred tax liabilities	28	**4,760,834**	2,153,051
		4,760,834	4,121,555
Total liabilities		**133,017,591**	135,470,237
NET ASSETS		**253,994,014**	196,272,902
Capital and reserves attributable to owners of the Company			
Share capital	30	**55,675,000**	55,675,000
Reserves		**198,319,014**	140,597,902
TOTAL EQUITY		**253,994,014**	196,272,902

On behalf of the Board

Fang Haizhou | **Zhong Sheng**

Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$	2012 HK$
Non-current assets			
Interests in subsidiaries	34	**62,842,810**	62,059,118
Current assets			
Deposits and prepayments	24	**239,830**	239,476
Cash and cash equivalents	26	**154,042**	234,172
Total current assets		**393,872**	473,648
Total assets		**63,236,682**	62,532,766
Current liabilities			
Other payables and accruals	27	**2,298,754**	2,015,157
Amount due to a subsidiary	34	**3,040,870**	–
Total current liabilities		**5,339,624**	2,015,157
Net current liabilities		**(4,945,752)**	(1,541,509)
Total assets less current liabilities		**57,897,058**	60,517,609
Capital and reserves attributable to owners of the Company			
Share capital	30	**55,675,000**	55,675,000
Reserves	31	**2,222,058**	4,842,609
TOTAL EQUITY		**57,897,058**	60,517,609

On behalf of the Board

Fang Haizhou **Zhong Sheng**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Equity attributable to owners of the Company							
	Share capital	**Share premium**	**Capital reserve**	**Statutory surplus reserve**	**Foreign currency translation reserve**	**Share option reserve**	**Retained earnings**	**Total**
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
	Note 30		Note 31(i)	Note 31(ii)	Note 31(iii)	Note 32		
At 1 January 2012	**55,675,000**	**969,871**	**362,442**	**17,148,823**	**14,578,596**	**–**	**74,526,237**	**163,260,969**
Profit or loss	–	–	–	–	–	–	38,995,136	38,995,136
Other comprehensive income								
– Exchange differences on translating foreign operations	–	–	–	–	697,797	–	–	697,797
Total comprehensive income for the year	–	–	–	–	697,797	–	38,995,136	39,692,933
Dividend paid	–	–	–	–	–	–	(6,681,000)	(6,681,000)
Appropriation of profits	–	–	–	7,159,300	–	–	(7,159,300)	–
At 31 December 2012	**55,675,000**	**969,871**	**362,442**	**24,308,123**	**15,276,393**	**–**	**99,681,073**	**196,272,902**
Profit or loss	–	–	–	–	–	–	54,896,696	54,896,696
Other comprehensive income								
– Exchange differences on translating foreign operations	–	–	–	–	5,315,972	–	–	5,315,972
Total comprehensive income for the year	–	–	–	–	5,315,972	–	54,896,696	60,212,668
Dividend paid	–	–	–	–	–	–	(5,567,500)	(5,567,500)
Equity settled share-based transaction	–	–	–	–	–	3,075,944	–	3,075,944
Appropriation of profits	–	–	–	7,036,773	–	–	(7,036,773)	–
At 31 December 2013	**55,675,000**	**969,871**	**362,442**	**31,344,896**	**20,592,365**	**3,075,944**	**141,973,496**	**253,994,014**

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
Cash flows from operating activities			
Profit before income tax expense:		**73,062,059**	49,651,038
Adjustments for:			
Interest expenses		**2,046,527**	1,701,743
Bank interest income		**(218,996)**	(1,424,224)
Government grant		**(751,346)**	–
Reversal of accruals and other payables		**–**	(6,102)
Depreciation of property, plant and equipment		**2,331,317**	987,092
Equity settled share-based payment expenses		**3,075,944**	–
Exchange gains and losses, net		**(524,638)**	(1,316,301)
Amortisation of other intangible assets		**125,298**	123,077
Amortisation of land use rights		**167,332**	163,079
Impairment on other intangible assets		**–**	4,479,686
Property, plant and equipment written off		**–**	2,007,212
Loss on disposal of property, plant and equipment		**217,167**	6,391
Operating cash flows before working capital changes		**79,530,664**	56,372,691
Increase in inventories		**(1,969,089)**	(20,485)
Increase in trade and other receivables		**(12,375,109)**	(18,190,118)
(Increase)/decrease in deposits and prepayments		**(1,222,751)**	865,297
Increase in trade and other payables		**21,191,540**	9,188,745
Cash generated from operations		**85,155,255**	48,216,130
Interest paid		**(3,972,325)**	(2,969,489)
Profits tax paid		**(16,063,827)**	(9,458,124)
Net cash generated from operating activities		**65,119,103**	35,788,517

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment		**8,080**	55,385
Purchase of property, plant and equipment		**(36,233,912)**	(97,883,544)
Additions to other intangible assets		**(5,925,958)**	(4,727,875)
Changes in pledged bank deposits		**–**	19,040,000
Bank interest received		**218,996**	1,424,224
Government grant received		**501,190**	1,967,777
Net cash used in investing activities		**(41,431,604)**	(80,124,033)
Cash flows from financing activities			
Proceeds from bank borrowings		**25,059,516**	147,692,308
Repayment of bank borrowings		**(50,119,032)**	(73,846,154)
Dividends paid to owners of the Company		**(5,567,500)**	(6,681,000)
Net cash (used in)/generated from financing activities		**(30,627,016)**	67,165,154
Net (decrease)/increase in cash and cash equivalents		**(6,939,517)**	22,829,638
Cash and cash equivalents at beginning of year		**59,830,972**	36,812,068
Effect of exchange rate changes on cash and cash equivalents		**1,635,197**	189,266
Cash and cash equivalents at end of year, representing cash and cash balance	26	**54,526,652**	59,830,972

1. General

Essex Bio-Technology Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 July 2000 under Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 1061). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in investment holding, the development, manufacture and selling of biopharmaceutical products in the People's Republic of China ("PRC").

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2013

In the current year, the Group has applied, for the first time the following new HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2013:

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements

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

HKFRSs (Amendments) – Annual Improvements 2010-2012 Cycle

The Basis of Conclusions for HKFRS 13 Fair Value Measurement was amended to clarify that short-term receivables and payables with no stated interest rate can be measured at their invoice amounts without discounting, if the effect of discounting is immaterial. This is consistent with the Group's existing accounting policy.

