李氏大藥廠

LEE'S PHARM.

Lee's Pharmaceutical Holdings Limited

李 氏 大 藥 廠 控 股 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

2013 Annual Report

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

STOCK CODE
950

BOARD OF DIRECTORS
Executive Directors
Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee
(Managing Director)
Dr. Li Xiaoyi *(Chief Executive Officer)*

Non-executive Director
Mr. Mauro Bove

Independent Non-executive Directors
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER
Miss Luen Yee Ha, Susanne

PLACE OF BUSINESS IN HONG KONG
Units 110-111, Bio-Informatics Centre
No. 2 Science Park West Avenue
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Hong Kong

REGISTERED OFFICE
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South Church Street, George Town
Grand Cayman, Cayman Islands

COMPANY WEBSITE
www.leespharm.com

AUDIT COMMITTEE
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

AUTHORIZED REPRESENTATIVE
Ms. Lee Siu Fong
Dr. Li Xiaoyi

AUDITOR
HLM CPA LIMITED
Certified Public Accountants

LEGAL ADVISERS
King & Wood Mallesons (Hong Kong law)
Beijing Wuhuan Law Firm (PRC law)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor
Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

CORPORATE PROFILE

Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is a research-driven and market-oriented biopharmaceutical group focused on the market of the People's Republic of China (the "PRC" or "China"). Through its wholly owned subsidiary in the PRC, Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke"), the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. The Group has over 20 years' operation in China's pharmaceutical industry. It is fully integrated with solid infrastructures in drug development, clinical development, regulatory, manufacturing and sales and marketing in China with global perspective and it currently markets 13 products in China. The Group focuses on many different areas such as cardiovascular, dermatology, oncology, gynecology, ophthalmology and others with more than 30 products under different development stages stemming from both internal R&D as well as from the recent acquisition of licensing and distribution rights from various US, Japanese and European companies. The mission of the Group is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

The Group carries out its sales and distribution activities in Hong Kong and China through branch offices in Guangzhou, Shanghai and Beijing with network covering most of the provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad. Zhaoke is the manufacturing plant of the Group located in Hefei, Anhui Province of the PRC, comprising four GMP-compliant workshops for the production of topical gel, lyophilized powder for injection, small volume parenteral solutions and eye gel.

Currently, the Group has the following products in the market:

	Country of origin	Market		Medical application
		PRC	Hong Kong	
Proprietary products:				
*Livaracine®	PRC	✓		Heart & other cardiovascular disease
Yallaferon®	PRC	✓		Viral-infected disease
*Slounase®	PRC	✓		Shortening bleeding time & reducing loss of blood
*Eyprotor®	PRC	✓		Cornea ulcer
License-in products:				
*Carnitene®	Italy	✓		Cardiac disease
Ferplex®	Spain	✓		Sideropenic Anaemias
*Zanidip®	Italy	✓	✓	Hypertension
Aloxi®	France		✓	Prevention of nausea and vomiting associated with emetogenic cancer chemotherapy
Dafnegin®	Italy	✓		Candidiasis
Veloderm®	Italy	✓		Burns and wounds healing
Gaslon N®	Japan	✓		Gastric Ulcer and Gastritis
Brio PTCA Balloon Catheter	Italy	✓		PTCA treatment for cardiovascular disease
Hyalofamme®	Italy	✓		Vaginal dryness of various origin
Unidrox®	Italy		✓	Treatment of urinary tract infections and respiratory tract infections
Levocarnitine oral solution	Italy	✓		Primary and secondary carnitine deficiency

* *In the National Drug Reimbursement List of the PRC*

FINANCIAL HIGHLIGHTS

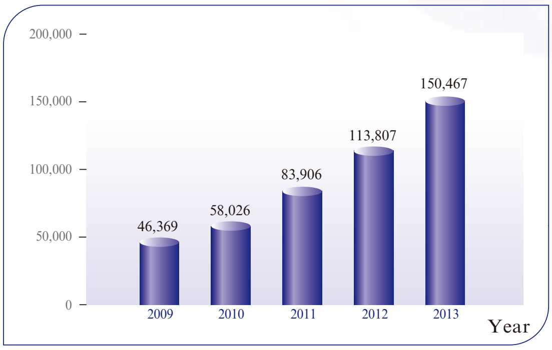
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**696,953**	534,333	399,685	255,810	173,837
Profit attributable to shareholders of the Company	**150,467**	113,807	83,906	58,026	46,369
Equity attributable to shareholders of the Company	**786,005**	582,156	311,914	241,064	144,730
	HK cents	HK cents	HK cents	HK cents	HK cents
Basic earnings per share	**28.41**	22.82	17.90	12.80	10.85
Interim dividend per share	**2.3**	1.8	1.2	1.0	0.8
Final dividend per share	**5.2**	4.0	3.0	2.0	1.6
	7.5	5.8	4.2	3.0	2.4
Dividend payout ratio	**26.4%**	25.4%	23.5%	23.4%	22.1%

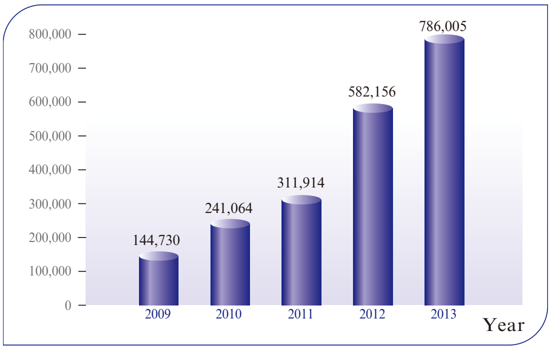
FINANCIAL HIGHLIGHTS

Turnover Of The Group (HK$'000)

Profit Attributable To Shareholders Of The Company (HK$'000)



Equity Attributable To Shareholders Of The Company (HK$'000)



Basic Earnings Per Share (HK cents)

FINANCIAL SUMMARY

The following is a summary of the published consolidated results and of the assets and liabilities of the Group:

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**696,953**	534,333	399,685	255,810	173,837
Cost of sales	**(193,700)**	(153,498)	(107,852)	(77,320)	(49,262)
Gross profit	**503,253**	380,835	291,833	178,490	124,575
Other revenue	**10,731**	12,385	12,322	5,770	4,911
Selling and distribution expenses	**(222,850)**	(179,512)	(156,437)	(79,193)	(47,842)
Research and development expenses	**(32,262)**	(16,304)	(11,835)	(5,590)	(5,686)
Administrative expenses	**(78,511)**	(63,042)	(37,090)	(29,299)	(22,486)
Profit from operations	**180,361**	134,362	98,793	70,178	53,472
Share of results of associates	**(2,418)**	–	(273)	(1,159)	–
Finance costs	**(1,853)**	(1,192)	(768)	(1,058)	(689)
Profit before taxation	**176,090**	133,170	97,752	67,961	52,783
Taxation	**(27,087)**	(20,104)	(13,728)	(10,039)	(6,414)
Profit for the year	**149,003**	113,066	84,024	57,922	46,369
Attributable to:					
Shareholders of the Company	**150,467**	113,807	83,906	58,026	46,369
Non-controlling interests	**(1,464)**	(741)	118	(104)	–
	149,003	113,066	84,024	57,922	46,369

FINANCIAL POSITION

	31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**523,884**	284,687	154,179	105,343	89,515
Current assets	**641,771**	511,844	255,897	206,370	119,051
Current liabilities	**(272,157)**	(172,689)	(83,497)	(61,021)	(59,175)
Net current assets	**369,614**	339,155	172,400	145,349	59,876
Non-current liabilities	**(41,440)**	(30,563)	(14,248)	(9,344)	(4,661)
Net assets	**852,058**	593,279	312,331	241,348	144,730
Equity attributable to shareholders of the Company	**786,005**	582,156	311,914	241,064	144,730
Non-controlling interests	**66,053**	11,123	417	284	–
	852,058	593,279	312,331	241,348	144,730

CHAIRMAN'S STATEMENT

I am ebullient to report to you the phenomenal results of the Group for the year 2013. Despite the commotion in China's pharmaceutical industry precipitated by revelation of scandalous practice employed by some major players. The efforts of the Group's assiduous management and staff had resulted in growth of both turnover and net profit by more than 30% for the year 2013, maintaining a compounded growth of over 25% seven years in a row. The turnover and net profit attributable to the shareholders for the year ended 31 December 2013 reached a new height of HK$696,953,000 and HK$150,467,000 respectively, increased by 30.4% and 32.2% respectively compared with last year. The consistency of the Group in strategy execution and performance delivery has been recognized by being named again as one of Asia's Best Under a Billion Company by Forbes, making it three awards in as many years.

The sales of the Group's major products continued to thrust forward and outpace the industry. The establishment of dedicated market access team has enhanced the Group's capability and capacity in the areas of tendering, pricing, reimbursement and hospital formulary entry. It provides support to the Group's sales and marketing efforts, helping market penetration and expansion. The direct sales force of the Group also achieved a breakthrough in 2013, evidenced by the fact that *Zanidip*® led the Group's all other products in growth with a 124% increase in sales compared to 2012. The coming of the age of the Group's direct sales force is testimony of its ability not only to formulate a strategy, but also to implement it with ensuing success. The complementary of the Group's direct sales force and distributorship models offers agility and flexibility, enabling easier maneuver in a convoluted industrious environment.

On the manufacturing front, 2013 proved to be an eventful year with major accomplishments. In July, the production facility of Powder Pharmaceuticals Inc. ("PPI") an associated company of the Group located in Hong Kong received approval from US FDA. Subsequently in October, the PPI's product *Zingo*® got the green light from US FDA for marketing and sales in the United States. This is the first time in the greater China areas where a local company has been granted the marketing authorization to export NDA drug into the US market. In December 2013, the Group's new manufacturing site in Hefei was audited by China Food and Drug Administration ("CFDA") inspectors in accordance with CFDA's new GMP standards, by which compliance is mandated for all domestic aseptic producers starting 1 January 2014. The Group's new facility passed the inspection with satisfaction and a new GMP compliance certificate from CFDA for all existing formulations and products have since been received. The achievement demonstrates the Group's commitment to product quality and sustainable growth. The completion of the new facility in Nansha, Guangzhou is also on schedule and will be put into use in the second quarter of 2014. The available of ample production space offered by this new facility allows the Group to improve control over future assets with more sustainability.

CHAIRMAN'S STATEMENT

In 2013, the Group also witnessed significant advancements in every stage of drug development. With respect to New Drug Applications (NDAs), the Group obtained two approvals from the CFDA during the period. In April, the Group successfully obtained the import drug licenses from CFDA for *Remodulin*® (treprostinil) injection, for the treatment of patients with pulmonary arterial hypertension (PAH). *Remodulin*® will be launched in the second quarter of 2014 and will fill a major void in treatment options that could result in better care for pulmonary arterial hypertension patients in China. In July 2013, the Group has received marketing approval for its oral Carnitine, making the Group as the only marketer in China with both injection and oral formulations of Carnitine. Carnitine franchise is the key driver of the Group's growth for the last few years and the launch of the oral *Carnitene*® will provide a catalyst for accelerated growth of the franchise. The Group has also made a NDA submission during the period after completion of a registration-enabling phase III study for Trazodone (*Trittico*®), in which the primary efficacy endpoint has been successfully met.

As for Investigational New Drug (IND), the Group attained an approval for *Hyalgan*® to conduct a registration-enabling phase III study in the year under review. Two IND applications for a registration-enabling phase III study of Betrixaban and Gimatecan has been accepted for review by CFDA in 2013. It is expected both studies will be initiated in the third quarter of 2014. In addition, IND applications for two first-in-class compounds, Rostafuroxin and Istaroxime, were filed in 2013 and phase IIb studies for hypertension employing pharmacogenomics approach and for acute heart failure respectively are envisaged to start in the coming months. Two other IND applications for phase I study were submitted to CFDA and are currently under active review.

The Group continued to invest in new drug development during the period, initiating several new projects to pursue new opportunities. It also broadened its collaboration with scientists around the globe to facilitate the Group's drug development efforts. Such collaboration has unveiled new findings in the mechanism of action of Anfibatide, the Group's proprietary anti-platelet agent in phase II clinical development, providing new evidence for its potential clinical applications. As data accumulates, there is increasing interest and appreciation in the international community of Anfibatide being a unique and novel anti-platelet agent that could change the paradigm of treating thrombosis diseases.

In corporate development and partnership realm, 2013 was a busy year filled with excitement and contentment. Upon receiving the US FDA approval for marketing *Zingo*® in the US, the Group's associated company Powder Pharmaceuticals Inc. ("PPI") has entered into an exclusive distribution agreement with Marathon Pharmaceuticals, LLC, a US based pharmaceutical company for marketing and selling of its product *Zingo*® in the US market. The finalisation of this agreement is an affirmation of *Zingo*®'s market potential and made PPI the first company in the greater China area that produces and exports original pharmaceutical product into the US market.

CHAIRMAN'S STATEMENT

Following its inception in 2012, the Group's subsidiary CVie Therapeutics Company Limited ("CVie") had been making great stride in 2013 by getting approval for its first product and starting its global phase IIb studies for Rostafuroxin and Istaroxime respectively. Investors were enthusiastic of its progress and additional capital was injected into CVie in order to accelerate the development of the company.

During the year 2013, the Group also successfully concluded new license agreements for the development and marketing of pharmaceuticals, namely, a new Leuprolide containing product, Betrixaban, and *Kalbitor*® with companies from Spain and the US respectively. The incessant expanding of the partnership network is one of the pillars to support the future growth of the Group.

The first year of the Group's new ten year journey had been momentous. The strategy and management of the Group were tested by unexpected upheaval in the market place but the Group never relented its belief and delivered yet another consistent performance. As the Chinese government reaffirms the development theme for the healthcare industry, the macro environment for the industry is anticipated to be more benign in 2014. The Group's anticipated two launches in the year will serve as a new driver for the Group and the new production facilities will improve the competitiveness of its products. New approvals, significant advancement in research and development and a great team that always rise up to the challenge with alacrity, there are plenty of reasons to be optimistic for the future growth of the Group.

Last but not least, I want to express my heartfelt thanks to the board, management and every member of staff for their unrelenting dedication and contribution and to our customers, banks, suppliers, shareholders and partners for their continuing support.

Lee Siu Fong
Chairman

Hong Kong, 20 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2013 was a testy year for the Group's management. The unwanted spotlight on the industry had had every player under scrutiny, heaping enormous pressure on management's ability to execute growth strategy with adaptability and adjustment. It was the belief of the Group in knowledge-based promotion and its conviction on evidence-based medicine provided the necessary strength to come through the challenge with flying color. The progress made in every aspect of the business in the first year of the new 10 year journey has been electrifying and set a tone for the development of the Group in the future.

Turnover and Profit

Turnover for the year reached a record high of HK$696,953,000 which represented a significant increase of 30.4% compared with last year. The newer product *Zanidip®* noticeably outperformed other products with sales surged by 124% compared with last year. The significance of *Zanidip®*'s breakthrough is two folds. Not only the Group has started to glean from its investment in the direct sales force, but also such newer product has begun to contribute to revenue growth in a meaningful way. As to other major products, i.e. *Yallaferon®*, *Carnitene®*, *Ferplex® and Livaracine®*, they also kept up the growth momentum with sales increased by 45%, 38%, 34% and 28% respectively, the Group was able to reach historic height in revenue with broader revenue base and with better position to mitigate potential market risks.

Gross profit ratio for the year improved slightly by 0.9 percentage point to 72.2%. Selling expenses to turnover ratio continued to drop from 34% of last year to 32% of this year, a reflection of persistent improvement in efficiency of the Group's sales and marketing organization. The rapid expansion of the business with efficiency had resulted in record height in net profit attributable to shareholders of HK$150,467,000, which represented an increase of 32.2% over last year. The net profit margin for the year 2013 was 21.6%, represented a slight improvement from 21.3% of last year. The accomplishment is remarkable in that it was managed despite the doubling of the research and development investments and the widening in the year of loss from its subsidiary and associated company. During 2013, research and development expenses jumped to HK$32 million from HK$16 million of the previous year. It corroborates the Group's commitment to new drug development as the cornerstone to build pipeline for the Group's sustainable growth. Consequential to Powder Pharmaceuticals Incorporated ("PPI") becoming an associated company of the Group in July 2013, the share of loss of PPI for the year amounted to HK$2,418,000. However, PPI has successfully obtained approval from the US FDA in July 2013 and entered into a distribution agreement with the US company Marathon Pharmaceuticals in November 2013. With its first shipment of *Zingo®* to USA in February 2014, PPI has transformed itself from a development company to a full fledge manufacturing and commercial organization that could translate into improved financial performance of the company in the years to come.

