CMS

2013 Annual Report

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

(Stock Code:867)

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
Mr. HUI Ki Fat
Ms. SA Manlin

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng
(resigned on 9 October 2013)
Mr. HUANG Ming
(appointed on 9 October 2013)
Mr. WU Chi Keung

Company Secretary

Ms. ZHANG Lingyan

Authorized Representatives

Ms. ZHANG Lingyan
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng
(resigned on 9 October 2013)
Mr. HUANG Ming
(appointed on 9 October 2013)

Remuneration Committee Members

Dr. PENG Huaizheng (Chairman)
(resigned on 9 October 2013)
Mr. HUANG Ming (Chairman)
(appointed on 9 October 2013)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Dr. PENG Huaizheng
(resigned on 9 October 2013)
Mr. HUANG Ming
(appointed on 9 October 2013)
Mr. WU Chi Keung

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

China Merchants Bank, Shenzhen Branch
Industrial and Commercial Bank of China, ShenZhen Branch
Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Headquarters

6/F and 8/F, Building A Tongfang Information Harbour
No.11 Langshan Road
Hi-tech Industrial Park North
Nanshan District
Shenzhen 518057
PRC

Principal Place of Business in Hong Kong

Unit 2106, 21/F
Island Place Tower
510 King's Road
North Point
Hong Kong

Branch Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17M, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

867

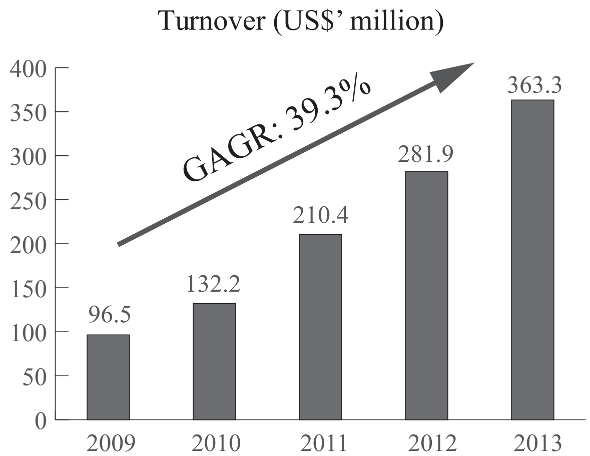
Company's Website

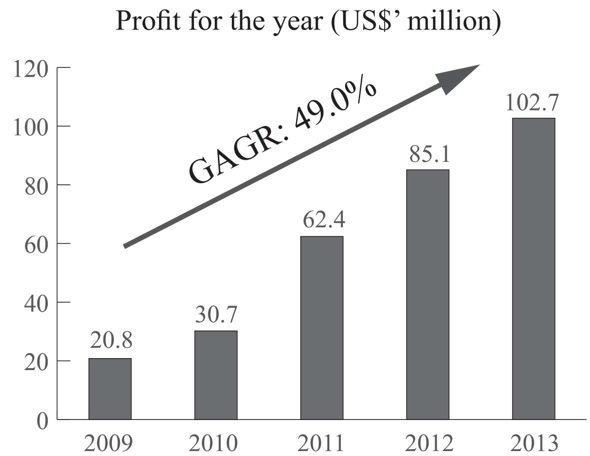
www.cms.net.cn

Financial Highlights

- Turnover up 28.9% to US$363.3 million (2012: US$281.9 million)
- Profit for the year up 20.6% to US$102.7 million (2012: US$85.1 million)
- Basic earnings per share up 20.9% to US4.258 cents (2012: US3.522 cents)
- As at 31 December 2013, the Group's bank balances and cash amounted to US$80.0 million while readily realizable bank acceptance bills amounted to US$26.0 million
- Proposed final dividend of US0.863 cent per share, bringing the total dividend for the year ended 31 December 2013 to US1.701 cent per share, representing an increase of 19.9% from last year (2012: final dividend of US0.774 cent and total dividend of US1.419 cent per share respectively)

Turnover and profit of the Group for the latest five years are set out below:





Consolidated Balance Sheet Highlights

	As at 31 December				
	2009	2010	2011	2012	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	90,777	223,207	474,167	552,767	629,012
Total liabilities	36,843	23,218	82,994	101,793	105,141
Net assets	53,934	199,989	391,173	450,974	523,871

Chairman's Statements

Dear Shareholders,

This is the third year since China Medical System Holdings Limited (the "Company" or "CMS") transferred its listing platform from the Alternative Investment Market in London to the Main Board of the Hong Kong Exchanges and Clearing Limited ("HKEx"). On behalf of the Board of Directors of the Company, I would like to sincerely thank all of our shareholders for their unwavering support in these three years, and would also like to present the Annual Report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 (the "Reporting Period").