Amendments to HKAS1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2013 (Continued)*

Amendments to HKAS1 (Revised) – Presentation of Items of Other Comprehensive Income (Continued)

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of profit or loss and other comprehensive income. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

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

The adoption of the amendments has no impact on these financial statements as the Group has not offset financial instruments, nor has it entered into a master netting agreement or a similar arrangement.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them.

The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest (see note 4(b)).

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2013 (Continued)*

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 12 disclosures are provided in notes 34. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance. The standard requires additional disclosures about fair value measurements and these are included in note 36. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments

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

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

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

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

3. Basis of Preparation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost basis.

(c) *Functional and presentation currency*

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

4. Significant Accounting Policies

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

(b) *Subsidiaries*

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

(c) *Goodwill*

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

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

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

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

4. Significant Accounting Policies *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

Buildings	Over the remaining lease period
Leasehold improvements	5% – 18% or the remaining lease period whichever is shorter
Plant and machinery	9% – 19%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	18%

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

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

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

4. Significant Accounting Policies *(Continued)*

(e) *Land use rights*

Land use rights represent payments for leasehold land held for own use under operating leases. The Group made up-front payments to obtain land use rights as operating leases on which properties are developed. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as expense.

(f) *Leasing*

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

Payment made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

(g) *Intangible assets*

i) *Acquired intangible assets*

Intangible assets acquired separately are inititally recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Distribution rights	10 years

ii) *Research and development expenditure*

Expenditure on internally developed products is capitalised if it can be demonstrated that:

1. it is technically feasible to develop the product for it to be sold;
2. adequate resources are available to complete the development;
3. there is an intention to complete and sell the product;
4. the Group is able to sell the product;
5. sale of the product will generate future economic benefits; and
6. expenditure on the project can be measured reliably.

4. Significant Accounting Policies *(Continued)*

(g) *Intangible assets (Continued)*

ii) *Research and development expenditure (Continued)*

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

iii) *Impairment*

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (Note 4(n)).

(h) *Financial instruments*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

i) *Financial assets*

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Convertible note receivables

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract. Where the Group needs to separate an embedded derivative from the host contract but is unable to measure the embedded derivative separately, the combined instruments are designated as at fair value through profit or loss. The Group may conclude, however, that the equity component of the combined instrument may be sufficiently significant to preclude it from obtaining a reliable estimate of the entire instrument because the embedded derivative will be settled by an unquoted equity instrument whose fair value cannot be reliably measured. In that case, the combined instrument is measured at cost less any accumulated impairment losses.

4. Significant Accounting Policies *(Continued)*

(h) *Financial instruments (Continued)*

ii) *Impairment on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

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

– granting concession to a debtor because of debtors' financial difficulty; or

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

For loan and receivables and convertible notes

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred. All of the Group's financial liabilities are financial liabilities at amortised cost.

Financial liabilities at amortised cost including trade and other payables, and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. Significant Accounting Policies *(Continued)*

(h) Financial instruments (Continued)

iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or it transfers the 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the asset and also recognises a collateralised borrowing for the proceeds received.

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

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Revenue recognition

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time-apportioned basis taking into account the principal outstanding and effective interest rate applicable.

4. Significant Accounting Policies *(Continued)*

(k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(l) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange 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.

4. Significant Accounting Policies *(Continued)*

(l) *Foreign currency (Continued)*

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollar using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the ended of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(m) *Employee benefits*

Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as employer vest fully with the employees when contributed into the Scheme.

The Group has joined a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to profit or loss as they became payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

4. Significant Accounting Policies *(Continued)*

(n) *Impairment of other assets*

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land use rights and other intangible assets; and
- investments in subsidiaries.

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

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

(o) *Share-based payments*

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

4. Significant Accounting Policies *(Continued)*

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(r) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

4. Significant Accounting Policies *(Continued)*

(r) Related parties (Continued)

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

(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 key management personnel of the entity (or of a parent of the entity).

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(s) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(t) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

(a) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year is as follows:

Impairment of trade and other receivables

Provision for impairment of trade and other receivables is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of trade receivables and other receivables and doubtful debt expenses/ written back in the period in which the estimate has been changed.

6. Segment Reporting

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

(a) Reportable segments

No separate business segment information is presented as the Group has only one business segment which is the manufacture and sale of pharmaceutical products.

(b) Geographical information and major customers

In 2013 and 2012, the Group's revenue from external customers is derived solely from its operations in the PRC (country of domicile), where all of the Group's non-current assets, other than the convertible note receivables, are located in the PRC. The geographical location of external customers is based on the location at which the goods are delivered.

6. Segment Reporting *(Continued)*

(b) *Geographical information and major customers (Continued)*

Revenues from one customer of the Group amounted to HK$71,282,000 (2012: HK$53,685,000) which represent 20% or more of the Group's revenue.

7. Turnover

Turnover, which is also the revenue, represents sales value of biopharmaceutical products supplied to customers less discounts, returns, value added tax and other applicable local taxes.

8. Other revenue

	2013	2012
	HK$	HK$
Other revenue		
Interest income from bank deposits	**218,996**	1,424,224
Reversal of accruals and other payables	**–**	6,102
Government grants (Note)	**1,498,903**	996,923
Others	**33,592**	130
	1,751,491	2,427,379

Note:

Government grants from Zhuhai Finance Bureau（珠海市財政局）are in relation to the new product development of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

9. Profit Before Income Tax Expense

Profit before income tax expense is arrived at after charging/(crediting):

	2013 **HK$**	2012 HK$
Cost of inventories recognised as expenses	**36,114,212**	23,563,134
Staff costs excluding directors' remuneration:–		
Salaries and other benefits	**28,044,021**	20,060,468
Pension fund contributions	**1,435,926**	1,175,509
Equity settled share-based payment expenses*	**1,831,350**	–
Depreciation of property, plant and equipment	**2,331,317**	987,092
Exchange gain, net	**(1,524,463)**	(413,856)
Amortisation of other intangible assets	**125,298**	123,077
Amortisation of land use rights	**167,332**	163,079
Equity settled share-based payment expenses*	**100,000**	–
Auditor's remuneration:–		
Current year	**660,473**	532,923
Under provision for last year	**–**	70,000
	660,473	602,923
Research and development costs expensed:		
As incurred	**6,560,943**	6,516,541
Impaired	**–**	4,479,686
	6,560,943	10,996,227

* During the year ended 31 December 2013, equity settled share-based payment expenses included in service contract to staff cost which was recognised in administrative expenses in respect of share options of the Company recognised were approximately HK$100,000 and HK$1,831,350 for service contract and staff cost respectively. Details of transactions are set out in note 32.