Quality System, Production and Manufacturing Facilities

The construction of a new manufacturing facility in Hefei (Anhui Province) that is built in accordance with China Food and Drug Administration ("CFDA")'s new GMP standards was completed in the fourth quarter of 2013. The 4,600 square meter of manufacturing space was equipped with state-of-the-art production system for four dosage forms, namely small volume for injection, lyophilized powder for injection, recombinant interferon topical gel and eye gel. The production lines are highly automatic to minimize production risks and to ensure product quality. The production capacity has also been scaled up to three times the previous one, reserving ample room to cope with increasing market demand for the Group's products. CFDA inspectors audited the new manufacturing site in December 2013 for compliance with new GMP standards and the field inspection found the site in good compliance. The new manufacturing site has subsequently received GMP compliance certificate from CFDA for all existing formulations and products. The Group thus joins other 50% of existing aseptic producers in China that have been able to fulfill the mandated requirements before the deadline of 1 January 2014. The open of the new production facility will undoubtedly bolster the Group's competitiveness in the market place.

In Nansha of Guangzhou City, the Group has erected a new production site which will be put into use in the second quarter of 2014. The total floor area of 57,000 square meters will cater to production areas of different products, including biologics and medical devices, as well as to other functions such as research and development center, office and warehouse. It is envisaged that the facility will be filled gradually and eventually becomes the hub for the Group's production for medical devices, pharmaceuticals and biologics for both domestic and overseas markets.

PPI, an associated company of the Group as from July 2013, has successfully obtained approval from the US FDA in 2013 for its manufacturing facility located in Hong Kong to produce *Zingo*® powder intradermal injection system and to market the product in the US. The GMP manufacturing facility of PPI in Hong Kong is the first and only facility in Hong Kong that has successfully obtained the approval from the US FDA. It marks a monumental moment to Hong Kong pharmaceutical's development as *Zingo*® becomes the first pharmaceutical product approved by the US FDA which is manufactured in Hong Kong for the US market.

Drug Development

In 2013, the Group also witnessed significant advancements in every stage of drug development that was highlighted with five Investigational New Drug (IND) applications.

In August 2013, the Group has successfully submitted an IND application to the CFDA for conducting a phase III clinical study for Gimatecan in ovarian cancer patients in China. The clinical study application was submitted with the fast-track designation, and has been accepted for review by the CFDA. The registration-enabling phase III pivotal clinical trial will test oral Gimatecan versus Topotecan in refactory patients with advanced epithelial ovarian, fallopian or peritoneal cancer, resistant or partial sensitive to platinum. Ovarian cancer is one of the most deadly tumor for woman in China and Gimatecan is aimed to fill a highly unmet medical need. The application is under active review now and study approval is expected in the second quarter of 2014.

In the same month of August 2013, the Group has also submitted an IND application to conduct Phase III APEX study of Betrixaban in China and the submission was accepted for review by CFDA. The clinical study application was submitted with the fast-track designation. Betrixaban is a novel, oral small molecule that directly inhibits the activity of Factor Xa, an important validated target in the blood coagulation pathway. APEX is a global pivotal phase III study with targeted enrollment of 6,800 critical ill patients from over 300 sites in various countries. APEX trial will test Betrixaban's efficacy for prevention of deep vein thrombosis in critical ill patients, a population that is not addressed by the current Anti-FXa compounds. The application is under initial review now and study initiation is envisaged in the third quarter of 2014.

In September 2013, the Group filed an IND application for conducting a global phase IIb study for Istaroxime, a novel compound for acute heart failure. The study is carried out in both Italy and China, and first 10 patients have been enrolled in Italy. Istaroxime is a first-in-class luso-inotropic agent under development for the treatment of acute decompensated heart failure. Istaroxime does not increase heart rate, minimizes the increase in oxygen consumption, is less arrhythmogenic and does not cause hypotension. The preliminary read out of the study is quite positive without major safety concern. This important initial milestone of Istaroxime will be followed by initiation of the Chinese arm of the study in the first half of 2014.

The IND application for Rostafuroxin global phase IIb study was resubmitted in October 2013. The first patient of the Italian arm of the study has been enrolled. Rostafuroxin is endowed of high potency and efficacy in reducing blood pressure and preventing organ hypertrophy in animal model. It is indicated for treatment of newly diagnosed hypertension patients who carry certain genetic profiles representative of adducing and EO-hypertensive mechanisms. Rostafuroxin is the first anti-hypertensive drug that deploys pharmacogenomic approach and this personalized treatment of hypertension could signify a shift of paradigm in hypertension management.

The IND application for ZK003, a Group's proprietary peptide with hair growth and healing property was also filed with CFDA in November 2013. Animal studies have shown that ZK003 is effective in the treatment of chemo-induced alopecia and in accelerating the healing of cornea ulcer. The Group's IND covers both indications, Further, CFDA has granted fast track review status to ZK003. Chemo-induced alopecia is frequent in cancer patients and affects cancer survivor's quality of life. It is an area of highly unmet medical need as oncologist is increasingly looking to improve patient's quality of life with better cancer supporting care.

The Group's ongoing clinical studies made significant advancements during 2013 as well. The second cohort of the Anfibatide's phase IIa dose escalating study was 80% completed and enrollment is to be completed in the first quarter of 2014. So far, the higher dose exhibits same safety profile as in the lower dose cohort and the final cohort will be initiated in the second quarter of 2014. The Group also intensified its collaboration network with renowned platelet researchers around the world to understand the mechanism of action of Anfibatide. Studies has since unveiled new findings in the mechanism of action of Anfibatide, suggesting Anfibatide's application in not only acute coronary syndromes, but also in stroke and thrombocytopenia thrombosis purpura, an attractive orphan indication. As data accumulates, there is increasing interest and appreciation of Anfibatide being a unique and novel anti-platelet agent that could change the paradigm of treating different thrombosis diseases.

The phase III, registration-enabling clinical study of Prulifloxacin has completed 75% of the targeted enrollment. The phase III clinical study aims to evaluate the efficacy and safety of Prulifloxacin filmcoating tablets for the treatment of acute exacerbation of chronic bronchitis in the Chinese population. The study will be completed in May 2014 with Import Drug License application to follow thereafter.

Imported Products Registration

In April 2013, the Group successfully obtained the Import Drug License from CFDA for *Remodulin*® (treprostinil) injection, for the treatment of patients with pulmonary arterial hypertension (PAH). *Remodulin*® is a prostacyclin vasodilator that is indicated for treatment of PAH (WHO Group 1) by intravenous and subcutaneous administration, to diminish symptoms associated with exercise. *Remodulin*® will be launched in the second quarter of 2014 and will fill a major void in treatment options that could result in better care for pulmonary arterial hypertension patients in China.

In 2013, the Group has received marketing approval for its oral Carnitine, making the Group as the only marketer in China with both injection and oral formulations of Carnitine. Carnitine franchise is the key driver of the Group's growth for the last few years and continues to thrive in the market place. The *Carnitene*® brand is well recognized and respected in China now. The availability of oral *Carnitene*® will surely widen the market breadth of Carnitine franchise, complementing to the current success of *Carnitene*® injection. The oral *Carnitene*® has been launched in January 2014.

During the period under review, the Group completed the registration-enabling study for Trazodone and the primary efficacy end point of the study was successfully reached with the expected safety profile. Submission has been made to CFDA for obtaining Import Drug License and approval is expected in 2015. Trazodone (*Trittico*®) is a product licensed from Angelini of Italy and the registration-enabling study was to evaluate the efficacy and safety of Trazodone for treatment of depression in Chinese population.

International Partnerships

The Group also achieved major milestone in corporate development and partnership. In January 2013, the Group entered into agreement with Portola Pharmaceuticals, Inc. to jointly expand the Phase 3 APEX study of Betrixaban into China, with an option for the Group to negotiate the commercial rights to the drug in China. Betrixaban is a novel, oral small molecule that directly inhibits the activity of Factor Xa, an important validated target in the blood coagulation pathway. The ongoing phase III pivotal trial involves 6,800 patients in over 50 countries and aims to address a highly unmet medical need for critically ill patients. The Chinese arm of the study is expected to initiate during the second half of 2014 with US, Europe and China registration filing planned for late 2015. This collaboration is a manifestation of Group's step up effort to be in the forefront of global drug development.

Also in January 2013, the Group entered into licensing agreement with the Spanish company GP Pharm for exclusive marketing and distribution of a long acting Leuprolide, a drug indicated for prostate cancer. The agreement augments the Group's oncology pipeline and boosts its competitiveness in the area.

In February 2013, CVie Therapeutics Company Limited ("CVie"), a subsidiary of the Group, concluded a strategic partnership with Dyax Corp. for the development and commercialization of *Kalbitor®* (ecallantide) in the treatment of hereditary angioedema (HAE) in China, Hong Kong and Macau. *Kalbitor®* is currently marketed in the US for the treatment of acute attacks of HAE in patients 16 years of age and older. HAE is a rare and deadly disease and no effective therapy is currently available in China. *Kalbitor®* will be the second orphan drug after *Remodulin®* that the Group has committed to bring into China and the effort is a reflection of the Group's dedication to neglected diseases and neglected patients in China.

The Group entered into a partnership in August 2013 with the School of Continuing Education, Tsinghua University in China. Tsinghua University is the most renowned university in China and its School of Continuing Education is reputed with its Executive Training Programs that cover many different industries, including healthcare. The Group will work together with the School of Continuing Education, Tsinghua University to expand the executive training program on hospital directors and other responsible personnel, providing opportunity to improve managerial and administrative skill for hospital executives. This partnership is a demonstration of the Group's commitment to the development and reform of China's healthcare system.

In November 2013, PPI entered into an exclusive distribution agreement with Marathon Pharmaceuticals, LLC, a US based pharmaceutical company for marketing and selling of its product *Zingo®* in the US market. This signing is an affirmation of *Zingo®*'s market potential and made PPI the first company in the greater China area that produces and exports original pharmaceutical product into the US market. The first shipment of *Zingo®* left Hong Kong for the US in February 2014 that signifies the transformation of PPI from a development company into a full fledge manufacturing and commercial organization.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and Marketing

With respect to sales and marketing, the Group kept stressing the theme of efficiency in its relentless restructuring efforts. A new market access team has been established during the period under review to focus on tender, pricing, reimbursement and distributors relationship. The compartmentization of functions with dedicated team is going to streamline the selling process, maintain price stability and better leverage distributors' resources.

Belief in science-based promotion and conviction in evidence-based medicine have been the strength of the Group, allowing it to maintain growth momentum even in a very challenging environment such as the one the market has experienced in 2013. The Group has invested heavily in post-launch clinical study to support the marketing effort with scientific data. Two important phase IV studies for *Zanidip*® and *Carnitene*® respectively were completed during the period under review and satisfactory results have been obtained. The clinical study on *Zanidip*® has demonstrated that *Zanidip*® is not only as effective as other calcium channel blockers, but is also more advantageous in maintaining daily blood pressure stability. The better control in blood pressure variability is clinical relevant as cardiovascular events such as stroke is associated with blood pressure fluctuation. These encouraging results provide new catalyst for the increasing acceptance of *Zanidip*® as the preferred choice among calcium channel blockers in the treatment of hypertension in the medical practice in China. In addition, the Group has sponsored three other investigator-initiated studies involving *Zanidip*® and has continued to accumulate clinical data in Chinese patients. Those efforts have translated into 124% leapt for *Zanidip*® in 2013 compared with 2012. The successful conclusion of *Carnitene*® study in heart failure provides new scientific evidence for the product, making it possible to reposition the product with significant differentiation from its competitors. The application for the new indication of chronic heart failure treatment has been made to CFDA. Thanks to the *Carnitene*® study being double blinded, placebo controlled study with sizable patient numbers in Chinese population, the evidence of the study had been instrumental in placing Carnitine as a treatment option in the latest guideline for treatment of heart failure issued by the China Medical Association of Cardiology.

Corporate Development

During the year 2013, the Group's subsidiary CVie Therapeutics Company Limited ("CVie") posed to become a commercial operation with the approval of *Remodulin*® in April 2013. The successful in-licensed of *Kalbitor*® reinforced CVie as a leading orphan drug company in China. The initiation of both phase IIb study for Rostafuroxin and Istaroxime in Italy was also an endorsement of CVie development strategy. As a result, CVie had attracted strong interest from investors and had successfully raised additional US$13 million to accelerate the development of the company. Major milestones such as the commercial launch of *Remodulin*® and initiations of phase IIb study for both Rostafuroxin and Istaroxime in China in 2014 are projected.

Group had also completed the building of new human resource system to better cope with the Group's fast expansion. This new system is vital for the Group to attain growth sustainability. It will enhance the Group's ability to recruit and retain talent, providing impetus for improvement of each and every aspect of the Group.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2013 was HK$696,953,000, representing increase of HK$162,620,000 or 30.4% over last year. The growth was mainly contributed by *Carnitene*®, *Livaracine*®, *Zanidip*®, *Yalloferon*® and *Ferplex*®. Profit attributable to shareholders reached HK$150,467,000 for the year 2013, an increase of 32.2% compared with last year.

Gross Profit Margin

Gross profit margin for the year 2013 was 72.2%, represented improvement of 0.9 percentage point compared with gross profit margin of 71.3% for last year.

Selling and Distribution Expenses

Selling and distribution expenses to turnover ratio for the year 2013 was 31.97%, represented a decrease of 1.63 percentage points compared with 33.60% for that of previous year. The stringent effort of the management to control selling expenses, economy of scale and improvement in efficiency and effectiveness of sales and marketing organization caused the drop in ratio.

Research and development expenses

Research and development expenses for the year 2013 increased by HK$15,958,000 to HK$32,262,000 mainly due to written off of certain development project costs and more investment in new development projects.

Administrative Expenses

Administrative expense for the year 2013 increased by 24.5% compared with last year to HK$78,511,000. It was mainly attributable to increase in employee head count and staff cost to cope with the increase in volume of transactions.

Other payable

Other payable balance as at 31 December 2013 as disclosed in the consolidated statement of financial position amounted to HK$145,365,000, increased by HK$50,605,000 over last year. The increase was mainly attributable to increase in advance receipt of sales deposit.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2013, the Group had cash and bank balances and pledged bank deposits of approximately HK$381.06 million (31 December 2012: HK$335.90 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 2.36 times (31 December 2012: 2.96 times). As at 31 December 2013, the Group had bank and other borrowings of approximately HK$69.5 million and equity attributable to shareholders of the Company of approximately HK$786 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to equity attributable to shareholders of the Company, was nil as at 31 December 2013 and 31 December 2012. Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in the future.

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro, Japanese Yen and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group may use forward contracts to hedge against foreign currency fluctuations.

Charges on Group Assets

As at 31 December 2013, the Group has pledged bank deposit of HK$2,000,000 (2012: HK$2,000,000) to secure general banking facilities granted to the Group. In addition, the Group's obligations under finance leases are secured by the lessors' title to the motor vehicle, which have a carrying amount of HK$544,338 (2012:HK$1,533,531).

Contingent Liabilities

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

Employee Information

As at 31 December 2013, the Group had 594 employees (2012: 531 employees) working in Hong Kong and in the PRC. Total employee remuneration, including directors remunerations, retirement benefit provision and mandatory provident fund contributions, for the year under review amounted to approximately HK$103.96 million (2012: HK$88.18 million).

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme, retirement benefit scheme and medical insurance, employees share options are also awarded to employees according to the assessment of individual performance.

PROSPECTS

The Group is enthusiastic about its prospect in 2014 and beyond and is confident on continually executing its growth strategy with steady performance.

The new government of China has stressed the need to accelerate the transformation of China's economy from export and investment driven one to domestic consumption model. Pertaining to this effort, healthcare has been identified by the government, as one of the key areas to propel the makeover and safety net for medical care will be widened with further government investment. The focus in healthcare creates enormous growth opportunity for the pharmaceutical industry and the Group is well positioned to benefit from it.

The aging of the Chinese population has tilted the balance toward demand as prevalence of cardiovascular diseases and cancer increases exponentially in recent years. The enhanced healthcare awareness in urban dwellers and available medical reimbursement for peasants in the countryside have produced an upsurge in hospital traffics and huge demands for pharmaceuticals that favor specialty pharmaceutical companies such as the Group.