Business Review

The year 2013 was one in which the Chinese healthcare market experienced a number of changes and adjustments. In the second half of 2013, the introduction of regulatory policies relating to the healthcare industry, in particular the anti-corruption measures pushed forward by the government exerted a certain impact on the overall growth of the Chinese healthcare industry. However, the rapid growth of China's aging population, the increase in per capita disposable income, as well as the deepening of government policies with regard to medical reforms, etc., continued to give impetus to overall growth of the Chinese healthcare market. In the long run, a more moderate policy environment, strong demand for pharmaceutical products and a solid industry foundation will drive the sustained development of the Chinese healthcare market.

In 2013, the Group stayed vigilant and was well prepared for various scenarios, focusing on optimizing its intrinsic value. Under the volatile external market conditions, the Group refined its market layout and network segmentation and strengthened internal management in a bid to reduce the adverse impact brought by fluctuations in the industry. During the Reporting Period, the Group recorded turnover of US$363.3 million (2012: US$281.9 million), representing an increase of 28.9% over the same period of last year, while profit for the period reached US$102.7 million (2012: US$85.1 million), up 20.6% from last year. Basic earnings per share was US4.258 cents (2012: US3.522 cents), representing an increase of 20.9% over the same period of last year.

Production Introduction and Development

The Group believes that a premium product portfolio with distinct levels and reasonable structure serves an important foundation for the Group's sustainable development. During the Reporting Period, the Group committed to identifying high quality prescription drugs on a global scale that would meet the demand for the Chinese market and would also be suitable for promotion by the Group. In 2013, the stability and controllability of product rights continued to be the preferred strategic considerations of the Group's product introduction. Meanwhile, to ensure the products' long-term development, for controllable products, the Group leveraged its capabilities in financing, production and sales to effectively integrate its product resources and optimize the developmental foundation of its products. The Group successfully signed agreements with two foreign pharmaceutical manufacturers in 2013 to introduce four products. In particular, the Group introduced three high-quality herbal medicine products in consideration of certain payments to Max Zeller Söhne AG ("Zeller"), a Swiss pharmaceutical company. This was a successful attempt in which the Group obtained a product with long-term (30-year) exclusive market rights in China for its Direct Academic Promotion Network (the "the Direct Network"). Another newly introduced product is Stimol®, the Group achieved cooperation with Biocodex of France once again and signed an agreement for exclusive promotion and distribution the product in China during the Reporting Period. The new in-licensed products mentioned above require import drug registration in China. In addition, during the Reporting Period, the Group successfully acquired a 100% equity interest in Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd. (subsequently renamed Kangzhe Lengshuijiang Medical Co., Ltd., "Kangzhe Lengshuijiang"), thereby securing the product rights of GanFuLe, a product previously marketed by the Group. Meanwhile, to secure the stable and long-term production capability of XiDaKang, a controllable product under the Agency Promotion Network (the "Agency Network"), the Group not only acquired the entire product rights during the Reporting Period, but also made a series of arrangements for its production in order to lay a sound foundation for the future development of the product.

For the development of its current portfolio, the Group has actively capitalized on the opportunity arised from the adjustment of organizational structure of the Direct Network during the Reporting Period to continue refining its regional network, facilitate the regional layout of its products and enhance the sales coverage of new hospitals, thereby continuously expanding the market coverage of products in terms of the breadth and depth. Meanwhile, the Group actively explored the potential of hospitals which has generated sales of our products and increased the prescriptions volume of products during the Reporting Period. For products under the Agency Network, the Group consistently modified the Agency Promotion Model during the Reporting Period, identified new agencies in untapped markets for products and encouraged agencies to step up efforts in market development as well as hospital coverage. Meanwhile, for products that require certain degree of academic support under the Agency Network, the Group offered specific training programs for these products during the Reporting Period so as to continuously enhance the agencies' academic capacity and knowledge for these products.