10. Finance Costs

	2013 **HK$**	2012 HK$
Interests charged on bank borrowings wholly repayable within five years	**3,972,325**	2,969,489
Less: Interests capitalised in construction in progress	**(1,925,798)**	(1,267,746)
	2,046,527	1,701,743

Interest capitalised during the year are calculated by applying a capitalisation rate of 6.36% (2012: 6.26%) to expenditures on qualifying assets.

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the respective loan agreements. For the year ended 31 December 2013, interest charges on bank borrowings which contain a repayment on demand clause amounted to HK$3,972,325 (2012: HK$531,385).

11. Directors' Emoluments

The emoluments paid or payable to each of the six (2012: six) directors and chief executive were as follows:

	Executive directors			Independent non-executive directors			
	Fang Haizhou HK$ (Note)	**Zhong Sheng** HK$	**Ngiam Mia Je Patrick** HK$	**Fung Chi Ying** HK$	**Mauffrey Benoit Jean Marie** HK$	**Yeow Mee Mooi** HK$	**Total 2013** HK$
Fee	–	–	–	180,000	165,000	165,000	510,000
Other emoluments							
Salaries and other benefits	533,264	473,748	649,998	–	–	–	1,657,010
Contributions to pension schemes	26,483	15,000	–	–	–	–	41,483
Discretionary bonuses	484,000	436,000	580,000	–	–	–	1,500,000
Share-based payment expenses	534,144	534,144	76,306	–	–	–	1,144,594
	1,577,891	1,458,892	1,306,304	180,000	165,000	165,000	4,853,087

	HK$	HK$	HK$	HK$	HK$	HK$	**Total 2012** HK$
Fee	–	–	–	180,000	165,000	165,000	510,000
Other emoluments							
Salaries and other benefits	440,142	385,000	550,000	–	–	–	1,375,142
Contributions to pension schemes	23,637	13,750	–	–	–	–	37,387
Discretionary bonuses	384,000	336,000	480,000	–	–	–	1,200,000
	847,779	734,750	1,030,000	180,000	165,000	165,000	3,122,529

Note: Mr Fang Haizhou also acts as the Chief Executive Officer of the Group.

The performance related incentive payment is at the discretion of the directors depending on the financial performance of the Group.

7,500,000 share options were granted to the directors of the Company during the years ended 31 December 2013 (2012: Nil).

During the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the years ended 31 December 2013 and 2012.

12. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2012: three) were directors of the Company whose emoluments are included in the disclosures in Note 11 above. The emoluments of the remaining two (2012: two) individuals who were also members of senior management of the Group were as follows:

	2013 **HK$**	2012 HK$
Salaries and other benefits	**1,525,112**	1,408,262
Contributions to retirement benefits schemes	**29,190**	27,387
Equity settled share-based payment expense	**656,234**	–
	2,210,536	1,435,649

Their emoluments were within the following bands:

	2013 **No. of** **employees**	2012 No. of employees
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1

During the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

13. Retirement Benefits

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government, or in the case of the employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute a certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the scheme.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2013 amounted to HK$1,477,409 (2012: HK$1,212,896).

14. Income Tax Expense

The amount of taxation in the consolidated statement of comprehensive income represents:

	2013 HK$	2012 HK$
Current tax – the PRC		
– Provision for the year	**11,424,741**	7,932,993
Deferred tax (Note 28)	**6,740,622**	2,722,909
	18,165,363	10,655,902

No provision for Hong Kong profits tax has been made as the Group had incurred losses for Hong Kong profits tax purpose.

The Group's major operating subsidiary in Zhuhai, the PRC, was established and carries on business in the Special Economic Zones of the PRC as a high technology enterprises. This subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and is entitled to enjoy the enterprise income tax at the concessionary rate of 15% up to 31 December 2013.

A unified enterprise income tax rate of 25% is applied to the other operating subsidiary in Zhuhai, the PRC (2012: 25%).

14. Income Tax Expense *(Continued)*

The income tax expense for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2013 HK$	2012 HK$
Profit before income tax expense	**73,062,059**	49,651,038
Tax calculated at Hong Kong profits tax rate of 16.5% (2012: 16.5%)	**12,055,240**	8,192,421
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,196,725)**	(854,173)
Tax effect of expenses not deductible for tax purposes	**962,323**	96,322
Tax effect of revenue not taxable for tax purposes	**(37,418)**	(24,085)
Tax effect of tax loss not recognised	**1,636,475**	1,335,539
Tax benefits	**(893,990)**	(829,001)
Others	**902,114**	585,033
Withholding tax arise from undistributable profits of a subsidiary in PRC	**4,737,344**	2,153,846
Income tax expense	**18,165,363**	10,655,902

15. Loss Attributable to Owners of the Company

Loss attributable to owners of the Company includes an amount of HK$7,128,995 (2012: HK$3,265,282) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2013 HK$	2012 HK$
Amount of loss attributable to owners of the Company dealt with in the Company's financial statements	**(7,128,995)**	(3,265,282)
Final dividends from subsidiaries attributable to the profits of the previous financial year approved and paid	**7,000,000**	12,000,000
Company's (loss)/profit for the year	**(128,995)**	8,734,718

16. Dividends

	2013 HK$	2012 HK$
Final, proposed – HK$0.018 (2012: HK$0.01) per share	**10,021,500**	5,567,500

The directors propose a final dividend of HK$0.018 (2012: HK$0.01) per ordinary share to be paid. The amount of proposed final dividend for 2013 is based on 556,750,000 shares (2012: 556,750,000) issued as at 31 December 2013. This proposed dividend is not reflected as dividend payable as at the end of the reporting period but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

17. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	Group	
	2013 HK$	2012 HK$
Earnings for the purposes of basic and diluted earnings per share	**54,896,696**	38,995,136

The denominator used in calculating the earnings per share for the year ended 31 December 2013 is 556,750,000 (2012: 556,750,000) ordinary shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price of shares for the year ended 31 December 2013.