Innovation has also been the main theme of China renewal effort of reform. Biopharmaceutical industry has been selected as one of the pillars for innovation. Policy has been crafted to encourage innovation by granting proprietary drugs fast track review and preferential treatment in pricing and reimbursement. As five out of the Group's seven current clinical programs are for 1.1 category drugs with fast track review designations, the Group sits well to take advantage of the situation for speedy development of its products.

MANAGEMENT DISCUSSION AND ANALYSIS

The implementation of new GMP standards has shake up the competition landscape in the pharmaceutical industry in China by forcing consolidation. Consequently, market place is set to favor stronger players with resources. The successful accreditation of the Group's Hefei new manufacturing facility by CFDA boosts its products' competitiveness in the market place.

Three of the Group's imported drugs are under final review by CFDA at the moment. The Group has reason to believe that approval for some of them will be received in the first half of 2014. Although the new approvals will not contribute directly to the Group's revenue, it could augment the profile of the Group, helping the brand building effort that will indirectly inject fuel to the growth of launched products.

With the imminent launch of both *Remodulin*® and oral Carnitine, the Group will further broaden its revenue in the near future. The oral Carnitine will ride along the phenomenal growth of the Group's injection Carnitine, complementing to patient's need after discharging from the hospital. The complete package will surely make Carnitine franchise stronger in the market place. *Remodulin*® will be the only injection medication for pulmonary hypertension patient in China. The unique characteristics of China's pulmonary hypertension market could fit well with *Remodulin*®'s profile to make it an important treatment option for the patients.

The Group is also optimistic that the six major products of the company will continue to perform well in the market place. The current market shares of the respective product are yet satisfactory and expansions in market penetration remain a priority for all six leading products. The expected opening of tendering process in several provinces in China could also be a determinant of the Group's because several of the Group's newly launched products have been underperforming due to lack of tenders. Once the door is open, those products could provide additional revenue contributions to the Group, helping to mitigate market risks.

Both macro and micro environments favor strong players in the pharmaceutical industry with innovation and the Group has prepared itself to thrive in the competition.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, aged 57

Ms. Lee Siu Fong ("Ms. Lee") joined the Group in April 1997 and has since been responsible for the Group's financial affairs. Ms. Lee is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. Ms. Lee is the sister of Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi.

Leelalertsuphakun Wanee

Managing Director, Chief Marketing & Sales Officer & member of remuneration committee, aged 60

Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun") joined the Group in April 1997. In September 2003, Ms. Leelalertsuphakun was appointed the Chief Marketing & Sales Officer and is responsible for the Group's sales and marketing activities. Ms. Leelalertsuphakun is the sister of Ms. Lee and Dr. Li Xiaoyi.

Li Xiaoyi

Chief Executive Officer & Chief Technical Officer, aged 51, PhD

Dr. Li Xiao Yi ("Dr. Li") holds a Ph.D. of Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Warner-Lambert, a major pharmaceutical company. He is the founder of the Group and has been responsible for the daily operation and research and development of the Group since 1994. Dr. Li is the brother of Ms. Lee and Ms. Leelalertsuphakun.

NON-EXECUTIVE DIRECTOR

Mauro Bove, *aged 59*

Mr. Mauro Bove ("Mr. Bove") joined the Group on 9 May 2005. He obtained his law degree at the University of Parma, Italy, in 1980 and has more than thirty years of business and management experience within the pharmaceutical industry. Mr. Bove has served in a number of senior positions in business, licensing, M&A and corporate development within Sigma-Tau, one of the leading Italian pharmaceutical groups. He presently heads the corporate and business development department at Sigma-Tau Finanziaria S.p.A., the holding company of Sigma-Tau Group. Mr. Bove is also a board member of several private and public companies, both in Europe and in the U.S. He is connected with Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. ("STIF"), a substantial shareholder of the Company as STIF is a company belonging to Sigma-Tau Group. Save as disclosed above, he is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company (within the meaning of the Listing Rules).

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director, chairman of audit committee & member of remuneration committee, aged 51, PhD, MBA, BBA, CFA, MHKSI

Dr. Chan Yau Ching, Bob ("Dr. Chan") joined the independent Board on 14 January 2002. Dr. Chan has extensive experience in corporate development and financial management of high-growth companies. Dr. Chan had been a finance professor, researcher and consultant. He had also served directorship at various listed and privately held companies in Hong Kong and in the United States. Currently Dr. Chan is Managing Director of KBR Capital Limited, a company engaged in advising clients on management and investment activities in China and Hong Kong. Dr. Chan does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Lam Yat Cheong

Independent non-executive Director & member of audit committee, aged 52, CPA (Practising), FCCA, BBA

Mr. Lam Yat Cheong ("Mr. Lam") joined the independent Board on 1 July 2004. Mr. Lam is a sole proprietor of an audit firm and has over 26 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Lam is also an independent non-executive director of Perfectech International Holdings Limited and Wuyi International Pharmaceutical Company Limited, both of the companies are listed in Hong Kong. Mr. Lam does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Tsim Wah Keung, Karl

Independent non-executive Director, chairman of remuneration committee and member of audit committee, aged 55, PhD, MPhil, BSc

Dr. Tsim Wah Keung, Karl ("Dr. Tsim"), joined the independent Board on 20 September 2004. Dr. Tsim currently serves as Chair Professor of Life Science at the Hong Kong University of Science and Technology. He holds a Bachelor of Science degree and a Master degree in Biochemistry from the Chinese University of Hong Kong, and a Doctorate in Molecular Neurobiology from the University of Cambridge. Dr. Tsim has published numerous articles in biological sciences and traditional Chinese medicines. He also serves in several local committee in advising the development of traditional Chinese medicine as health food products. Dr. Tsim does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

SENIOR MANAGEMENT

Chen Yueshen

Chief Operating Officer, aged 55

Mr. Chen Yueshen has been working for the Group for more than 16 years as the Director and Deputy General Manager of Zhaoke Pharmaceutical (Hefei) Co. Ltd ("Zhaoke"), a wholly-owned subsidiary of the Company. He is responsible for the daily operation of Zhaoke, including being responsible for the production and quality management of Zhaoke. He has extensive experience in quality management systems and GMP production. He has been appointed as Chief Operating Officer of the Group since 2012.

Jiao Zhongyu

Chief Officer of Enterprise Development Department of the Group, aged 44

Mr. Jiao Zhongyu is responsible for the government affair and legal affairs of the Group in the PRC. Mr. Jiao was appointed as the legal advisor of PRC investment by the Group in 1999 in his capacity as a practicing lawyer in PRC. Mr. Jiao has been appointed as the director of Zhaoke Pharmaceutical (Hefei) Co. Ltd since 2010 and has extensive experience in the government affair and legal affairs. In 2012, the Group established the Enterprise Development Department and Mr. Jiao has been appointed as the Director of the department, responsible for the Group's strategic planning and development.

Li Dingwen

Director of Human Resources in China, aged 54, MBA, MIA

Mr. Li joined the Group in December 2012 and is responsible for the Group's human resources management in PRC. He has extensive experience in the management of human resources and in the operational management of pharmaceutical companies. Prior to joining the Group, he had been responsible for human resource management and operational management in large PRC pharmaceutical companies for more than 31 years.

Luen Yee Ha, Susanne

Chief Financial Officer & Company Secretary, FCCA, FCPA, MAIA

Miss Luen Yee Ha, Susanne joined the Group in June 2005 and is responsible for financial management, reporting and company secretarial matters. She has extensive experience in auditing, accounting and financial fields and has held senior positions in listed companies prior to joining the Group. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and holds a Master degree in International Accounting from City University of Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Zhang Guohui

Director of the Group's Research and Development Centre, aged 40, MBA, BSc

Mr. Zhang Guohui has been working in Zhaoke for more than 16 years. He is responsible for the research and development of new drugs, production control and GMP management. He has extensive experience in the research and development and registration of new drugs and technology project management. The R&D centre of the Group was established in 2012, and Mr. Zhang has served as the Director responsible for new drug preclinical studies and clinical research, the additional development of launched products, drug registration affairs, science and technology project reporting and monitoring work of adverse drug reactions.

Victor Tsui

Chief Manufacturing Officer, Licensed Professional Engineer, aged 47, P.E. MSc

Mr. Tsui graduated from The Hong Kong Polytechnics University and University of Wisconsin with a master degree in Engineering. Before joining the Group, he worked for various pharmaceuticals companies in the U.S. for over 21 years and was responsible for production management. He joined the Group in 2009 as Chief Operating Officer of Powder Pharmaceuticals Incorporated (an associated company of the Group). He has been appointed as Chief Manufacturing Officer of the Group since 2012 to oversee the Group's manufacturing operation. He has also been appointed as director of Powder Pharmaceuticals Incorporated since 22 March 2013.

Dr. Lit-Fui Lau

General Manager of Shanghai branch of Zhaoke, aged 51, Ph.D

Dr. Lau holds the Ph.D. from the University of Connecticut Health Center. Before joining the Group, he served as the Associate Director for the American GlaxoSmithKline R&D China, and had been responsible for the research and development of new drugs for nearly 20 years. He has extensive experience in management of the research and development of new drugs. He joined the Group in 2012 as the General Manager of Shanghai branch of Zhaoke and is responsible for the business development of East China region. He also has been appointed as the Senior Director of Development of CVie Therapeutics Company Limited, a subsidiary of the Group, and is responsible for the management of the research and development of drugs.

Yang Zhongqiang

Director of the Quality Control Department, aged 39

Mr. Yang Zhongqiang holds a master's degree in Pharmaceutical Engineering of Shandong University and has a practicing pharmacist certification. He has been working for the Group for more than 16 years, and has been working in the Department of Research and Development of New Drugs and Quality Department of Zhaoke. He has extensive experience in the research and development of new drug, project management and quality management. He has been appointed as the quality authorised person of Zhaoke since 2012 to oversee the company's drug quality management and protection works.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited 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 are set out in note 45 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated statement of profit or loss on page 53.

An interim dividend of HK$0.023 (2012: HK$0.018) per share, amounting to HK$12,367,000 was paid to shareholders on 17 October 2013.

The Board of Directors recommended a final dividend of HK$0.052 (2012: HK$0.04) per share to shareholders registered in the Company's Register of Members as at the close of business on 21 May 2014. Upon approval by shareholders, the final dividend will be paid on or about 12 June 2014.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 6 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year together with the reasons therefore, are set out in notes 32 and 38 to the consolidated financial statements.

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 which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

CHARITABLE DONATION

Charitable donation made by the Group during the year amounted to HK$731,000 (2012: HK$318,088).

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 34 to the consolidated financial statements. Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2013, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$352.89 million. This includes the Company's share premium in the amount of HK$292.33 million at 31 December 2013, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 17.98% in aggregate for the Group's total turnover for the year (2012: 17.75%).

Purchase from the Group's five largest suppliers accounted for approximately 87.67% in aggregate for the Group's total purchases for the year (2012: 85.26%). The largest supplier of the Group accounted for approximately 51.58% of the Group's total purchases (2012: 39.03%).

Apart from as disclosed under the paragraph headed "Connected Transactions and Continuing Connected Transactions" below, none of the Directors, their associates (as defined in the Listing Rules) or any shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:
Lee Siu Fong
Leelalertsuphakun Wanee
Li Xiaoyi

Non-executive director
Mauro Bove

Independent non-executive directors:
Chan Yau Ching, Bob
Lam Yat Cheong
Tsim Wah Keung, Karl

In accordance with Article 95 and 112 of the Company's Articles of Association, Ms. Lee Siu Fong, Mr. Mauro Bove and Mr. Lam Yat Cheong will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Company or any of its subsidiaries to which any of the Directors was a party and in which any of the Directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year under review.

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Lee Siu Fong ("Ms. Lee") and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun) has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing. On 1 January 2013, the monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$167,576 and HK$230,590 respectively.

Dr. Li Xiaoyi ("Dr. Li") has service contract with the Company since 1 September 2003 and after that the contract has been renewed. On 1 January 2013, the monthly salaries and allowance has been revised to HK$318,511. Both the Company and Dr. Li shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee and Ms. Leelalertsuphakun and Dr. Li together, holding less than 30% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Ms. Lee, Ms. Leelalertsuphakun and Dr. Li are executive directors of the Company. In accordance with supplementary agreement dated 1 January 2012 signed between the Company and each of the executive directors, employment terms of executive directors have been revised as follows:–

1. Executive directors are entitled to annual management bonus 1.5% to 3.5% (determined based on the growth in net profits of the Group) on the net profit of the Group for the preceding financial year. Such sum of the management bonus will be shared between all the executive directors in such proportion with reference to their monthly salary in the final month of the complete financial year.

2. The annual salary increment shall be equal to official inflation rate if the growth in net profits of the Group is equal to or less than 15%, or should the growth exceed 15%, the sum of the official inflation rate and half of the positive difference between the growth in net profits and the 15% threshold.

3. Each of executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Company for certain years.

Each of Mr. Lam Yat Cheong ("Mr. Lam") and Dr. Tsim Wah Keung, Karl ("Dr. Tsim") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive director. Contract with Mr. Lam and Dr. Tsim has been renewed for three years from 1 July 2013 and 20 September 2013 respectively. Director's fee has been increased from HK$60,000 to HK$96,000 per annum for each of the directors upon renewal of contract and bonus will not be paid.

Dr. Chan Yau Ching, Bob has a three-year service contract with the Company from 12 October 2007. The contract has been renewed for three years from 12 October 2013 with director's fee increased from HK$60,000 to HK$96,000 per annum and bonus will not be paid.

Mr. Mauro Bove has a three-year service contract with the Company from 3 January 2009 and the contract has been renewed for three years from 3 January 2012. Director's fee has been increased from HK$75,000 per annum to HK$100,000 per annum in accordance with the new contract and bonus will not be paid.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company adopted a share option scheme (the "2002 Share Option Scheme"). At the annual general meeting of the Company held on 10 May 2012, a New Share Option Scheme was adopted upon expiry of the 2002 Share Option Scheme.

Movements of the share option during the year ended 31 December 2013 were as follows:

		Number of share options				
Grantees	**Date of Grant**	**Outstanding at 1.1.2013**	**Granted**	**Exercised**	**Lapsed**	**Outstanding at 31.12.2013**
Directors						
Lee Siu Fong	20.12.2010	232,500	–	–	–	232,500
	20.12.2011	234,500	–	(234,500)	–	–
	20.12.2012	521,000	–	–	–	521,000
	30.12.2013	–	538,000	–	–	538,000
Leelalertsuphakun Wanee	06.09.2010	225,000	–	(225,000)	–	–
	07.10.2011	235,000	–	(235,000)	–	–
	08.10.2012	519,000	–	(200,000)	–	319,000
	30.12.2013	–	538,000	–	–	538,000
Li Xiaoyi	25.09.2009	448,000	–	–	–	448,000
	20.12.2010	465,000	–	–	–	465,000
	20.12.2011	469,000	–	–	–	469,000
	20.12.2012	521,000	–	–	–	521,000
	30.12.2013	–	538,000	–	–	538,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	500,000	–	–	–	500,000
	20.12.2010	300,000	–	–	–	300,000
Sub-total of Directors		5,170,000	1,614,000	(894,500)	–	5,889,500
Employees	13.01.2003	150,000	–	(150,000)	–	–
	25.06.2004	2,160,000	–	–	–	2,160,000
	11.07.2005	1,785,000	–	(100,000)	–	1,685,000
	02.01.2008	320,000	–	–	–	320,000
	12.01.2010	3,025,000	–	(830,000)	(200,000)	1,995,000
	08.10.2012	6,040,000	–	–	–	6,040,000
	05.04.2013	–	300,000	–	–	300,000
	30.12.2013	–	2,040,000	–	–	2,040,000
Consultants	02.06.2006	500,000	–	–	–	500,000
	02.01.2008	2,000,000	–	–	–	2,000,000
	26.11.2008	500,000	–	–	–	500,000
	20.12.2010	250,000	–	–	–	250,000
Sub-total of employees and consultants		16,730,000	2,340,000	(1,080,000)	(200,000)	17,790,000
Grand total		**21,900,000**	**3,954,000**	**(1,974,500)**	**(200,000)**	**23,679,500**

Notes:

1. Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK$
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	0.218
11.07.2005	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	0.159
02.06.2006	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175
02.01.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	0.492
26.11.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009-25.11.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010-25.11.2018	0.383

Date of Grant	Exercise period	Exercise price per share HK$
25.09.2009	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.03.2010-24.09.2019 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.12.2010-24.09.2019	1.076
12.01.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010-11.01.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011-11.01.2020	2.200
06.09.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 06.03.2011-05.09.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 06.12.2011-05.09.2020	2.990
20.12.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011-19.12.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012-19.12.2020	3.750
07.10.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 07.04.2012-06.10.2021 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 07.01.2013-06.10.2021	2.526
20.12.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012-19.12.2021 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013-19.12.2021	2.666

Date of Grant	Exercise period	Exercise price per share HK$
08.10.2012	(i) 259,500 options will be exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013-07.10.2022 (ii) 259,500 options will be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014-07.10.2022 (iii) 1,160,000 options will be exercisable during the period from 08.10.2013 to 07.10.2022 (iv) 2,230,000 options will be exercisable during the period from 08.10.2014 to 07.10.2022 (v) 2,650,000 options will be exercisable during the period from 08.10.2015 to 07.10.2022	4.996
20.12.2012	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2013-19.12.2022 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2014-19.12.2022	4.930
05.04.2013	(i) 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. during the period from 05.10.2013 to 04.04.2023 (ii) unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. during the period from 05.07.2014 to 04.04.2023	5.620
30.12.2013	(i) 1,614,000 options: 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. during the period from 30.06.2014 to 29.12.2023; and in respect of the unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. during the period from 30.03.2015 to 29.12.2023 (ii) 669,000 options will be exercisable during the period from 30.12.2014 to 29.12.2023 (iii) 669,000 options will be exercisable during the period from 30.12.2015 to 29.12.2023 (iv) 702,000 options will be exercisable during the period from 30.12.2016 to 29.12.2023	7.300

2. The weighted average closing price immediately before the dates on which the options were exercised was HK$6.177.

Save as disclosed above, as at 31 December 2013 none of the directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

SHARE OPTION SCHEME OF A SUBSIDIARY

On 12 November 2012, a share option scheme of a subsidiary of the Company, CVie Therapeutics Company Limited ("CVie") was approved by the shareholders of the Company.

Movements of the share option during the year ended 31 December 2013 were as follows:

		Number of share options				
Grantees	**Date of Grant**	**Outstanding at 1.1.2013**	**Granted**	**Exercised**	**Lapsed**	**Outstanding at 31.12.2013**
Employees	Tranche 1					
	30.11.2012	133,000	–	–	–	133,000
	Tranche 2					
	30.11.2012	267,000	–	–	–	267,000
	Tranche 3					
	30.11.2012	40,000	–	–	–	40,000
Grand Total		**440,000**	**–**	**–**	**–**	**440,000**

Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK$
Tranche 1 30.11.2012	133,000 options will be exercisable upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.	1.628
Tranche 2 30.11.2012	267,000 options will be exercisable one year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.	1.628
Tranche 3 30.11.2012	40,000 options will be exercisable during the period from 1 December 2014 to 30 November 2022.	1.628

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2013, the following directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") were as follows:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		793,875		
	Interest held jointly with Leelalertsuphakun Wanee		1,600,000		
	Interest of corporation	(i)	120,690,625	123,084,500	22.87
Leelalertsuphakun Wanee	Beneficial owner		76,000		
	Interest held jointly with Lee Siu Fong		1,600,000		
	Interest of corporation	(i)	120,690,625	122,366,625	22.73
Li Xiaoyi	Beneficial owner		35,171,667		
	Interest of spouse	(ii)	16,000,000	51,171,667	9.51
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.22
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.06
Lam Yat Cheong	Beneficial owner		300,000	300,000	0.06

Notes:

(i) 120,690,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,291,500	1,291,500
Leelalertsuphakun Wanee	Beneficial owner	857,000	857,000
Li Xiaoyi	Beneficial owner	2,441,000	2,441,000
Mauro Bove	Beneficial owner	1,300,000	1,300,000
		5,889,500	5,889,500

(c) Shares of Powder Pharmaceutical Incorporated held by Dr. Li Xiaoyi can be converted into 330,113 shares of the Company upon exercising the conversion right by Dr. Li Xiaoyi.

(d) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	123,084,500	1,291,500	124,376,000
Leelalertsuphakun Wanee	122,366,625	857,000	123,223,625
Li Xiaoyi	51,171,667	2,771,113	53,942,780
Chan Yau Ching, Bob	1,190,000	–	1,190,000
Tsim Wah Keung, Karl	300,000	–	300,000
Lam Yat Cheong	300,000	–	300,000
Mauro Bove	–	1,300,000	1,300,000

As at 31 December 2013, Dr. Li Xiaoyi also had beneficial interest in 12,550 shares in Powder Pharmaceuticals Incorporated which has become an associated corporation of the Company since 2 July 2013.

2. *Short positions*

No short positions of directors and chief executive in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the year ended 31 December 2013 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2013, the following persons/companies, other than a director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	**Capacity and Nature**	*Notes*	**Number of Shares**	**% of issued share capital**
Huby Technology Limited	Beneficial owner		120,290,625	22.35
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.	Beneficial owner	(i) & (ii)	137,720,000	25.59
GL Trade Investment Limited	Beneficial owner		54,485,000	10.12
FIL Limited	Beneficial owner		36,936,777	6.86
High Knowledge Investments Limited	Beneficial owner	(iii)	16,000,000	2.97
Lue Shuk Ping, Vicky	Interest in corporation	(iii)	16,000,000	2.97
	Interest of spouse	(iv)	35,171,667	6.53

(b) Underlying shares

Name	Capacity and nature	*Note*	Nature of underlying shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(iv)	Share Options and conversion right	2,771,113

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	120,290,625	–	120,290,625
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.	137,720,000	–	137,720,000
GL Trade Investment Limited	54,485,000		54,485,000
FIL Limited	36,936,777	–	36,936,777
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,171,667	2,771,113	53,942,780

Notes:

(i) Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. is the surviving company after the merger with Definate Farmaceutica S.A.

(ii) Cavazza Paolo and Paponi Claudia have interest in the shares held by Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.

(iii) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.

(iv) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

2. *Short positions*

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 31 December 2013, so far as is known to the directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected Transaction

1. *Advance of shareholder loans to Powder Pharmaceuticals Incorporated ("Powder")*

During the year ended 31 December 2013, the following shareholder loans were provided by the Group to Powder:

Advance Date	Term	Interest rate per annum	Loan amount *(HK$)*
7 January 2013	1 year	4%	8,000,000
24 July 2013	1 year	4%	4,032,080
25 July 2013	1 year	4%	4,000,000
8 October 2013	1 year	4%	4,000,000

Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. ("Sigma-Tau") is a substantial shareholder of the Company. Sigma-Tau and Dr. Li Xiaoyi (a director of the Company) in aggregate, is holding more than 10% of equity interest in Powder and advance of shareholder loans to Powder constitutes connected transactions.

As at 31 December 2013, the Group had interest in 39.65% of issued share capital of Powder.

2. *Deemed partial disposal of interest in a subsidiary*

On 4 March 2013, CVie Therapeutics Company Limited ("CVie") issued 1,200,000 shares to Ivy Blue Holdings Limited ("IBHL") at consideration of USD3 million. After the issue of shares, the Group's shareholding in CVie was reduced by 8.97% to 70.98%. As IBHL was a substantial shareholder of CVie before 4 March 2013 and therefore was a connected person of the Company under the Listing Rules. Accordingly, the transaction constituted connected transaction.

On 2 September 2013, CVie issued a total of 2,800,000 shares to Ivy Blue Holdings Limited, CDIB Venture Capital Corporation, and Lilly Asia Ventures Fund II, L.P., at consideration of USD10 million. After the issue of shares, the Group's shareholding in CVie was further reduced by 14.72% to 56.26%. This transaction was also a connected transaction as IBHL was a connected person under the Listing Rules.

Continuing Connected Transactions

1. *Acquisition of licenses for Istaroxime and Rostafuroxin from Sigma-Tau and its associate*

On 24 May 2012, licensing agreements with duration of three years were signed by CVie Therapeutics Company Limited ("CVie") and Sigma-Tau Group and its associate for the acquisition of licenses for Istaroxime and Rostafuroxin.

Additional fee in respect of the above licensing agreement is required to be paid in accordance with amendment agreements executed on 15 October 2013.

Payment made during the year ended 31 December 2013 in respect of the licensing agreements and amendment agreements is as follows:-

		Amount *(HK$)*	**Annual cap** *(HK$)*
Istaroxime Licensing Agreement	Purchase of experimental products	1,030,888	3,000,000
Rostaquo Licensing Agreement	Milestone fee	–	1,170,000
Sigma-Tau Licensing Agreement	Purchase of experimental products	2,856,113	3,000,000
Istaroxime Amendment Agreement	License fee	387,700	390,000
Rostaquo Amendment Agreement	License fee	674,598	678,600
Sigma-Tau Amendment Agreement	License fee	333,422	335,400
Total		5,282,721	8,574,000

2. *Acqusition of license for Gimatecan Products from Sigma-Tau*

On 23 November 2012, a licensing agreement with duration of three years was signed by Lee's Pharmaceutical (HK) Limited and Sigma-Tau Group for the acquisition of license for Gimatecan Products.

There was no payment to Sigma-Tau for the year ended 31 December 2013 under the licensing agreement. The annual cap for this agreement as disclosed in announcement is HK$1,000,000.

3. *Purchase of Carnitene® and other pharmaceutical products from Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.*

Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. ("Sigma-Tau") is a substantial shareholder of the Company, the supply of pharmaceutical products by Sigma-Tau to the Company constituted continuing connected transactions under the Listing Rules. The continuing connected transactions were approved by independent shareholders where annual Cap of purchase of Carnitene® and other pharmaceutical products by the Company from the Sigma-Tau Group for the year ended 31 December 2013 would not exceed HK$154,395,210.

For the year ended 31 December 2013, purchase of Carnitene® and other pharmaceutical products by the Company from the Sigma-Tau amounted to HK$99,436,777.

The above continuing connected transactions have been reviewed by the independent non-executive directors and they have confirmed that the transactions:

a. have been entered into in the usual and ordinary course of businesses of the Company and its subsidiaries.

b. are conducted on normal commercial terms.

c. are entered into in accordance with the terms of relevant agreements that are fair and reasonable and in the interests of Shareholders as a whole.

d. have not exceeded the cap disclosed in previous announcements.

The Company's auditor, HLM CPA Limited also has confirmed that the above continuing connected transactions:

a. have received the approval of the Company's board of directors;

b. have been entered into in accordance with the relevant agreement governing the transactions; and

c. have not exceeded the cap disclosed in previous announcements.

Save as disclosed above, there was no other transaction requiring disclosure of connected transactions in accordance with the requirements of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013 (2012: Nil).

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors, a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules during the year. Based on such confirmation, the Company considers Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl to be independent.

STAFF RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement 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.

Executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if they have engaged in continuous service with the Company for certain years.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2013.

AUDIT COMMITTEE

The Group's audited 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 disclosures have been made.

AUDITOR

During the year 2012, Messrs. HLM & Co., who acted as auditor of the Company for the past three years, resigned and Messrs. HLM CPA Limited was appointed as auditor of the Company.

The consolidated financial statements have been audited by HLM CPA Limited who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lee Siu Fong
Chairman

Hong Kong, 20 March 2014

The board of directors (the "Board") of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained to safeguard the interests of our shareholders, investors, customers and staff.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of Main Board Listing Rules throughout the year ended 31 December 2013, with deviations from provision A.5 of the Code.

Under provision A.5 of the Code, a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of directors. The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence, experience and diversity of perspectives that they can contribute to the Company.

DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2013, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Main Board Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2013.

BOARD OF DIRECTORS

The Non-executive Directors provide the Group with a wide range of expertise and knowledge in the pharmaceutical sector. The Independent Non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, financial and pharmaceutical field. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board.

The list of directors of the Company and their roles and functions is posted on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

The Chairman and Chief Executive Officer of the Company is Ms. Lee Siu Fong and Dr. Li Xiaoyi respectively. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures good corporate governance and compliance with legal and regulatory requirements. Responsibility in relation to daily operations and execution of the strategic business plans are delegated to each of the Executive Directors and management.

The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

During the financial year ended 31 December 2013, 11 full board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Lee Siu Fong *(Chairman)*	11/11	100%
Leelalertsuphakun Wanee	11/11	100%
Li Xiaoyi	11/11	100%
Non-executive Director		
Mauro Bove	10/11	91%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	11/11	100%
Lam Yat Cheong	10/11	91%
Tsim Wah Keung, Karl	7/11	64%

During the financial year ended 31 December 2013, two general meetings of the Company were held and all the Executive Directors of the Company attended the meetings. The Company's Auditor HLM CPA Limited also attended the two general meetings.

NON-EXECUTIVE DIRECTORS

All Non-Executive Directors are appointed for a specific term, subject to retirement by rotation at least once every three years.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Company is responsible for arranging and funding suitable training for its directors. The Company had organised a seminar on the listing rules for the directors in 2013. The seminar was conducted by the Company's legal advisers King & Wood & Mallesons with presentation and briefing materials. In addition, individual directors also participated in other courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials. The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis.

The Company set up an audit committee with written terms of reference in compliance with Rules 3.21 of the Main Board Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (Chairman of the audit committee), Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the Independent Non-executive Directors of the Company.

In the financial year ended 31 December 2013, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditors and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendants	Number of audit committee meetings attended/Total	Attendance percentage
Chan Yau Ching, Bob	4/4	100%
Lam Yat Cheong	4/4	100%
Tsim Wah Keung, Karl	4/4	100%

REMUNERATION COMMITTEE

A remuneration committee has been established in February 2012 in accordance with the requirement of Appendix 14 of the Listing Rules. The Remuneration Committee of the Company comprises two Independent Non-executive Directors and one Executive Director.

Dr. Tsim Wah Keung, Karl is the Chairman of the Committee and Leelalertsuphakun Wanee and Dr. Chan Yau Ching, Bob are members of the Committee. The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of individual Executive Directors and senior management.

The major roles and functions of the Company's Remuneration Committee are as follows:

a. Establish and apply a formal and transparent procedure for setting policy on remuneration for executive directors and senior management, and for fixing the remuneration packages for all directors and senior management; and

b. Ensure that procedures and principles for fixing packages of all directors and senior management are proper so that the levels of remuneration of directors commensurate with their qualifications and competencies, and that such remuneration is sufficient to attract and retain the directors and senior management but not excessive.

The terms of reference of the Remuneration Committee are posted on the websites of the Company and the Stock Exchange. The Remuneration Committee meets at least once a year.

During the year 2013, one meeting is held by the remuneration committee and all the committee member attended the meeting to approve the annual bonus payable to executive directors for year 2012 and the monthly salary of executive directors with effect from 1 January 2013.

The Board has resolved that the senior management of the Company comprises only the directors of the Company. Please refer to note 11 in the Notes to Consolidated Financial Statements for details of the remuneration payable to the directors.

COMPANY SECRETARY

Miss Luen Yee Ha, Susanne has been appointed as Company Secretary of the Company since June 2005. She is a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and has complied with Rule 3.29 of the Listing Rules in relation to professional training during the financial year 2013.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group's asset and shareholders' interests, as well as for reviewing such systems' effectiveness. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems. The systems include a well-established organizational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

For the year ended 31 December 2013, the Board has, through the Audit Committee with the assistance of the management, conducted a review of the Group's internal control system, including without limitation to financial control, operational control, compliance control and risk management functions. The Board assesses the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and auditors.

The Board is of the view that the internal control systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITOR'S REMUNERATION

For the year ended 31 December 2013, audit service fee of HK$762,100 and advisory fee of HK$15,000 were paid to the Company's auditor HLM CPA Limited.