There was no potential ordinary share in issue for the year ended 31 December 2012. Accordingly, the diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2012.

18. Property, Plant and Equipment

The Group

	Buildings and leasehold improvements HK$	Construction in progress HK$	Plant and machinery HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
Cost						
At 1 January 2012	4,380,603	31,041,845	10,690,924	3,126,463	1,822,039	51,061,874
Additions	–	67,486,272	26,261,520	155,680	1,258,584	95,162,056
Transfer from deposits and prepayments	–	914,326	19,934,754	–	401,723	21,250,803
Disposal	–	–	–	–	(129,231)	(129,231)
Write offs	–	–	(8,962,654)	(1,150,011)	–	(10,112,665)
Exchange adjustment	25,870	158,072	49,393	15,721	10,196	259,252
At 31 December 2012	4,406,473	99,600,515	47,973,937	2,147,853	3,363,311	157,492,089
Additions	–	28,484,903	2,921,089	2,387,873	205,488	33,999,353
Transfer from construction in progress	120,458,299	(129,919,934)	9,461,635	–	–	–
Write offs	–	–	(422,878)	(504,420)	–	(927,298)
Exchange adjustment	1,559,430	1,834,516	1,670,950	73,670	108,951	5,247,517
At 31 December 2013	126,424,202	–	61,604,733	4,104,976	3,677,750	195,811,661
Accumulated depreciation and impairment						
At 1 January 2012	4,380,603	–	7,207,297	2,484,778	1,387,360	15,460,038
Charge for the year	–	–	480,047	136,342	370,703	987,092
Written back on disposals	–	–	–	–	(67,455)	(67,455)
Write offs	–	–	(7,068,977)	(1,036,476)	–	(8,105,453)
Exchange adjustment	25,870	–	44,994	12,106	8,080	91,050
At 31 December 2012	4,406,473	–	663,361	1,596,750	1,698,688	8,365,272
Charge for the year	–	–	1,631,551	214,706	485,060	2,331,317
Write offs	–	–	(243,706)	(458,345)	–	(702,051)
Exchange adjustment	–	–	38,930	31,138	59,963	130,031
At 31 December 2013	4,406,473	–	2,090,136	1,384,249	2,243,711	10,124,569
Carrying amount						
At 31 December 2013	122,017,729	–	59,514,597	2,720,727	1,434,039	185,687,092
At 31 December 2012	–	99,600,515	47,310,576	551,103	1,664,623	149,126,817

The Group's construction in progress which are transferred to buildings and leasehold improvements, are built on land in the PRC under medium-term leases. As at 31 December 2013, the buildings and leasehold improvements of HK$122,017,729 (2012: Nil) were pledged for bank borrowing as set out in note 29.

19. Land Use Rights

The Group

	HK$
Cost:	
At 1 January 2012	8,102,324
Exchange adjustment	47,848
At 31 December 2012	8,150,172
Additions	119,490
Exchange adjustment	259,117
At 31 December 2013	8,528,779
Accumulated amortisation:	
At 1 January 2012	458,387
Charge for the year	163,079
Exchange adjustment	2,647
At 31 December 2012	624,113
Charge for the year	167,332
Exchange adjustment	21,890
At 31 December 2013	813,335
Carrying amount:	
At 31 December 2013	7,715,444
Portion classified as current assets (included in deposits and prepayments)	(170,776)
Non-current assets	7,544,668
At 31 December 2012	7,526,059
Portion classified as current assets (included in deposits and prepayments)	(163,003)
Non-current assets	7,363,056

The Group's interest in leasehold land is held in the PRC under a medium term lease of 50 years.

As at 31 December 2013, the Group's land use rights were pledged for bank borrowings as set out in note 29.

20. Goodwill

The Group

	HK$
Cost	
As 1 January 2012	2,488,928
Exchange adjustment	17,779
As 31 December 2012	2,506,707
Exchange adjustment	95,707
As 31 December 2013	2,602,414

Impairment Testing on Goodwill

The recoverable amount of the goodwill is determined based on the cash generating unit ("CGU") of the Group's sales network of biopharmaceutical products to which the goodwill belong on the value in use basis. The calculation is based on the most recent two-year financial budgets approved by management. The following key assumptions have been made for the purpose of analysis:

1 Gross margin ratio of 88% (2012: 90%)

2 Pre tax discount rate of 14.3% (2012: 14.3%) per year

Management determined the gross margin based mainly on past performance of the CGU and management's expectations for the market development. The discount rate is determined based on the PRC risk free interest rate adjusted by the specific risk associated with the CGU. The recoverable amounts of the CGU have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a two-year period. Cash flow beyond the two-year period are extrapolated using an estimated weighted average growth rate of 3%, which does not exceed the long-term growth rate for the pharmaceutical production industry in the PRC.

The recoverable amount of the goodwill determined in the above manner suggested that there was no impairment in the value of goodwill as at 31 December 2013 and 2012.

The directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

21. Other Intangible Assets

The Group

	Development expenditure HK$	Distribution rights HK$	Total HK$
Cost			
At 1 January 2012	19,249,135	1,223,093	20,472,228
Additions	4,727,875	–	4,727,875
Exchange adjustment	111,930	7,223	119,153
At 31 December 2012	24,088,940	1,230,316	25,319,256
Additions	5,925,958	–	5,925,958
Exchange adjustment	837,999	38,882	876,881
At 31 December 2013	30,852,897	1,269,198	32,122,095
Amortisation			
At 1 January 2012	10,653,509	285,388	10,938,897
Amortisation	–	123,077	123,077
Impairment loss	4,479,686	–	4,479,686
Exchange adjustment	61,261	1,640	62,901
At 31 December 2012	15,194,456	410,105	15,604,561
Amortisation	–	125,298	125,298
Exchange adjustment	480,190	14,583	494,773
At 31 December 2013	15,674,646	549,986	16,224,632
Carrying amount			
At 31 December 2013	15,178,251	719,212	15,897,463
At 31 December 2012	8,894,484	820,211	9,714,695

In 2012, the directors reviewed the carrying amounts of the development expenditure and the distribution rights and found that the future economic benefits of a developing product may not be recoverable due to unsatisfactory clinical testing result. Accordingly, the impairment loss on development expenditure was recognised in profit or loss of HK$4,479,686.