CONVENING OF EXTRAORDINARY GENERAL MEETINGS ON REQUISITION BY SHAREHOLDERS

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("EGM") of the Company. Two or more Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for an EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

Shareholders who wish to move a resolution at general meetings may follow the procedures set out in the preceding paragraph.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Lee's Pharmaceutical Holdings Limited
Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, Hong Kong
Telephone: (852) 2314 1182
Fax: (852) 3404 5662
Email: investor@leespharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATION

Constitutional Documents

There was no change to the Company's Memorandum and Articles of Association during the financial year 2013. A copy of the Memorandum and Articles of Association is posted on the websites of the Company and the Stock Exchange.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 154, which comprise the consolidated and the Company's statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, 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 and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

HLM CPA Limited
Certified Public Accountants

Chan Lap Chi
Practising Certificates number: P04084

Hong Kong, 20 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 HK$'000	2012 HK$'000
Turnover	5	696,953	534,333
Cost of sales		(193,700)	(153,498)
Gross profit		503,253	380,835
Other revenue	8	10,731	12,385
Selling and distribution expenses		(222,850)	(179,512)
Research and development expenses		(32,262)	(16,304)
Administrative expenses		(78,511)	(63,042)
Profit from operations	9	180,361	134,362
Share of results of associates	20	(2,418)	–
Finance costs	10	(1,853)	(1,192)
Profit before taxation		176,090	133,170
Taxation	13	(27,087)	(20,104)
Profit for the year		149,003	113,066
Attributable to:			
Shareholders of the Company		150,467	113,807
Non-controlling interests		(1,464)	(741)
		149,003	113,066
		HK cents	HK cents
Earnings per share:			
Basic	15	28.41	22.82
Diluted	15	27.05	22.38

The notes on pages 61 to 154 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 HK$'000	2012 HK$'000
Profit for the year	149,003	113,066
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Exchange difference on translation of revaluation of overseas buildings	71	56
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of financial statements of overseas subsidiaries	8,649	4,267
Other comprehensive income for the year, net of tax	8,720	4,323
Total comprehensive income for the year	157,723	117,389
Total comprehensive income (expenses) for the year attributable to:		
Shareholders of the Company	159,186	118,127
Non-controlling interests	(1,463)	(738)
	157,723	117,389

The notes on pages 61 to 154 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current Assets			
Property, plant and equipment	16	263,073	128,814
Intangible assets	17	194,129	127,156
Lease premium for land	18	15,213	15,157
Goodwill	19	3,900	3,900
Interests in associates	20	34,531	–
Held-to-maturity financial assets	21	5,156	–
Available-for-sale financial asset	22	7,882	9,660
		523,884	284,687
Current Assets			
Lease premium for land	18	333	324
Inventories	23	117,881	64,071
Trade receivables	24	78,320	71,469
Other receivables, deposits and prepayments		43,788	33,573
Advance to related party	25	20,387	6,505
Pledged bank deposits	26	2,000	2,000
Time deposits	26	176,437	175,313
Cash and bank balances	26	202,625	158,589
		641,771	511,844
Current Liabilities			
Trade payables	27	36,493	29,111
Other payables		145,365	94,760
Obligations under license contracts	28	7,923	3,683
Bank borrowings	29	69,468	31,483
Obligations under finance leases	30	150	563
Tax payables		12,758	13,089
		272,157	172,689
Net Current Assets		369,614	339,155
Total Assets less Current Liabilities		893,498	623,842

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 HK$'000	2012 HK$'000
Capital and Reserves			
Share capital	32	26,912	26,055
Reserves	34	759,093	556,101
Equity attributable to the shareholders of the Company		786,005	582,156
Non-controlling interests	35	66,053	11,123
Total Equity		852,058	593,279
Non-current Liabilities			
Deferred tax liabilities	31	14,661	13,215
Obligations under finance leases	30	–	319
Retirement benefit	37	23,569	10,891
Obligations under license contracts	28	3,210	6,138
		41,440	30,563
		893,498	623,842

The notes on pages 61 to 154 form part of these consolidated financial statements.

The financial statements on pages 53 to 154 were approved and authorised for issue by the Board of Directors on 20 March 2014 and are signed on its behalf by:

Lee Siu Fong	**Leelalertsuphakun Wanee**
DIRECTOR	*DIRECTOR*

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current Assets			
Intangible assets	17	3,840	3,840
Interests in subsidiaries	45	340,396	211,284
Held-to-maturity financial assets	21	5,156	–
Available-for-sale financial asset	22	7,882	–
		357,274	215,124
Current Assets			
Other receivables, deposits and prepayments		360	172
Time deposits	26	38,591	107,601
Cash and bank balances	26	10,686	11,327
		49,637	119,100
Current Liabilities			
Other payables		3,351	1,823
Tax payables		185	–
		3,536	1,823
Net Current Assets		46,101	117,277
Total Assets less Current Liabilities		403,375	332,401
Capital and Reserves			
Share capital	32	26,912	26,055
Reserves	34	352,894	295,455
		379,806	321,510
Non-current Liability			
Retirement benefit	37	23,569	10,891
		403,375	332,401

The notes on pages 61 to 154 form part of these consolidated financial statements.

Lee Siu Fong	**Leelalertsuphakun Wanee**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to the shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	26,055	260,656	9,200	3,292	17,038	4,036	14,636	247,243	582,156	11,123	593,279
Employee share option benefits	–	–	–	2,727	–	–	–	–	2,727	–	2,727
Exercise of share options	99	5,300	–	(654)	–	–	–	–	4,745	–	4,745
Share of share-based compensation reserve of a subsidiary (Note)	–	–	–	27	–	–	–	–	27	13	40
Transfer of revaluation reserve to retained earnings upon disposal	–	–	–	–	–	(4,107)	–	4,107	–	–	–
Issue of shares pursuant to Shareholders' Agreement (Note 33)	758	26,370	–	–	–	–	–	–	27,128	–	27,128
Deemed partial disposal of interests in a subsidiary (Note 36)	–	–	–	–	43,274	–	–	–	43,274	56,380	99,654
Profit (loss) for the year	–	–	–	–	–	–	–	150,467	150,467	(1,464)	149,003
Other comprehensive income	–	–	–	–	–	71	8,648	–	8,719	1	8,720
Total comprehensive income (expenses) for the year	–	–	–	–	–	71	8,648	150,467	159,186	(1,463)	157,723
2012 final dividend paid	–	–	–	–	–	–	–	(20,871)	(20,871)	–	(20,871)
2013 interim dividend paid	–	–	–	–	–	–	–	(12,367)	(12,367)	–	(12,367)
At 31 December 2013	26,912	292,326	9,200	5,392	60,312	–	23,284	368,579	786,005	66,053	852,058
At 1 January 2012	23,489	105,533	9,200	2,440	–	3,980	10,372	156,900	311,914	417	312,331
Employee share options benefits	–	–	–	1,456	–	–	–	–	1,456	–	1,456
Exercise of share options	142	5,416	–	(606)	–	–	–	–	4,952	–	4,952
Share of share-based compensation reserve of a subsidiary (Note)	–	–	–	2	–	–	–	–	2	1	3
Issue of ordinary shares by placement	2,424	149,707	–	–	–	–	–	–	152,131	–	152,131
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	203	203
Deemed partial disposal of interests in a subsidiary	–	–	–	–	17,038	–	–	–	17,038	11,240	28,278
Profit (loss) for the year	–	–	–	–	–	–	–	113,807	113,807	(741)	113,066
Other comprehensive income	–	–	–	–	–	56	4,264	–	4,320	3	4,323
Total comprehensive income (expenses) for the year	–	–	–	—	–	56	4,264	113,807	118,127	(738)	117,389
2011 final dividend paid	–	–	–	–	–	–	–	(14,107)	(14,107)	–	(14,107)
2012 interim dividend paid	–	–	–	–	–	–	–	(9,357)	(9,357)	–	(9,357)
At 31 December 2012	26,055	260,656	9,200	3,292	17,038	4,036	14,636	247,243	582,156	11,123	593,279

The notes on pages 61 to 154 form part of these consolidated financial statements.

Note: Share of share-based compensation reserve of a subsidiary was derived from a subsidiary, CVie Therapeutics Company Limited, which has granted share options to its employees in 2012. Detail can be referenced to note 38.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 HK$'000	2012 HK$'000
Operating activities		
Profit before taxation	176,090	133,170
Adjustments for:		
Share of results of associates	2,418	–
Retirement benefit	12,678	10,891
Depreciation of property, plant and equipment	11,518	10,378
Interest expenses	1,555	1,034
Interest income	(2,717)	(1,981)
Interest from advance to related party	(444)	(246)
Interest from available-for-sale financial asset	(128)	–
Interest from held-to-maturity financial assets	(56)	–
Amortisation of intangible assets	4,640	3,944
Amortisation of lease premium for land	345	193
Intangible assets written off	6,094	3,752
Exchange difference	405	1,741
Share based payments	2,767	1,459
Bad debt written off	164	–
(Written back) allowance for bad and doubtful debts	(1,033)	2,871
Loss on disposal of property, plant and equipment	3,308	18
Provision for slow moving stock	889	–
Written off expired stock	1,455	–
Operating cash flows before movements in working capital	219,948	167,224
Increase in inventories	(54,995)	(28,820)
Increase in trade receivables	(5,384)	(15,639)
Increase in other receivables, deposits and prepayments	(9,739)	(7,490)
Increase in trade payables	7,298	19,996
Increase in other payables	50,046	57,194
Cash from operations	207,174	192,465
Interest paid	(1,555)	(1,034)
Income tax paid	(26,353)	(17,006)
Net cash generated from operating activities	179,266	174,425

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 HK$'000	2012 HK$'000
Investing activities		
Interest received	2,717	1,981
Purchase of plant and equipment	(32,697)	(6,074)
Payment for construction in progress	(113,169)	(85,251)
Proceed from disposal of property, plant and equipment	51	–
Acquisition of leasehold land	–	(7,890)
Additions of deferred development cost and license fee	(76,190)	(46,964)
Advance to related party	(16,000)	(7,754)
Receipt of advance to related party	2,562	1,495
Decrease in pledged bank deposit	–	3
Additions of available-for-sale financial asset	(7,754)	(1,495)
Additions of held-to-maturity financial assets	(5,100)	–
Capital contribution from non-controlling interests	99,654	28,481
Net cash used in investing activities	(145,926)	(123,468)
Financing activities		
New loans raised	50,000	21,819
Repayment of loans	(12,015)	(7,496)
Repayment of obligations under finance leases	(732)	(509)
Net proceeds from issue of ordinary shares upon placement	–	152,131
Cost of issuing shares regarding Shareholders' Agreement	(172)	–
Net proceeds from issue of ordinary shares upon exercise of share options	4,745	4,952
Dividend paid	(33,238)	(23,464)
Net cash generated from financing activities	8,588	147,433
Net increase in cash and cash equivalents	41,928	198,390
Cash and cash equivalents at 1 January	333,902	134,494
Effect of foreign exchange rate changes	3,232	1,018
Cash and cash equivalents at 31 December	379,062	333,902
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	202,625	158,589
Time deposits	176,437	175,313
	379,062	333,902

The notes on pages 61 to 154 form part of these consolidated financial statements.

1. GENERAL INFORMATION

Lee's Pharmaceutical Holdings Company (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the development, manufacturing and sales of pharmaceutical products.

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

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

New and revised HKFRSs affecting amounts reported and/or disclosures in the financial statements

The accounting policies and methods of computation used in these consolidated financial statements are the same as those followed in the presentation of the Group's annual financial statements for the year ended 31 December 2012, except for the following HKFRSs that the Group has applied for the first time in the current year.

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

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

New and revised HKFRSs affecting amounts reported and/or disclosures in the financial statements *(continued)*

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current year and/or the disclosure set out in these consolidated financial statements.

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

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

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

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The application of HKFRS 10 has no impact to the Group.

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

New and revised HKFRSs affecting amounts reported and/or disclosures in the financial statements *(continued)*

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangements, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

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

The application of HKFRS 11 has no impact to the Group.

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

New and revised HKFRSs affecting amounts reported and/or disclosures in the financial statements *(continued)*

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 20 and 45 for details).

HKFRS 13 Fair Value Measurement

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

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

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 40 for the 2013 disclosure). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

New and revised HKFRSs affecting amounts reported and/or disclosures in the financial statements *(continued)*

Amendments to HKAS 1 Presentation of items of Other Comprehensive Income

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

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

New and revised HKFRSs in issue but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plan: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[2]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[2]
HK(IFRIC) – Int 21	Levies[2]

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

2 Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Earlier application is permitted

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

4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Annual Improvements to HKFRS 2010 – 2012 Cycle

The *Annual Improvements to HKFRSs 2010 – 2012 Cycle* includes a number of amendments to various HKFRSs which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition", and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

The amendments to the basis for conclusion of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of discounting is immaterial.

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Annual Improvements to HKFRS 2010 – 2012 Cycle (continued)

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel service to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements* to *HKFRS 2010 – 2012 Cycle* will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRS 2011– 2013 Cycle

The *Annual Improvements* to *HKFRSs 2011 – 2013 Cycle* includes a number of amendments to various HKFRSs which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of and accounted for in accordance with HKAS 39 or HKFRS 9 even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Annual Improvements to HKFRS 2011– 2013 Cycle (continued)

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRS 2011 – 2013 Cycle* will have a material effect on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurements of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described below:

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

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

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 9 Financial Instruments (continued)

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

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

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

New and revised HKFRSs in issue but not yet effective *(continued)*

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

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

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

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

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

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

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

Amendments to HKAS 19 Defined Benefit Plan: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contribution made by employees or third parties to defined benefits plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected until credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

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

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

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

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

The directors do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

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

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

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

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

New and revised HKFRSs in issue but not yet effective *(continued)*

HK (IFRIC) – Int 21 Levies

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

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

HKFRS 14 Regulatory Deferral Accounts

HKFRS 14 addresses the issues of financial reporting requirements for rate-regulated assets and liabilities (which are termed "regulatory deferral account balances") that arises when an entity is subject to rate regulation.

The directors anticipate that the application of HKFRS 14 will have no material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In additions, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

Business combinations

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

Service income is recognsied when services are provided.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance leases.

Lease payments are apportioned between finance expenses and reduction of the obligations under finance leases so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (as the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land for own use

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

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

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

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

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through 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 end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

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

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grant will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquired non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary with maximum amount of HK$1,250 per month for each employee.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit *(continued)*

The pension schemes covering all the Group's employees in the People's Republic of China (the"PRC") are defined contribution schemes at various funding rates, and are in accordance with the local practices and regulations.

Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme) are recognised as expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plan, the cost of providing benefits is determined by the valuation conducted by independent valuer at the end of the reporting period, amoritsed over the expected average remaining working lives of the participating employees.

The retirement benefit recognised in the consolidated statement of financial position represents the cost of providing benefits, based on the valuation.

Share-based payment arrangements

Share-based payment transactions of the Company

For grant of share options that are conditional upon satisfying specified vesting conditions, the fair value of service received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

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

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

Current tax

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

Deferred tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Current and deferred tax for the year

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

Property, plant and equipment

Property, plant and equipment including buildings (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method, at the following rates per annum:

Buildings	5% – 20%
Leasehold improvement	10% – 20%
Plant and machinery	5% – 33%
Office and laboratory equipment	10% – 33%
Motor vehicles	10% – 25%

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainly that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Intangible assets

License fee (Intangible assets acquired separately)

License fee are the consideration paid for the license contracts and are carried at cost less accumulated amortisation and impairment losses. License fee with finite useful lives are amortised from the date they are available for use over the remaining license period. The license period ranges from 3 to 10 years, with certain licenses contain renewal clause.

License fee with indefinite useful lives are carried at cost less accumulated impairment losses.

Both the period and method of amortisation are reviewed annually.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Development cost (internally-generated intangible assets – research and development expenditure)

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

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

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation commences when the development of products completes. Amortisation of development cost of internal projects is over the estimated useful life of 5 years, while amortisation of development cost of licensed products is on the same basis as license fee. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provision

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

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Financial instruments

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

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

Financial assets

Financial assets classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity investments", "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than:

(a) those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the entity designates as available for sale; and

(c) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gain or losses are recognised in the consolidated statement of profit or loss when the held-to-maturity investments are derecognised, impaired, or amortised.

AFS financial assets

AFS financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

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

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

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

- the financial liabilities forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL *(continued)*

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities (including trade payables, other payables, obligations under license contracts, bank borrowings and obligations under finance leases) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Interest expenses is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition (continued)

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and time deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

Related parties

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

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company and the Company's parent.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

(i) the entities and the Company are the member 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 other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

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

The carrying amount of goodwill as at 31 December 2013 was HK$3,900,000 (31 December 2012: HK$3,900,000). Details of the impairment loss calculation are set out in note 19.