22. Inventories

	The Group	
	2013	2012
	HK$	HK$
Raw materials	**1,912,758**	2,248,098
Work in progress	**2,947,323**	1,430,148
Finished goods	**1,588,881**	630,479
	6,448,962	4,308,725

23. Trade and Other Receivables

	The Group	
	2013	2012
	HK$	HK$
Trade receivables	**107,976,716**	91,786,207
Other receivables	**730,718**	1,427,410
Total	**108,707,434**	93,213,617

The Group's policy is to allow an average credit period of 90 days to its trade customers.

The directors have considered the track record of customers and age of the outstanding balances and are of the view that no provision is required as at 31 December 2013 and 2012.

The following is an ageing analysis of trade receivables, net of allowance for impairment of trade receivables, as at the end of the reporting period:

	The Group	
	2013	2012
	HK$	HK$
0-60 days	**61,817,179**	54,100,486
61-90 days	**20,723,610**	16,385,468
> 90 days	**25,435,927**	21,300,253
	107,976,716	91,786,207

23. Trade and Other Receivables *(Continued)*

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2013	2012
	HK$	HK$
Not past due	**82,540,789**	70,485,954
Less than 3 months past due	**25,435,927**	21,300,253
	107,976,716	91,786,207

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment 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.

24. Deposits and Prepayments

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Deposits	**417,533**	574,359	**–**	–
Prepayments	**2,479,257**	753,713	**239,830**	239,476
	2,896,790	1,328,072	**239,830**	239,476

Deposits and prepayments of the Group and the Company do not contain impaired assets and their carrying amounts approximate their fair values.

25. Convertible Note Receivable

	The Group	
	2013	2012
	HK$	HK$
Unlisted debt security, at cost	**4,500,220**	4,500,220
Accrued interest income	**1,079,910**	1,079,910
	5,580,130	5,580,130
Less: Impairment on convertible note	**(2,880,000)**	(2,880,000)
	2,700,130	2,700,130

In 2009, the Group entered into an agreement to subscribe for a convertible note with a principal amount of US$580,000, equivalent to HK$4,500,220 (the "Note"), from a private company in Indonesia (the "Borrower").

Pursuant to the agreement, the Borrower would repay the Group the principal amount plus a lump sum interest payment computed at 20% of the principal amount at maturity which was 30 July 2011.

The Note also confers a right to the Group to convert the principal amount into shares of the Borrower subject to a qualifying Initial Public Offering ("IPO") being achieved. The conversion price of the Note would be at 50% discount from the offer price per share should the IPO took place before 30 July 2011. Otherwise, the Group shall have an option to extend the conversion period by a further six months. In the event that the Group agrees to the extension for additional six months, the conversion ratio shall be at 65% discount from the offer price per share under IPO.

Pursuant to the extension letter dated on 21 July 2011, due to a delay in the IPO, an extension of maturity date to 15 April 2012 was agreed. A further extension to 15 April 2014 with all other terms and conditions on the agreement remain unchanged was agreed.

In the opinion of the directors, the fair value of the embedded derivative or the combined unlisted debt security cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant, the Note is therefore stated at cost less any impairment losses.

The directors have assessed the impacts on recoverable amount of the financial asset and concluded that no further impairment loss need to be made as at 31 December 2013 and 2012.

26. Cash and Cash Equivalents

As at 31 December 2013, cash and bank balances denominated in RMB amounted to approximately HK$52,200,000 (2012: approximately HK$52,600,000). RMB is not freely convertible into foreign currencies in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

27. Trade and Other Payables

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Non-current liabilities				
Other payables (Note i)	**–**	1,968,504	**–**	–
Current liabilities				
Trade payables	**434,836**	186,661	**–**	–
Other payables (Note i,ii)	**20,816,027**	10,225,959	**264**	144
Accruals (Note ii)	**53,366,138**	40,885,850	**2,298,490**	2,015,013
VAT payable	**2,557,066**	4,548,158	**–**	–
	77,174,067	55,846,628	**2,298,754**	2,015,157
	77,174,067	57,815,132	**2,298,754**	2,015,157

Notes:

(i) It represents a government subsidy to the research and development projects and business expansion of a subsidiary. During the year of 2013, the subsidy amortised to profit or loss and transferred to current liabilities amounted to HK$751,346.

(ii) Other payables and accurals are principally consist of retention payable for construction, bonus, promotion and distribution and selling expenses payables.

The following is an ageing analysis of trade payables at the end of the reporting period:

	The Group	
	2013	2012
	HK$	HK$
0-60 days	**434,836**	182,925
61-90 days	**–**	960
> 90 days	**–**	2,776
	434,836	186,661

28. Deferred Tax Liabilities

Details of the deferred tax (assets) and liabilities recognised and movements during the current and prior years:

The Group

	Other deductible temporary difference	Development expenditure	Undistributed earnings of PRC subsidiary (Note)	Total
	HK$	HK$	HK$	HK$
At 1 January 2012	(3,495,516)	1,289,343	1,080,000	(1,126,173)
Settled during the year	–	–	(925,184)	(925,184)
Charge to profit or loss for the year	531,835	37,228	2,153,846	2,722,909
Exchange differences	(20,840)	7,602	(155,611)	(168,849)
At 31 December 2012	(2,984,521)	1,334,173	2,153,051	502,703
Settled during the year	–	–	(2,456,269)	(2,456,269)
Charge to profit or loss for the year	1,114,384	888,894	4,737,344	6,740,622
Exchange differences	(79,893)	53,671	–	(26,222)
At 31 December 2013	(1,950,030)	2,276,738	4,434,126	4,760,834

Note: The liability represents withholding tax calculated at 5% on the distributable profits of a subsidiary in the PRC expected to be distributed to the holding company with its principal place of business located in Hong Kong. At the end of the reporting period, distributable profits of the subsidiary in the PRC on which deferred tax has not been provided for amounted to approximately HK$90,000,000 (equivalent to RMB71,000,000) (2012: HK$116,000,000: equivalent to RMB95,000,000).