Fair value of retirement benefit measurements and valuation process

The retirement benefit of the Group stated in the consolidated statement of financial position was stated at fair value, which was determined by a firm of independently professional valuer. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the estimation, consideration has been given to assumptions that are mainly based on market condition exist at the end of the reporting period and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

5. REVENUE

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

6. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of good delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Proprietary products – Manufacturing and sales of self-development pharmaceutical products

Licensed products – Trading of license-in pharmaceutical products

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Proprietary products		Licensed products		Consolidated	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Segment turnover	307,073	257,463	389,880	276,870	696,953	534,333
Segment profit	106,809	88,206	100,929	66,980	207,738	155,186
Interest income					2,717	1,981
Unallocated expenses					(30,094)	(22,805)
Profit from operations					180,361	134,362
Finance costs					(1,853)	(1,192)
Profit before share of results of associates					178,508	133,170
Share of results of associates					(2,418)	–
Profit before taxation					176,090	133,170
Taxation					(27,087)	(20,104)
Profit for the year					149,003	113,066

6. SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

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

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

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	Proprietary products		Licensed products		Consolidated	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Segment assets	226,132	144,755	503,542	315,873	729,674	460,628
Unallocated assets					435,981	335,903
Total assets					1,165,655	796,531
Segment liabilities	98,890	72,997	163,719	93,060	262,609	166,057
Unallocated liabilities					50,988	37,195
Total liabilities					313,597	203,252

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

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

- all assets are allocated to reportable segments other than interests in associates, advance to related party, pledged bank deposits, time deposits and cash and bank balances. Goodwill is allocated to segment of proprietary products. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segment; and

- all liabilities are allocated to reportable segments other than tax payables, deferred tax liabilities, and retirement benefit. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information (included in the measure of segment profit or loss or regularly provided to the chief operating decision maker)

	Proprietary products		Licensed products		Consolidated	
	2013	2012	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Depreciation of property, plant and equipment	9,705	8,634	1,813	1,744	11,518	10,378
Amortisation of intangible assets	197	287	4,443	3,657	4,640	3,944
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	69,357	35,803	152,699	102,486	222,056	138,289
Impairment of intangible assets	–	–	6,094	3,752	6,094	3,752

6. SEGMENT INFORMATION *(continued)*

Geographical information

During the years ended 31 December 2013 and 2012, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information on turnover is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong		Total	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Segment assets	556,559	402,494	609,096	394,037	1,165,655	796,531
Segment liabilities	175,882	148,236	137,715	55,016	313,597	203,252

7. INFORMATION ABOUT MAJOR CUSTOMERS

Included in revenue of HK$697.0 million (2012: HK$534.3 million) are revenue of approximately HK$40.5 million (2012: HK$30.2 million) which arose from sales to the Group's largest customer. No other single customers contributed 5% or more to the Group's revenue for both 2013 and 2012.

8. OTHER REVENUE

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Interest income on:		
Bank deposits	2,717	1,981
Available-for-sale financial asset	128	–
Held-to-maturity financial assets	56	–
Advance to related party	444	246
Development grants	2,928	5,919
Other income	4,458	4,239
	10,731	12,385

The Group received the development grants from the local government in the PRC as recognition of the Group's performance and development of high-technology pharmaceutical products.

9. PROFIT FROM OPERATIONS

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	11,518	10,378
Amortisation of intangible assets	4,640	3,944
Total depreciation and amortisation	16,158	14,322
Auditor's remuneration	762	660
Listing costs	639	676
Staff costs	101,193	86,721
Share based payments	2,767	1,459
Research and development costs	32,262	16,304
Operating lease payments in respect of rented premises	5,451	4,759
(Written back) allowance for bad and doubtful debts	(1,033)	2,871
Loss on disposal of property, plant and equipment	3,308	18
Cost of inventory charged to profit or loss	172,216	139,096

10. FINANCE COSTS

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	1,515	946
Finance leases	40	88
Bank charges	298	158
	1,853	1,192

11. DIRECTORS' REMUNERATIONS

All directors received emoluments during the year. The emoluments paid or payable to each of the seven (2012: seven) directors were as follows:

The Group

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Discretionary bonus HK$'000	Employer's contributions to pension schemes HK$'000	Retirement Benefits HK$'000	2013 Total emoluments HK$'000	2012 Total emoluments HK$'000
Executive Directors							
Lee Siu Fong	–	2,011	1,122	15	3,389	6,537	5,148
LeelalertsuphakunWanee	–	2,767	1,306	15	8,677	12,765	8,700
Li Xiaoyi (CEO)	–	3,822	1,943	15	612	6,392	5,869
Non-executive Director							
Mauro Bove	100	–	–	–	–	100	100
Independent non- executive Directors							
Chan Yau Ching	68	–	–	–	–	68	60
Lam Yat Cheong	78	–	–	–	–	78	60
Tsim Wah Keung	73	–	–	–	–	73	60
Total	319	8,600	4,371	45	12,678	26,013	19,997

None of the directors waived any emoluments in the year ended 31 December 2013 (2012: nil).

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 were as follows:

	2013 HK$'000	2012 HK$'000
Salaries and other benefits	2,539	1,700
Contributions to retirement benefits schemes	15	14
	2,554	1,714

The emoluments were within the following bands:

	2013 Number of employees	2012 Number of employees
HK$ nil to HK$1,000,000	–	2
HK$1,000,001 to HK$2,000,000	2	–
	2	2

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. TAXATION

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Current tax		
Hong Kong	14,763	8,931
PRC Enterprise Income Tax	11,278	8,724
(Over) under-provision in prior year	(191)	2,693
	25,850	20,348
Deferred tax		
Origination and reversal of temporary differences	1,237	(244)
	27,087	20,104

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries are 15% to 25% (2012: 15% – 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

13. TAXATION *(continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2013 HK$'000	2012 HK$'000
Profit before taxation	176,090	133,170
Notional tax at the rates applicable to results in regions concern	27,627	20,810
Tax effect of share of results of associates	399	–
Tax effect of non-deductible expenses	1,420	1,958
Tax effect of non-taxable revenue	(1,463)	(4,038)
(Over) under-provision in prior year	(191)	2,693
Tax effect on temporary differences not recognised	(2,936)	(38)
Tax effect of tax losses not recognised	4,174	650
Tax effect of PRC preferential tax allowance	(1,516)	(1,816)
Utilisation of tax losses previously not recognised	(427)	(115)
Tax charge for the year	27,087	20,104

At 31 December 2013, the Group has estimated unused tax losses of approximately HK$30.72 million (2012: HK$4.72 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profits streams.

14. DIVIDENDS

	2013 HK$'000	2012 HK$'000
Interim dividend paid – HK$0.023 (2012: HK$0.018) per share	12,367	9,357
Final dividend proposed – HK$0.052 (2012: HK$0.040) per share	27,989	20,844
	40,356	30,201

14. DIVIDENDS *(continued)*

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2013 of HK5.2 cents per share (2012: HK4.0 cents per share in respect of the year ended 31 December 2012) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting, and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2013.

15. EARNINGS PER SHARE

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

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Earnings:		
Net profit attributable to shareholders of the Company for the purpose of basic earnings per share	150,467	113,807
Effect of dilutive potential ordinary shares:		
Adjustment in relation to contingent share arrangement	(2,669)	–
Net profit attributable to shareholders of the Company for the purpose of diluted earnings per share	147,798	113,807

	2013 Share(s)	2012 Share(s)
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	529,656,459	498,634,617
Effect of dilutive potential ordinary shares:		
Options	11,705,878	9,816,286
Contingent share arrangement	4,995,724	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	546,358,061	508,450,903

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold Improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
The Group							
COST							
At 1 January 2012	21,657	2,502	26,544	11,649	4,784	8,973	76,109
Exchange rate adjustments	299	1	367	96	39	124	926
Additions	11	408	2,802	2,151	702	85,251	91,325
Disposals	–	–	(635)	(318)	–	–	(953)
At 31 December 2012 and at 1 January 2013	21,967	2,911	29,078	13,578	5,525	94,348	167,407
Exchange rate adjustments	581	1	769	203	94	2,497	4,145
Reclassification	(168)	–	(2,707)	2,875	–	–	–
Additions	–	–	25,951	5,578	1,168	113,169	145,866
Transfer in (out)	13,485	–	13,362	–	–	(26,847)	–
Disposals	(9,094)	–	(3,909)	(2,084)	(257)	–	(15,344)
At 31 December 2013	26,771	2,912	62,544	20,150	6,530	183,167	302,074
DEPRECIATION AND IMPAIRMENT							
At 1 January 2012	9,698	1,521	10,341	6,134	1,112	–	28,806
Exchange rate adjustments	134	–	143	55	12	–	344
Charge for the year	1,592	492	5,087	2,493	714	–	10,378
Written off upon disposal	–	–	(617)	(318)	–	–	(935)
At 31 December 2012 and at 1 January 2013	11,424	2,013	14,954	8,364	1,838	–	38,593
Exchange rate adjustments	302	–	396	140	37	–	875
Reclassification	(20)	–	(527)	547	–	–	–
Charge for the year	1,607	496	4,942	3,554	919	–	11,518
Written off upon disposal	(5,875)	–	(3,909)	(2,084)	(117)	–	(11,985)
At 31 December 2013	7,438	2,509	15,856	10,521	2,677	–	39,001
CARRYING AMOUNTS							
At 31 December 2013	19,333	403	46,688	9,629	3,853	183,167	263,073
At 31 December 2012	10,543	898	14,124	5,214	3,687	94,348	128,814

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The buildings are situated in the PRC under medium-term leases.

At both 31 December 2012 and 31 December 2013, the Group has not pledged fixed assets. Motor vehicles of HK$544,338 (2012: HK$1,533,531) are held under finance leases.

17. INTANGIBLE ASSETS

	License fee HK$'000	Development cost HK$'000	Total HK$'000
The Group			
COST			
At 1 January 2012	47,525	47,343	94,868
Exchange rate adjustments	–	648	648
Additions	19,702	27,262	46,964
Impairment	–	(3,752)	(3,752)
At 31 December 2012 and at 1 January 2013	67,227	71,501	138,728
Exchange rate adjustments	–	1,643	1,643
Additions	36,708	39,482	76,190
Impairment	(1,950)	(4,144)	(6,094)
At 31 December 2013	101,985	108,482	210,467
AMORTISATION AND IMPAIRMENT			
At 1 January 2012	3,463	4,108	7,571
Exchange rate adjustments	–	57	57
Charge for the year	3,361	583	3,944
At 31 December 2012 and at 1 January 2013	6,824	4,748	11,572
Exchange rate adjustments	–	126	126
Charge for the year	2,376	2,264	4,640
At 31 December 2013	9,200	7,138	16,338
CARRYING AMOUNTS			
At 31 December 2013	92,785	101,344	194,129
At 31 December 2012	60,403	66,753	127,156

17. INTANGIBLE ASSETS *(continued)*

Amortisation expenses charged to the consolidated statement of profit or loss is as follows:

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Cost of sales	4,443	3,657
Administrative expenses	197	287
	4,640	3,944

The Company	License fee HK$'000
COST	
At 31 December 2013 and 31 December 2012	3,840

18. LEASE PREMIUM FOR LAND

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Carrying amounts at 1 January	15,481	7,678
Exchange rate adjustment	410	106
	15,891	7,784
Additions	–	7,890
Amortisation for the year	(345)	(193)
Carrying amounts at 31 December	15,546	15,481
Current portion of non-current assets	(333)	(324)
Non-current portion	15,213	15,157

The leasehold land is held under medium-term lease and situated in the PRC.

19. GOODWILL

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
At Cost		
Balance at beginning and at the end of the year	3,900	3,900

The goodwill tested for impairment is allocated to the CGU that constitutes Proprietary Products Business. The recoverable amount of proprietary product unit is determined based on a value in use calculated represented by the management using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 10% per annum (2012: 10% per annum). Cash flow beyond the five-year period have been extrapolated using average growth rate with specific risks relating to proprietary products unit in the PRC.

The value calculated by using the discount rate is higher than the carrying amount of the CGU; accordingly, the management of the Group determined that there is no impairment of the goodwill.

20. INTERESTS IN ASSOCIATES

Details of the Group's interests in associates are as follows:

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Cost of investment, unlisted	36,949	–
Share of post-acquisition loss and other comprehensive income, net of dividends received	(2,418)	–
	34,531	–

20. INTERESTS IN ASSOCIATES *(continued)*

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of associate	Place of incorporation/ registration/ operations	Class of share held	Paid up registered capital	Proportion ownership interest held by the Group		Principal activities
				2013	2012	
Powder Pharmaceutical Incorporated	The British Virgin Islands	Ordinary	US$86,311	39.65%	16.31%	Manufacture and sale of pharmaceutical products (Note a)
Powder Pharmaceutical Hong Kong Limited	Hong Kong	Ordinary	HK$1	–	16.31%	Not yet commenced business (Note b)

Notes:

(a) On 2 July 2013, the Company exchanged its shares for shares in Powder Pharmaceutical Incorporated. Details please refer to note 33.

(b) Powder Pharmaceutical Hong Kong Limited was disposal of in October 2013.

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

Powder Pharmaceutical Incorporated ("PPI")

	2013 HK$'000
Current assets	6,367
Non-current assets	74,793
Current liabilities	40,002
Non-current liabilities	93

20. INTERESTS IN ASSOCIATES *(continued)*

Powder Pharmaceutical Incorporated ("PPI") *(continued)*

	2/7/2013 – 31/12/2013 HK$'000
Revenue	26
Loss from operations	6,099
Loss for the year	6,099
Other comprehensive income	–
Total comprehensive expenses for the year	6,099
Dividend received from associate during the year	–

Reconciliation of the above summarised financial information to the carrying amount of the interests in the associate recognised in the consolidated financial statements:

	2013 HK$'000
Net assets of the associate	41,065
Proportion of the Group's ownership interest in PPI (39.65%)	16,282
Goodwill	18,249
Carrying amount of the Group's interest in PPI	34,531

21. HELD-TO-MATURITY FINANCIAL ASSETS

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Unlisted investments	5,156	–

The investments referred to the guaranteed investments issued by financial institution with maturity on August 2018, and are grouped under non-current assets. The investments carry interest rate at 3.28% per annum (2012: nil). None of these investments has been past due or impaired at the end of the reporting period.

22. AVAILABLE-FOR-SALE FINANCIAL ASSET

Details of the Group's available-for-sale financial asset are as follows:

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Unlisted equity security	7,882	9,660

The unlisted equity security represents the equity interest in Jennerex Inc. (2012: 16.31% equity interest in Powder Pharmaceutical Incorporated), which is carried at cost less impairment loss. The fair value of the financial asset cannot be reliably measured.

23. INVENTORIES

	THE GROUP	
	2013	2012
At cost	HK$'000	HK$'000
Raw materials	15,505	12,080
Work-in-progress	17,437	11,048
Finished goods	84,939	40,943
	117,881	64,071

Included above are raw materials which are carried at net realisable value of nil (2012: nil) at 31 December 2013.

24. TRADE RECEIVABLES

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Trade receivables	82,230	76,377
Less: Allowances for bad and doubtful debts	(3,910)	(4,908)
	78,320	71,469

The credit period on sales of goods is 30-120 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates, and net of allowance for bad and doubtful debts at the end of the reporting period:

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
0– 30 days	38,656	36,118
31 – 120 days	23,802	22,484
121 – 180 days	4,362	5,639
181 – 365 days	4,404	6,713
Over 365 days and under 3 years	7,096	515
	78,320	71,469

The fair value of the Group's trade receivables at 31 December 2013 approximate to the corresponding carrying amount.

24. TRADE RECEIVABLES *(continued)*

Of the trade receivables balance at the end of the year, HK$15,973,326 (2012: HK$27,845,515) is due from the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for bad and doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Age of receivables that are past due but not impaired

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Overdue by:		
1-180 days	21,491	18,714
181-365 days	1,655	2,343
	23,146	21,057

Movement in allowance for bad and doubtful debts

	2013	2012
	HK$'000	HK$'000
Balance at beginning of the year	4,908	2,030
Exchange rate adjustments	35	7
(Written back) provision for doubtful debts	(1,033)	2,871
Balance at the end of the year	3,910	4,908

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

24. TRADE RECEIVABLES *(continued)*

Age of receivables that are past due and impaired

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Overdue by:		
181-365 days	1,655	2,343
Over 365 days and under 3 years	2,255	2,565
	3,910	4,908

25. ADVANCE TO RELATED PARTY

The amount represents the loans advance to and interest receivable from a related party – Powder Pharmaceuticals Incorporated. Details have been stated at note 44(c).

26. CASH AND BANK BALANCES/ PLEDGED BANK DEPOSITS/TIME DEPOSITS

Bank balances carry interest at market rates which are 0.01% to 1.06% (2012: 0.001% to 0.005%) per annum. Pledged bank deposits carry interest rate of 0.28% (2012: 0.13%) per annum. Time deposits carry interest rate of 1.10% to 3.05% (2012: 0.6% to 3.1%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$2,000,000 (2012: HK$2,000,000) have been pledged to secure bank overdrafts and short-term bank loans and are therefore classified as current assets.

27. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2013 approximates to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2012 and 2013.

	THE GROUP	
	2013 HK$'000	2012 HK$'000
0-90 days	16,906	29,110
91-180 days	19,583	–
181-365 days	–	–
Over 365 days	4	1
	36,493	29,111

The average credit period on purchases of certain goods is 90 days. The Group has financial risk policies in place to ensure that all payables are paid within the credit time frame.

28. OBLIGATIONS UNDER LICENSE CONTRACTS

The balances as at 31 December 2013 and 2012 are repayable as follows:

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Obligations under license contracts:		
Within one year	7,923	3,683
In the second to fifth year	3,210	6,138
	11,133	9,821
Less: Amount due for settlement within 12 months (shown under current liabilities)	(7,923)	(3,683)
Balance as at 31 December	3,210	6,138

29. BANK BORROWINGS

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Secured bank loans classified as current liabilities(1)(2)	69,468	31,483
Carrying amount repayable:(3)		
Within one year	17,157	8,995
More than one year but not exceeding two years	16,154	7,877
More than two year but not exceeding five years	36,157	14,611
	69,468	31,483

Notes:

(1) Loan represents bank borrowings under Small and Medium Enterprises Loan Guarantee Scheme and Special Loan Guarantee Scheme, Trade and Industry Department, profit tax loan and term loan. The interest rates of these loans are 3% – 4% (2012: 3% – 4%) per annum, 0.875% to 1% per annum below the prime lending rate, and 2.75% per annum over the Bank's cost of funding respectively.

(2) As all the term loans include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause"), according to HK – Int 5 which requires the classification of whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Group as current liabilities in the current year.

(3) The table is based on the agreed repayment schedule set out in the term loans.

30. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. The average lease term is three years to five years (2012: three years to five years). Interest rates underlying all obligations under finance leases range from 5.52% to 8.99% (2012: 5.52% to 8.99%) per annum. These leases have no terms of renewal or purchase options and escalation clauses. No arrangements have been entered into for contingent rental payments.

30. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

	Minimum lease payments		Present value of minimum lease payments	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Amounts payable under finance leases:				
Within one year	154	611	150	563
In the second to fifth year inclusive	–	327	–	319
	154	938	150	882
Less: Future finance charges	(4)	(56)	n/a	n/a
Present value of lease obligations	150	882	150	882
Less: Amount due for settlement within 12 months (shown under current liabilities)			(150)	(563)
Amounts due for settlement after 12 months			–	319

The Group's obligations under finance leases are secured by the charge over the leased assets.

Finance lease obligations are denominated in Hong Kong dollars, which is also the functional currency of the relevant group entity.

31. DEFERRED TAX LIABILITIES

The following is the major deferred tax balances recognised and movements thereon during the current and prior years:

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Revaluation of properties HK$'000	Total HK$'000
At January 2012	388	12,540	451	13,379
Exchange difference	–	73	7	80
Charge (credit) to profit or loss	3	(189)	(58)	(244)
At 31 December 2012 and 1 January 2013	391	12,424	400	13,215
Exchange difference	–	199	10	209
Charge (credit) to profit or loss	(279)	1,926	(410)	1,237
At 31 December 2013	112	14,549	–	14,661

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amount to HK$204 million (2012: HK$122 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2013	2012	2013	2012
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning of the year	521,104,437	469,770,437	26,055	23,489
Exercise of share options	1,974,500	2,849,000	99	142
Issue of ordinary shares by placement	–	48,485,000	–	2,424
Issue of shares pursuant to Shareholders' Agreement (Note 33)	15,166,667	–	758	–
At end of the year	538,245,604	521,104,437	26,912	26,055

33. ISSUE OF SHARES PURSUANT TO SHAREHOLDERS' AGREEMENT

On 2 July 2013, the Company, pursuant to the Shareholders' Agreement, issued 15,166,667 shares to China Opportunity S.A. Sicar ("China Opportunity") in exchange for China Opportunity's 21,570 Subscription Shares in Powder Pharmaceuticals Incorporated ("PPI"). Further details of this Share Transaction are set out in the announcements of the Company dated 24 April 2013 and 23 May 2013.

As a result, the equity interests in PPI held by the Group became 39.65%, PPI and its subsidiary became associates of the Group.

34. RESERVES

The movements of the Group's reserves are stated in the consolidated statement of changes in equity.

	Share premium HK $'000	Merger difference HK $'000	Share-based compensation reserve HK $'000	Retained profits HK $'000	Total HK $'000
The Company					
At 1 January 2013	260,656	9,200	3,290	22,309	295,455
Employee share option benefits	–	–	2,727	–	2,727
Exercise of share options	5,300	–	(654)	–	4,646
Issue of shares pursuant to Shareholders' Agreement	26,370	–	–	–	26,370
2012 final dividend paid	–	–	–	(20,871)	(20,871)
2013 interim dividend paid	–	–	–	(12,367)	(12,367)
Net profit for the year	–	–	–	56,934	56,934
At 31 December 2013	292,326	9,200	5,363	46,005	352,894
At 1 January 2012	105,533	9,200	2,440	13,310	130,483
Employee share option benefits	–	–	1,456	–	1,456
Exercise of share options	5,416	–	(606)	–	4,810
Issue of ordinary shares by placement	149,707	–	–	–	149,707
2011 final dividend paid	–	–	–	(14,107)	(14,107)
2012 interim dividend paid	–	–	–	(9,357)	(9,357)
Net profit for the year	–	–	–	32,463	32,463
At 31 December 2012	260,656	9,200	3,290	22,309	295,455

The Company's reserves available for distribution to shareholders as at 31 December 2013 was HK$352.89 million (2012: HK$295.46 million).

34. RESERVES *(continued)*

The merger difference represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 2002.

The Company's reserves available for distribution represent the share premium, merger difference, share-based compensation reserve, and retained profits. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

35. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries HK$'000	Share-based compensation reserve of subsidiaries HK$'000	Total HK$'000
At 1 January 2013	11,122	1	11,123
Additional non-controlling interests arising from deemed partial disposal of interest in a subsidiary	56,380	–	56,380
Share of loss for the year	(1,464)	–	(1,464)
Share of other comprehensive income for the year	1	–	1
Share of employee share options benefit	–	13	13
At 31 December 2013	66,039	14	66,053
At 1 January 2012	417	–	417
Capital contribution	203	–	203
Additional non-controlling interests arising from deemed partial disposal of interest in a subsidiary	11,240	–	11,240
Share of loss for the year	(741)	–	(741)
Share of other comprehensive income for the year	3	–	3
Share of employee share options benefit	–	1	1
At 31 December 2012	11,122	1	11,123

35. NON-CONTROLLING INTERESTS *(continued)*

The non-controlling interests represent the 33% (2012: 33%) and 43.74% (2012: 20.05%) equity interests held by third parties in Guangzhou Zhaoke Lian Fa Pharmaceutical Limited and CVie Therapeutics Company Limited (including its wholly-ownd subsidiary CVie International Limited) respectively.

Transaction with non-controlling interests

At 31 December 2013, there are other receivables of HK$211,200 approximately (2012: HK$205,756 approximately) due from non-controlling shareholders of Guangzhou Zhaoke Lian Fa Pharmaceutical Limited.

36. DEEMED PARTIAL DISPOSAL OF INTERESTS IN A SUBSIDIARY

On 4 March 2013, CVie Therapeutics Company Limited ("CVie") issued 1,200,000 shares to Ivy Blue Holdings Limited, a third party to the Group, at consideration of USD3 million. After the issue of shares, the Group's shareholding in CVie was reduced by 8.97% to 70.98%. As the Group retained control over CVie, the Group recognised a gain on deemed partial disposal of interests in CVie of approximate HK$11,592,000 in the equity attributable to the shareholders of the Company, and an increase in non-controlling interests of approximate HK$11,670,000 for the shares in CVie at time of deemed partial disposal during the reporting period.

On 2 September 2013, CVie issued a total of 2,800,000 shares to Ivy Blue Holdings Limited, CDIB Venture Capital Corporation, and Lilly Asia Ventures Fund II, L.P., all being third parties to the Group, at consideration of USD10 million. After the issue of shares, the Group's shareholding in CVie was further reduced by 14.72% to 56.26%. As the Group retained control over CVie, the Group recognised a gain on deemed partial disposal of interests in CVie of approximate HK$31,682,000 in the equity attributable to the shareholders of the Company, and an increase in non-controlling interests of approximate HK$44,710,000 for the shares in CVie at time of deemed partial disposal during the reporting period.

37. RETIREMENT BENEFIT

Defined contribution plan

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme with maximum amount of HK$1,250 (2012: HK$1,250) per month for each employee, which contribution is matched by employees.

The total cost recognised in profit or loss of HK$332,033 (2012: HK$208,011) represents contributions payable to the Scheme by the Group in respect of the current accounting period. As at 31 December 2013, contributions of HK$72,311 (2012: HK$53,949) due in respect of the reporting period had not been paid over to the Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit is to make the specified contributions.

Defined benefit plan

Retirement benefit scheme represents the retirement benefit provided to the directors.

Each of executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Group for certain years. The Group will require providing contribution to person in related to Ms. Leelatertsuphakun Wanee, Ms. Lee Siu Fong, and Dr. Li Xiaoyi for 8, 10 and 17 years respectively since 2012 based on their expected retirement years.

The carrying value of the retirement benefit represents the fair value at 31 December 2013 which was valued by Messrs. Ascent Partners Valuation Service Limited, an independent professional valuer not connected to the Group. The valuation was carried out on a fair value basis. The term "fair value" is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of retirement benefit was accrued in the consolidated financial statements but the retirement benefit scheme was not established up to the date of the report. Thus, no actuarial gain or loss will be considered.

38. SHARE OPTIONS SCHEME

The Company

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"), share option scheme (the "Share Option Scheme") and new share option scheme (the "New Share Option Scheme") were adopted on 26 June 2002 and 10 May 2012 respectively for the primary purpose of providing incentives to directors, eligible employees, advisers and consultants.

At 31 December 2013, the number of shares in respect of which options had been granted and remained outstanding under the Schemes was 23,679,500 (2012: 21,900,000) representing 4.40% (2012: 4.39%) of the shares of the Company in issue at that date.

For the Pre-IPO Share Option Scheme and the Share Option Scheme, the total number of shares in respect of which options may be granted under both scheme is not permitted to exceed 10% of the shares of the Company ("Shares") in issue at the time of listing, without prior approval from the Company's shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue, without prior approval from the Company's shareholders.

For the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on the date on which the New Share Option Scheme is conditionally adopted and approved by the shareholders at the AGM, unless the Company obtains an approval from the shareholders in general meeting to refresh such 10% in accordance with the Listing Rules. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating such 10%. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme any other share option schemes must not exceed 30% of the Shares in issue from time to time.

The exercise price is determined by the directors, and will not be less than the highest of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

38. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Details of the Company's share option schemes are summarised as follow:

Date of grant	Outstanding at 01.01.2013	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2013	Exercise period	Exercise price per share
Category I: Directors							
11.07.2005	500,000	–	–	–	500,000	11.01.2006-10.07.2015	HK$0.159
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
25.09.2009	448,000	–	–	–	448,000	25.03.2010-24.09.2019	HK$1.076
06.09.2010	225,000	–	(225,000)	–	–	06.03.2011-05.09.2020	HK$2.990
20.12.2010	997,500	–	–	–	997,500	20.06.2011-19.12.2020	HK$3.750
07.10.2011	235,000	–	(235,000)	–	–	07.04.2012-06.10.2021	HK$2.526
20.12.2011	703,500	–	(234,500)	–	469,000	20.06.2012-19.12.2021	HK$2.666
08.10.2012	519,000	–	(200,000)	–	319,000	08.04.2013-07.10.2022	HK$4.996
20.12.2012	1,042,000	–	–	–	1,042,000	20.06.2013-19.12.2022	HK$4.930
30.12.2013	–	1,614,000	–	–	1,614,000	30.06.2014-29.12.2023	HK$7.300
Category II: Employees							
13.01.2003	150,000	–	(150,000)	–	–	13.07.2003-12.01.2013	HK$0.405
25.06.2004	2,160,000	–	–	–	2,160,000	25.12.2004-24.06.2014	HK$0.218
11.07.2005	1,785,000	–	(100,000)	–	1,685,000	11.01.2006-10.07.2015	HK$0.159
02.01.2008	320,000	–	–	–	320,000	02.07.2008-01.01.2018	HK$0.492
12.01.2010	3,025,000	–	(830,000)	(200,000)	1,995,000	12.07.2010-11.01.2020	HK$2.200
08.10.2012	6,040,000	–	–	–	6,040,000	08.10.2013-07.10.2022	HK$4.996
05.04.2013	–	300,000	–	–	300,000	05.10.2013-04.04.2023	HK$5.620
30.12.2013	–	2,040,000	–	–	2,040,000	30.12.2014-29.12.2023	HK$7.300
Category III: Consultants							
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
02.01.2008	2,000,000	–	–	–	2,000,000	02.07.2008-01.01.2018	HK$0.492
26.11.2008	500,000	–	–	–	500,000	26.05.2009-25.11.2018	HK$0.383
20.12.2010	250,000	–	–	–	250,000	20.06.2011-19.12.2020	HK$3.750
	21,900,000	3,954,000	(1,974,500)	(200,000)	23,679,500		

38. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise period	Exercise price per share HK$
13.01.2003		13.07.2003-12.01.2013	0.405
25.06.2004	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014	0.218
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	
11.07.2005	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015	0.159
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	
02.06.2006	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016	0.175
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007 -01.06.2016	
02.01.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018	0.492
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	
26.11.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009-25.11.2018	0.383
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010-25.11.2018	

38. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise period	Exercise price per share HK$
25.09.2009	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 25.03.2010-24.09.2019	1.076
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.12.2010-24.09.2019	
12.01.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010-11.01.2020	2.200
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011-11.01.2020	
06.09.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 06.03.2011-05.09.2020	2.990
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 06.12.2011–05.09.2020	
20.12.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011-19.12.2020	3.750
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012-19.12.2020	
07.10.2011	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 07.04.2012-06.10.2021	2.526
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 07.01.2013-06.10.2021	

38. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise period	Exercise price per share HK$
20.12.2011	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012-19.12.2021	2.666
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013-19.12.2021	
08.10.2012	(i)	259,500 options exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013-07.10.2022	4.996
	(ii)	259,500 options exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014-07.10.2022	
	(iii)	1,160,000 options exercisable during the period from 08.10.2013-07.10.2022	
	(iv)	2,230,000 options exercisable during the period from 08.10.2014-07.10.2022	
	(v)	2,650,000 options exercisable during the period from 08.10.2015-07.10.2022	
20.12.2012	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2013-19.12.2022	4.930
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2014-19.12.2022	
05.04.2013	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 05.10.2013-04.04.2023	5.620
	(ii)	unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. 05.07.2014-04.04.2023	

38. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise period	Exercise price per share HK$
30.12.2013	(i)	1,614,000 options: 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 30.06.2014-29.12.2023; and in respect of the unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. 30.03.2015-29.12.2023	7.300
	(ii)	669,000 options will be exercisable during the period from 30.12.2014 to 29.12.2023	
	(iii)	669,000 options will be exercisable during the period from 30.12.2015 to 29.12.2023	
	(iv)	702,000 options will be exercisable during the period from 30.12.2016 to 29.12.2023.	

The following table summarised movements in the Company's share options during the year:

	Outstanding at 01.01.2013	During the year Granted	Exercised	Lapsed	Outstanding at 31.12.2013
Directors					
Lee Siu Fong	988,000	538,000	(234,500)	–	1,291,500
Leelalertsuphakun Wanee	979,000	538,000	(660,000)	–	857,000
Li Xiaoyi	1,903,000	538,000	–	–	2,441,000
Mauro Bove	1,300,000	–	–	–	1,300,000
Directors' total	5,170,000	1,614,000	(894,500)	–	5,889,500
Employees	13,480,000	2,340,000	(1,080,000)	(200,000)	14,540,000
Consultants	3,250,000	–	–	–	3,250,000
Grand total	21,900,000	3,954,000	(1,974,500)	(200,000)	23,679,500

38. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

The Company issues equity-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually become vested and adjusted for the effect of non market-based vesting conditions.