For the purpose of presentation in statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2013	2012
	HK$	HK$
Deferred tax assets	**–**	(1,650,348)
Deferred tax liabilities	**4,760,834**	2,153,051
	4,760,834	502,703

As at the end of the reporting period, subject to formal agreement by the tax authority, the Group had unused tax losses of HK$20,346,270 (2012: HK$18,305,000) available for offset against future profits arising in Hong Kong. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams of the Group's operation in Hong Kong. The tax loss may be carried forward indefinitely.

29. Bank Borrowings

	The Group	
	2013	2012
	HK$	HK$
Secured bank loans		
Due for repayment within one year	**38,075,898**	12,303,150
Due for more than one year and within five years	**12,691,966**	24,606,299
Due for more than five years	**–**	–
	50,767,864	36,909,449
Unsecured bank loans		
Due for repayment within one year	**–**	36,909,449
Total bank borrowings	**50,767,864**	73,818,898
Carrying amount of bank loans due for repayment within one year and more than one year but contain a repayment on demand clause (shown under current liabilities)	**50,767,864**	73,818,898

As at 31 December 2013, the two bank borrowings were denominated in RMB, repayable within five years and bear interest at fixed rate ranging from 6% to 6.6% per annum (2012: 6% to 6.15%), and the secured bank borrowings were pledged by the Group's buildings and leasehold improvements and land use rights with carrying amounts of HK$122,017,729 and HK$7,715,444 (2012: Construction in progress of HK$99,600,515 and land use rights of HK$7,526,059) respectively. (notes 18 and 19). The Group had in total approximately HK$63,460,000 (2012: HK$73,819,000) banking facilities avaliables, of which HK$50,767,864 (2012: HK$73,818,898) was utilised.

30. Share Capital

Authorised

	2013		2012	
	Number	**HK$**	Number	HK$
Ordinary shares of HK$0.1 each	**1,000,000,000**	**100,000,000**	1,000,000,000	100,000,000

Issued and fully paid

	2013		2012	
	Number	**HK$**	Number	HK$
Ordinary shares of HK$0.1 each				
At the beginning and end of the reporting period	**556,750,000**	**55,675,000**	556,750,000	55,675,000

31. Reserves

The Company

	Share premium	**Share Option reserve**	**Retained earnings/ (accumulated losses)**	**Total**
	HK$	HK$	HK$	HK$
Balance at 1 January 2012	969,871	–	1,819,020	2,788,891
Profit for the year	–	–	8,734,718	8,734,718
Dividend paid	–	–	(6,681,000)	(6,681,000)
Balance at 31 December 2012	969,871	–	3,872,738	4,842,609
Loss for the year	–	–	(128,995)	(128,995)
Equity settled share-based transaction (Note 32)	–	3,075,944	–	3,075,944
Dividend paid	–	–	(5,567,500)	(5,567,500)
Balance at 31 December 2013	969,871	3,075,944	(1,823,757)	2,222,058

The nature and purpose of each reserve of the Group are set out below.

(i) Capital reserve

The capital reserve represents discount on acquisition of a subsidiary arose in prior years.

31. Reserves *(Continued)*

(ii) Statutory surplus reserve

In accordance with the PRC Companies Law, the Company's PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to statutory surplus reserve. Such reserve may be used to reduce any loss incurred by the subsidiary or be capitalised as paid-up capital of the subsidiary. The statutory surplus reserve is non-distributable. In 2013, a PRC subsidiary transferred HK$7,036,773 (2012: HK$7,159,300) to statutory surplus reserve which represented 10% of that PRC subsidiary's profit after tax.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 4(l).

32. SHARE-BASED PAYMENTS

(a) Equity-settled share option scheme

The share option scheme was adopted by the Company on 20 June 2003 and expired on 19 June 2013. On 22 March 2013, termination of the share option scheme was approved. Adoption of the New Share Option Scheme (the "Scheme") was approved on 3 May 2013. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors of the Company or any of its subsidiaries, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, person or entity that provides research, development or other technological support to the Group, and any minority shareholder in the Company's subsidiaries.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under this scheme of the Company must not exceed 30% of the shares in issue from time to time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

The subscription price of shares under the Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of; (i) the nominal value of the shares: (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

32. Share-based payments *(Continued)*

(a) *Equity-settled share option scheme* *(Continued)*

Any grant of options under the Scheme to a connected person or any of their respective associates must be approved by all the independent non-executive directors (excluding any independent non-executive directors who are the grantees). Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the relevant offer date of each offer, in excess of HK$5 million,

such further grant of options must be approved by shareholders (to whom a circular of the Company has been issued) of the Company. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such must be taken on a poll.

Pursuant to a board resolution on 30 October 2013, the Company granted 19,500,000 share options to certain employees of the Group under the Scheme. Set out below were details of the outstanding options granted under the Scheme in 2013:

(1) All options granted were at an exercise price of HK$2.30 per share;

(2) All holders of options might only exercise their options in the following manner:

the share options will be vested in 5 tranches, i.e. the first 20% from six months after the date of grant, the second 20% from one year after the date of grant, the third 20% from one and half years after the date of grant, the forth 20% from two years after date of grant and the balance 20% from two and half years after the date of grant;

(3) All outstanding or unexercised share options granted to the grantees shall lapse on 29 October 2018.

32. Share-based payments *(Continued)*

(a) *Equity-settled share option scheme (Continued)*

The estimated fair values of share options granted on 30 October 2013 were HK$19,550,000. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

	30 October 2013
Share price	HK$1.90
Exercise price	HK$2.30
Expected volatility	67.18%
Expected life	5 years
Risk-free interest rate	1.825%

The risk-free rate was based on market yield rate of Hong Kong Monetary Authority Exchange Fund Note with maturity on 30 October 2023 as of the date of valuation on 30 October 2013. Expected volatility was based on the historical volatility of the share prices of comparable companies over the periods that are equal to the expected life before the grant date.

Set out below are details of movements of the outstanding options granted under the Scheme during the year ended 31 December 2013:

		Number of share options			
	Exercise price	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding as at 31 December 2013**
Executive directors					
– Fang Haizhuo	HK$2.30	3,500,000	–	–	3,500,000
– Ngiam Mia Je Patrick	HK$2.30	500,000	–	–	500,000
– Zhong Sheng	HK$2.30	3,500,000	–	–	3,500,000
Employees	HK$2.30	12,000,000	–	–	12,000,000
Total		19,500,000	–	–	19,500,000

The exercise price of the share options outstanding as at 31 December 2013 was HK$2.30 and the weighted average remaining contractual life was 4.8 years.

Of the total number of share options outstanding as at 31 December 2013, all the share options were not exercisable as at 31 December 2013.

The Company recognised the total expense of approximately HK$2,975,944 for the year ended 31 December 2013 in relation to share options granted by the Company under the Scheme.

32. Share-based payments *(Continued)*

(b) Equity-settled service contract

On 30 October 2013, the Company entered into the Service Contract with HK Zhixin for the appointment of Hong Kong Zhixin Financial News Agency Limited ("HK Zhixin") as the Group's investor relations consultant in the PRC and the provision of the services by HK Zhixin to the Group for three years. In consideration of the provision of the services by HK Zhixin, the Company shall grant share options to HK Zhixin, subject to acceptance of HK Zhixin. The HK Zhixin share options are granted subject to undertaking of HK Zhixin to hold such share options on the terms and conditions contained in the offer letter and to be bound by the provision of the rule of the share option scheme.

Option granted must be taken up on or before 14 November 2013, upon payment of HK$1.00.

The Company granted 2,500,000 share options to HK Zhixin under the offer letter. Set out below were details of the outstanding options granted under the offer letter in 2013:

(1) All options granted were at an exercise price of HK$2.30 per share;

(2) All holders of options might only exercise their options in the following manner:

    (i) Up to 50% of the total number of HK Zhixin share options is exercisable during the period from 30 April 2014 to 29 october 2016; and

    (ii) Up to 50% of the total number of HK Zhixin share options is exercisable during the period from 30 October 2014 to 29 October 2016;

(3) All outstanding or unexercised HK Zhixin share options shall lapse on 29 October 2016.

The estimated fair values of share options granted on 30 October 2013 were HK$1,926,000. These fair values were calculated using the Binomial model. The inputs into the model are stated in note 32(a).

The exercise price of the options outstanding as at 31 December 2013 was HK$2.30 and the weighted average remaining contractual life was 2.8 years.

2,500,000 options were outstanding as at 31 December 2013, all the options were not exercisable as at 31 December 2013.

The Company recognised the total expense of approximately HK$100,000 for the year ended 31 December 2013 in relation to HK Zhixin share options granted by the Company.

33. Operating Lease Arrangements

Operating lease payments represent rentals payable by the Group on certain properties, plant and equipment. Leases are negotiated for a term of between 0.3 to 2 years (2012: 2 to 5 years) at fixed rent.

Minimum lease payments paid during the year under operating leases were as follows:

	The Group	
	2013	2012
	HK$	HK$
Minimum leases payments:		
– Properties	**486,822**	2,115,571
– Plant and machinery and others	**–**	177,165
	486,822	2,292,736

The total future minimum lease payments is due as follows:

	2013		2012	
	Properties	**Plant and machinery and others**	Properties	Plant and machinery and others
	HK$	**HK$**	HK$	HK$
Not later than one year	**486,822**	**–**	2,147,831	–
Later than one year and not later than five years	**–**	**–**	122,588	–
	486,822	**–**	2,270,419	–

34. Interests in Subsidiaries

	The Company	
	2013	2012
	HK$	HK$
Unlisted equity investment, at cost	**100,031**	100,031
Amounts due from subsidiaries (Note)	**62,742,779**	61,959,087
	62,842,810	62,059,118

Note: The amounts due from/(to) subsidiaries are unsecured, interest-free and in substance represents the Company's investments in the subsidiaries.

34. Interests in Subsidiaries *(Continued)*

Details of the subsidiaries as at the end of the reporting period were as follows:

Name of subsidiary	Form of business structure	Place of incorporation and operation	Issued and fully paid share capital/registered capital	Percentage of ownership interest directly	Percentage of ownership interest indirectly	Principal activity
Essex Bio-Investment Limited	Limited liability company	the British Virgin Islands/Hong Kong	US$5	100%	–	Investment holding
Essex Bio-Pharmacy Limited	Limited liability company	Hong Kong	HK$8,000,000	–	100%	Investment holding
Zhuhai Essex Bio-Pharmaceutical Company Limited	Limited liability company	the PRC	RMB50,000,000	–	100%	Manufacture and selling of biopharmaceutical products
Essex Medipharma (Zhuhai) Company Limited	Limited liability company	the PRC	RMB3,000,000	–	100%	Marketing and distribution of biopharmaceutical products

35. Capital Commitments

	The Group	
	2013	2012
	HK$	HK$
On acquisition of property, plant and equipment:		
– contracted for but not provided	**84,592**	16,414,254

36. Financial Risk Management

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 4% (2012: 18%) and 12% (2012: 28%) of the total trade receivables was due from the Group's largest customer and the five largest customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 23.