The fair value of the total options granted in the year measured as at the date of grant on 5 April 2013 was HK$897,000, and that on 30 December 2013 was HK$12,608,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility range of 52.38% to 61.67%;

2. expected annual dividend yield range of 0.69% to 0.89%;

3. exit rate of 0%;

4. the options life is 10 years; and

5. the risk free rate (referring to the yield of Hong Kong Sovereign Zero Coupon yield with maturity matching the time to expected life of the share options as at the valuation date as obtained from Bloomberg) of 0.55% to 1.87%.

The fair value of the two share options granted during the year were valuated by Messrs. Ascent Partners Valuation Service Limited, an independent professional valuer not connected to the Group. The valuations were derived by the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimated.

The Subsidiary – CVie Therapeutics Company Limited

A subsidiary of the Company, CVie Therapeutics Company Limited ("CVie"), also operates a share option scheme (the "CVie's Scheme"). The CVie's Scheme was adopted pursuant to a resolution on 5 November 2012 for the primary purpose of providing incentives to eligible employees of CVie. The share option was granted on 30 November 2012 and will expire on 30 November 2022. Under the CVie's Scheme, the board of directors of CVie may grant options to eligible employees and eligible grantees.

38. SHARE OPTIONS SCHEME *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

At 31 December 2013, the number of shares in respect of which options had been granted and remained outstanding under the CVie's Scheme was 440,000 (2012: 440,000), representing 3.26% (2012: 4.63%) of the shares of CVie in issued at that date. The total number of shares in respect of which options may be granted under the CVie's Scheme shall not exceed 500,000 shares of CVie. The overall limit on the number of shares of CVie which may be issued upon exercise of all outstanding options granted and yet to be exercised under the CVie scheme and any other share option schemes of CVie must not exceed 30% of the shares of CVie in issue from time to time, without prior approval from the shareholders of CVie.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of CVie, and will not be less than the fair value of each share of CVie on the date of grant.

Details of the CVie's Share Option Scheme are summarised as follow:

Date of grant	Outstanding at 01.01.2013	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2013	Exercise period	Exercise price per share
Tranche 1							
30.11.2012	133,000	–	–	–	133,000	Note a	HK$1.628
Tranche 2							
30.11.2012	267,000	–	–	–	267,000	Note b	HK$1.628
Tranche 3							
30.11.2012	40,000	–	–	–	40,000	01.12.2014-30.11.2022	HK$1.628
	440,000	–	–	–	440,000		

Note:

a. Upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

b. One year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

38. SHARE OPTIONS SCHEME *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

Particulars of share options:

Date of Grant	Exercise period		Exercise price per share
Tranche 1 30.11.2012	(i)	133,000 options will be exercisable upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	HK$1.628
Tranche 2 30.11.2012	(i)	267,000 options will be exercisable one year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	HK$1.628
Tranche 3 30.11.2012	(i)	40,000 options will be exercisable during the period 01.12.2014-30.11.2022	HK$1.628

The Group has recognised an expense of HK$2,767,000 for the year ended 31 December 2013 (2012: HK$1,459,000) in relation to share options granted by the Company and CVie.

39. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2012.

The capital structure of the Group consists of net debt (which includes borrowings and obligations under finance leases net of cash and cash equivalents) and equity attributable to the shareholders of the Company (comprising issued share capital, share premium, reserves and retained profits).

39. CAPITAL MANAGEMENT

Gearing ratio

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

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Debt (Note 1)	69,618	42,186
Cash and cash equivalents	(379,062)	(333,902)
Net debt	(309,444)	(291,716)
Equity (Note 2)	786,005	582,156
Net debt to equity ratio	N/A	N/A

Notes:

1. Debt is defined as bank borrowings and obligations under finance lease as described in notes 29 and 30.

2. Equity includes all capital and reserves attributable to the shareholders of the Company.

40. FINANCIAL INSTRUMENTS

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade derivative financial instruments for speculative purposes.

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

40. FINANCIAL INSTRUMENTS *(continued)*

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into the following derivative financial instrument to manage its exposure to foreign currency risk and interest rate risk:

- Forward foreign exchange contracts to hedge the exchange rate risk

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, expose the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Renminbi ("RMB")	145,874	149,322	–	–
USD	198,275	44,652	–	–
Euro	884	6,264	–	–
New Taiwan Dollar ("NTD")	368	–	–	–
Japanese Yen ("JPY")	40	–	–	–
	345,441	200,238	–	–

40. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Foreign currency sensitivity analysis

The Group is mainly exposed the effects of fluctuation in RMB, USD, Euro, NTD and JPY.

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit or equity where Hong Kong dollars strengthens 5% against the relative foreign currencies. For a 5% weakening of Hong Kong dollars against the relevant foreign currencies, they would be a comparable impact on the profit or equity, and the balances would be negative.

	2013 HK$'000	2012 HK$'000
Profit or loss	17,272	10,012

Interest rate risk management

The Group is exposed to both cash flows interest rate risk and fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure.

Credit risk management

As at 31 December 2013, The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

40. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Credit risk management (continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers and spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

Apart from Zhuhai Li Chen Medicine Co. Ltd (see below and refer to notes 7 and 24), the largest customer of the Group, the Group does not have significant risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Zhuhai Li Chen Medicine Co. Ltd did not exceed 10% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk management

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

40. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Liquidity risk management (continued)

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivate financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivate financial liabilities is prepared based on the scheduled repayment dates.

	On demand or less than 1 month HK$'000	**1-3 months** HK$'000	**3 months to 1 year** HK$'000	**More than 1 year** HK$'000	**Total** HK$'000
At 31 December 2013					
Non-derivative financial liabilities					
Trade and other payables	181,858	–	–	–	181,858
Obligations under finance leases	21	42	87	–	150
Obligations under license contracts	2,038	–	5,885	3,210	11,133
Bank borrowings	69,468	–	–	–	69,468
	253,385	42	5,972	3,210	262,609
At 31 December 2012					
Non-derivative financial liabilities					
Trade and other payables	108,195	14,164	1,512	–	123,871
Obligations under finance leases	47	94	422	319	882
Obligations under license contracts	3,683	–	–	6,138	9,821
Bank borrowings	31,483	–	–	–	31,483
	143,408	14,258	1,934	6,457	166,057

40. FINANCIAL INSTRUMENTS *(continued)*

Fair values

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

Financial liability	Fair value hierarchy	Valuation technique(s) and key input(s)
Retirement benefit	Level 2	Discounted cash flows model. Future cash flows are estimated based on the summarised historical growth rate of wages and expected mortality rates of Hong Kong Life Table 2013-2032 discounted a rate matching the shortest term of retirement benefit adjusted by the Liquidity Spread for AAA rated bonds.

There were no transfers between Levels 1 and 2 in the current year.

The directors consider that the amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	Fair value hierarchy as at 31 December 2013			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP				
Financial Liability				
Retirement benefit	–	23,569	–	23,569

The fair value of the financial liability included in the level 2 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flows, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

41. OPERATING LEASES

The Group as lessee

	2013 HK$'000	2012 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	5,451	4,759

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013 HK$'000	2012 HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	3,369	3,552
More than one year but not exceeding five years	4,269	2,382
	7,638	5,934

The Group does not have options to purchase the leased asset at the expiry of the lease period.

42. CAPITAL COMMITMENTS

	THE GROUP	
	2013 HK$'000	2012 HK$'000
Capital commitments in respect of:		
Intangible assets – license fee and development cost	15,049	20,603
Property, plant and equipment	15,308	9,083
Construction contract	28,096	98,363
	58,453	128,049

43. PLEDGED OF ASSETS

At 31 December 2013, the Group has pledged bank deposit of HK$2,000,000 (2012: HK$2,000,000) to secure general banking facilities granted to the Group.

In addition, the Group's obligations under finance leases are secured by the lessors' title to the motor vehicles, which have a carrying amount of HK$544,338 (2012: HK$ 1,533,531).

44. RELATED PARTIES TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties. In the opinion of the directors, the following transactions arose in the ordinary course of the Group's business:

(a) Purchases with Sigma-Tau Group

Name of related parties	Note	Nature of transactions	2013 HK$'000	2012 HK$'000
Sigma-Tau Group	(1)	Purchase of pharmaceutical product	99,437	57,622
Sigma-Tau Group	(1)	Purchase of experimental products for use in R&D	3,887	–
			103,324	57,622

Note:

1. Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. is a shareholder of the Company which is also a member of Sigma-Tau Group.

44. RELATED PARTIES TRANSACTIONS *(continued)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2013 HK$'000	2012 HK$'000
Short-term benefits	13,335	9,106
Share based payments	743	595
Retirement benefit	12,678	10,891
	26,755	20,592

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(c) Shareholder Loans to Powder Pharmaceuticals Incorporated ("PPI")

During the year ended 31 December 2013, the Group provided the following shareholder loans to PPI, which is an associate to the Group:

Advance Date	Term	Interest rate	Loan amount (HK$)
7 January 2013	1 year	4% per annum	8,000,000
24 July 2013	1 year	4% per annum	4,032,080
25 July 2013	1 year	4% per annum	4,000,000
8 October 2013	1 year	4% per annum	4,000,000

As disclosed in note 8 for other income, interest income from loans to PPI for the year ended 31 December 2013 is HK$444,000 (2012: HK$246,000).

(d) Amendments of agreements with Sigma-Tau and its associate

On 15 October 2013, CVie Therapeutics Company Limited ("CVie") entered into amendments of agreements to amend the certain term in respect of the license agreements with Sigma-Tau Group and its associate for licenses of Istaroxime and Rostafuroxin.

Total consideration for entering into the amendments of agreements is USD180,000.

45. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2013 HK$'000	2012 HK$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	340,395	211,283
	340,396	211,284

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment within twelve months from the end of the reporting period and the amounts are therefore shown as non-current.

General information of subsidiaries

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

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share	Paid up registered capital	Proportion ownership interest held by the Company – Directly 2013 %	Directly 2012 %	Indirectly 2013 %	Indirectly 2012 %	Principal activities
Lee's Pharmaceutical International Limited	The British Virgin Islands	Ordinary	US$1	100%	100%	–	–	Investment holding
Zhaoke Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Trading of pharmaceutical products
Lee's Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$18,400,000	–	–	100%	100%	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Ltd.	PRC	Paid-up capital	US$2,000,000	–	–	100%	100%	Manufacture and sale of pharmaceutical products
China Oncology Focus Limited	The British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Not yet commenced business
Zhaoke Pharmaceutical (Guangzhou) Ltd.	PRC	Paid-up capital	US$13,000,000	–	–	100%	100%	Trading of pharmaceutical products
China Cardiovascular Focus Limited	The British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Investment holding

45. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share	Paid up registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2013 %	2012 %	2013 %	2012 %	
Guangzhou Zhaoke Lian Fa Pharmaceutical Limited	PRC	Paid-up capital	RMB1,500,000	–	–	67%	67%	Trading of pharmaceutical products
CVie Therapeutics Company Limited	Cayman Islands	Ordinary	US$75,952	–	–	56.26%	79.95%	Development and trading of pharmaceutical products
		Series A-1 preference	US$19,048					
		Series A-2 preference	US$12,000					
		Series B preference	US$28,000					
CVie International Limited	Taiwan	Ordinary	TWN1,500,000	–	–	56.26%	–	Not yet commenced business (Note 1)

Note:

1. The company was incorporated in September 2013.

45. INTERESTS IN SUBSIDIARIES *(continued)*

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

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

Name of subsidiary	Place of incorporation/ registration/operations	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
CVie Therapeutics Company Limited (Note)	Cayman Islands	43.74%	20.05%	(1,160)	(212)	66,262	11,029

Note: CVie International Limited, a wholly owned subsidiary of CVie Therapeutics Company Limited, is included.

Summarised financial information in respect of Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represent amounts before intragroup eliminations.

CVie Therapeutics Company Limited and its wholly owned subsidiary

	2013 HK$'000	2012 HK$'000
Current assets	99,815	38,009
Non-current assets	55,067	17,375
Current liabilities	(3,391)	(376)
Non-current liabilities	–	–
Equity attributable to shareholder of the Company	85,229	43,979
Non-controlling interests	66,262	11,029

45. INTERESTS IN SUBSIDIARIES *(continued)*

CVie Therapeutics Company Limited and its wholly owned subsidiary *(continued)*

	Year ended 2013 HK$'000	Year ended 2012 HK$'000
Revenue	410	128
Expenses	(3,621)	(1,390)
Loss for the year	(3,211)	(1,262)
Loss attributable to the shareholders of the Company	(2,051)	(1,050)
Loss attributable to the non-controlling interests	(1,160)	(212)
Loss for the year	(3,211)	(1,262)
Other comprehensive expenses attributable to the shareholders of the Company	–	–
Other comprehensive expenses attributable to non-controlling interests	–	–
Other comprehensive expenses for the year	–	–
Total comprehensive expenses attributable to the shareholders of the Company	(2,051)	(1,050)
Total comprehensive expenses attributable to non-controlling interests	(1,160)	(212)
Total comprehensive expenses for the year	(3,211)	(1,262)

45. INTERESTS IN SUBSIDIARIES *(continued)*

CVie Therapeutics Company Limited and its wholly owned subsidiary *(continued)*

	Year ended 2013 HK$'000	Year ended 2012 HK$'000
Dividend paid to non-controlling interests	–	–
Net cash outflow from operating activities	(21)	(1,116)
Net cash outflow from investing activities	(37,650)	(17,375)
Net cash inflow from financing activities	99,654	56,266
Net cash inflow	61,983	37,775

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Lee's Pharmaceutical Holdings Limited (the "**Company**") will be held at Unit 102, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Monday, 12 May 2014 at 3:00 p.m. for the following purposes:

As ordinary business:

1. To receive, consider and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2013.

2. To declare the final dividend for the year ended 31 December 2013.

3. To re-elect the retiring directors and to authorise the board of directors (the "**Board**") to fix the directors' remuneration.

4. To re-appoint auditors and to authorise the Board to fix their remuneration.

As special business:

5. To consider and if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:

   A. "**THAT**

      (a) subject to paragraph 5A(c) below, a general mandate be and is hereby generally and unconditionally approved to the directors of the Company (the "**Directors**") to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;

      (b) the approval in this paragraph 5A(a) above shall authorise the Directors during the Relevant Period to make and grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph 5A(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the said approval shall be limited accordingly:

(i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory, applicable to the Company); or

(ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or

(iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of the dividend on the shares of the Company in accordance with the articles of association of the Company;

(d) for the purpose of this Resolution, "**Relevant Period**" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by its memorandum and articles of association of the Company or any applicable laws and regulations of the Cayman Islands to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

B. "**THAT**

(a) subject to paragraph 5B(b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph 5B(c) of this Resolution) of all the powers of the Company to repurchase its own shares on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange on which the securities of the Company may be listed (as amended from time to time), be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph 5B(a) above during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph 5B(a) shall be limited accordingly; and

(c) for the purpose of this Resolution, "**Relevant Period**" shall have the same meaning as assigned to it under paragraph 5A(d) of this notice."

C. "**THAT** conditional upon Ordinary Resolutions 5A and 5B being passed, the general mandate granted to the Directors pursuant to Ordinary Resolution 5A to exercise the powers of the Company to allot, issue and otherwise deal with shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution 5B, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By order of the Board
Lee's Pharmaceutical Holdings Limited
Lee Siu Fong
Chairman

Hong Kong, 20 March 2014

Notes:

(1) The register of members of the Company will be closed from Friday, 9 May 2014 to Monday, 12 May 2014 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled to attend and vote at the meeting. In order to qualify for the right to attend and vote at the above meeting, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 May 2014.

(2) The register of members of the Company will be closed from Tuesday, 20 May 2014 to Wednesday, 21 May 2014 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled for the proposed final dividend for the year ended 31 December 2013. In order to qualify for the proposed final dividend for the year ended 31 December 2013, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 19 May 2014.

(3) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(4) A form of proxy is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof. In the case of a joint share holding, the form of proxy may be signed by any one joint holder.

(5) With reference to the Ordinary Resolution sought in items 5A and 5B of this notice, the directors of the Company wish to state that they have no immediate plans to issue any new shares or to repurchase any existing shares of the Company. The explanatory statement required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the repurchase mandate, together with further details regarding items 3 and 5 of this notice as required by the Rules Governing the Listing of Securities on the Stock Exchange will be included in the circular, which will be despatched to shareholders of the Company together with 2013 Annual Report.