(b) Liquidity risk

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

36. Financial Risk Management *(Continued)*

(b) Liquidity risk (Continued)

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

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

	Carrying amount HK$	**Total contractual undiscounted cash flow HK$**	**Within 1 year or on demand HK$**	**More than 1 year but less than 5 years HK$**	**More than 5 years HK$**
31 December 2013					
Non-derivatives:					
Trade and other payables	**77,174,067**	**77,174,067**	**77,174,067**	**–**	**–**
Bank loans subject to a repayment on demand clause	**50,767,864**	**50,767,864**	**50,767,864**	**–**	**–**
	127,941,931	**127,941,931**	**127,941,931**	**–**	**–**

	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 5 years HK$	More than 5 years HK$
31 December 2012					
Non-derivatives:					
Trade and other payables	55,846,628	55,846,628	55,846,628	–	–
Bank loans subject to a repayment on demand clause	73,818,898	82,843,258	82,843,258	–	–
	129,665,526	138,689,886	138,689,886	–	–

36. Financial Risk Management *(Continued)*

(b) Liquidity risk *(Continued)*

Maturity analysis – bank loans subjects to repayment on demand clause based on scheduled repayments

	Within 1 year HK$	More than 1 year but less than 5 years HK$	More than 5 years HK$	Total HK$
At 31 December 2013	**41,117,210**	**13,277,383**	**–**	**54,394,593**
At 31 December 2012	53,697,097	29,146,161	–	82,843,258

(c) Interest rate risk

The Group's fair value interest rate risk mainly arises from bank borrowings as disclosed in Note 29. Bank borrowings were issued at fixed rates which expose the Group to fair value interest rate risk. The Group has no cash flow interest rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

(d) Currency risk

The Group's main operations are currently in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(e) Fair values

All financial instruments other than the convertible note receivable are carried at amounts not materially different from their fair values as at 31 December 2013 and 2012.

37. Capital Risk Management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debts, which includes the bank borrowings, cash and cash equivalents and total equity. The Group's management regularly reviews the capital structure. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio of the Group at the end of reporting period was as follows:

	2013 **HK$**	2012 HK$
Debts	**50,767,864**	73,818,898
Less: Cash and cash equivalents	**(54,526,652)**	(59,830,972)
Net debts	**(3,758,788)**	13,987,926
Total equity	**253,994,014**	196,272,902
Net debt to equity ratio	**N/A**	7.13%

The Group monitors capital using a gearing ratio, which is net debts divided by total equity. Net debts are calculated as the sum of bank and other borrowings less the sum of cash and cash equivalents as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level and the directors are of the opinion that the Group's gearing ratio was maintained at reasonable level at the reporting dates.

38. Summary of Financial Assets and Financial Liabilities by Category

The following table shows the carrying amount of financial assets and liabilities as defined in Note 4(h).

	2013 Carrying amount HK$	2012 Carrying amount HK$
Financial assets		
Fair value through profit or loss		
– Designated upon initial recognition	**2,700,130**	2,700,130
Loans and receivables (including cash and bank balances)	**163,234,086**	153,044,589
	165,934,216	155,744,719
Financial liabilities		
Financial liabilities measured at amortised cost	**125,384,865**	125,117,368

39. Related party transactions

(a) Members of key management during the year comprised the three executive directors only whose remuneration is set out in notes 11, 12 and 32 to the consolidated financial statements.

(b) The immediate and ultimate parent of the Company is Essex Holdings Limited which was incorporated in Hong Kong.

40. Approval of Consolidated Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 7 March 2014.

Five Year Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 to 2 below:

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$	HK$	HK$	HK$	HK$
RESULTS					
Continuing operations					
TURNOVER	**347,046,987**	267,255,167	212,716,340	146,281,574	116,688,187
Cost of sales	**(36,114,212)**	(23,563,134)	(20,277,655)	(11,936,206)	(11,038,491)
Gross profit	**310,932,775**	243,692,033	192,438,685	134,345,368	105,649,696
Other revenue, gains and (losses)	**1,751,491**	2,427,379	1,126,117	(1,466,001)	833,569
Distribution and selling expenses	**(212,001,745)**	(168,012,021)	(133,552,801)	(89,748,373)	(69,618,126)
Administrative expenses	**(25,573,935)**	(26,754,610)	(19,884,567)	(11,932,228)	(15,301,513)
Finance costs	**(2,046,527)**	(1,701,743)	–	–	–
PROFIT BEFORE INCOME TAX EXPENSES	**73,062,059**	49,651,038	40,127,434	31,198,766	21,563,626
Income tax expense	**(18,165,363)**	(10,655,902)	(6,924,806)	(4,614,394)	(4,810,871)
PROFIT FOR THE YEAR FROM CONTINUING OPERATION	**54,896,696**	38,995,136	33,202,628	26,584,372	16,752,755
Discontinued operation					
Loss for the year from discontinued operation	**–**	–	–	–	(8,594,063)
PROFIT FOR THE YEAR	**54,896,696**	38,995,136	33,202,628	26,584,372	8,158,692
Other comprehensive income/(expenses)	**5,315,972**	697,797	3,307,433	3,267,231	(846,570)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**60,212,668**	39,692,933	36,510,061	29,851,603	7,312,122
Attributable to:					
Owners of the Company	**60,212,668**	39,692,933	36,510,061	29,851,603	10,704,319
Non-controlling interests	**–**	–	–	–	(3,392,197)
	60,212,668	39,692,933	36,510,061	29,851,603	7,312,122

Five Year Financial Summary

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$	HK$	HK$	HK$	HK$
ASSETS AND LIABILITIES					
Non-current assets	**211,731,637**	173,061,753	78,430,405	31,061,765	22,870,596
Current assets	**175,279,968**	158,681,386	139,468,553	138,129,539	107,622,731
Current liabilities	**(128,256,757)**	(131,348,682)	(53,557,989)	(36,656,712)	(21,379,022)
Net current assets	**47,023,211**	27,332,704	85,910,564	101,472,827	86,243,709
Non-current liabilities	**(4,760,834)**	(4,121,555)	(1,080,000)	(216,184)	(1,080,000)
Net assets	**253,994,014**	196,272,902	163,260,969	132,318,408	108,034,305

Notes:

1 The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period. The consolidated results of the Group for the years ended 31 December 2011, 2010 and 2009 are extracted from the published audited financial statements for these years. The consolidated results of the Group for the years ended 31 December 2013 and 2012 are as set out on page 36 of the audited financial statements.

2 The consolidated statement of financial position as at 31 December 2011, 2010 and 2009 are extracted from the published audited financial statements for the years ended 31 December 2011, 2010 and 2009, prepared on the basis as if the Group had been in existence for these years. The consolidated statement of financial position of the Group as at 31 December 2013 and 2012 are as set out on page 37 of the audited financial statements.