Tyroserleutide (CMS024), a polypeptide National Class One New Drug researched and developed by the Group, is used to treat primary liver cancer. The Group enrolled all subjects of phase III clinical trial of Tyroserleutide during the Reporting Period, and convened the blind data review of the clinical trial in Shanghai, China to unblind the data and conduct preliminary statistical analysis on 28 February 2014. Preliminary analysis results indicated that the subgroup with tumor thrombosis in the hepatic portal vein branches of which subjects were in severe condition and with poor prognosis interfered with the primary efficacy evaluation of the clinical trial such that the clinical trial failed to achieve its aim to register for selling the drug in the Chinese market. The clinical trial demonstrated a favorable trend for Tyroserleutide on Recurrence Free Survival (RFS) and Overall Survival (OS) in the subgroup with no tumor thrombosis in the hepatic portal vein branches of which the subjects were in better condition and with favorable prognosis, and the OS in particular approaching statistical significance. Based on the situation, the Group believes that further research focusing on patient population with milder condition (such as subjects with no tumor thrombosis in the hepatic portal vein branches) with OS as the primary endpoint is highly recommended. The Group and Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D") have decided to kick off a follow-up clinical trial for Tyroserleutide based on it.

Moreover, the Group has other five products in the early stages of application for import drug registration. The Group will actively facilitate the registration process of relevant products.

Network Expansion

The Group has committed to establishing a marketing and promotion network with broad coverage, strong penetration, high overall quality, clear management hierarchy, and outstanding flexibility and effectiveness in the China market. Thus, during the Reporting Period, the Group further expanded the scale of the marketing and promotion network and also strengthened the management and professional training of the network. Meanwhile, the Group further improved the information management system during the Reporting Period, and reinforced the refined management of the two marketing and promotion networks of the Group. Furthermore, strengthening the penetration of the marketing and promotion network and promoting the development to the rural market were also key focuses of network development of the Group during the Reporting Period.

To ensure market segmentation, effective expansion into untapped markets, reinforcement the penetration of the marketing and promotion network into rural market and the flexibility of business management, the Group started to refine the organizational structure of the Direct Network since the end of 2012. During the Reporting Period, the new organizational structure commenced operation. To allow the new organizational structure to run efficiently as soon as possible, the Group has strengthened the real-time monitoring and regular feedback of the organizational performance under the refined network and continued to enhance and optimize the new organizational structure and relevant policies in light of market changes to enable the new structure to go through the transition period smoothly. Meanwhile, the Group completed large-scale new staff recruitment and training during the Reporting Period, and kicked off a new round of campus recruitment in order to continuously accommodate the demand for sales talents for the expansion and segmentation of the Direct Network.

On the Agency Network front, the Group continued to identify high quality agents for products in untapped markets and hold training sessions to improve its agents' knowledge of the Group's products during the Reporting Period. Meanwhile, the Group strengthened the information management of the Agency Network in areas ranging from agent identification to contract signing and product delivery during the Reporting Period, with every key aspect of sale process of the Agency Network fully incorporated into the information management system. In addition, the Group also actively discussed how to capitalize the merits of the Agency Promotion Model during the Reporting Period in order to achieve the optimal allocation of agents' resources during product sales.

Cash Dividend

The Company has paid an interim dividend of US0.838 cent (equivalent to HK$0.065) per ordinary share of the Company (the "Share") for the six months ended 30 June 2013. The Board is delighted to recommend a final dividend of US0.863 cent (equivalent to HK$0.067) per Share for the year ended 31 December 2013 to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 12 May 2014 (the "Record Date"). The register of members of the Company will be closed from Thursday, 8 May 2014 to Monday, 12 May 2014 (both days inclusive). 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 Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 7 May 2014. Payment of the final dividend in Hong Kong dollars is expected to be made to the shareholders on Monday, 19 May 2014 upon shareholders' approval at the Annual General Meeting ("AGM") of the Company dated on Wednesday, 30 April 2014.

Outlook and Future Development

Internal adjustments carried out in 2013 were aimed at laying a more solid foundation for large-scale development in the future as the Group invests effort on product introduction and development, as well as network expansion and segmentation. Meanwhile, more detailed and effective business management, higher-quality talents and more stable sales teams will further strengthen the Group's future development.

In respect of product introduction and development in the future, the Group will be constantly committing to new product introduction by continuing to identify premium products with certain market differentiations and favorable academic features and adhering to taking effective control of product rights as the top priority during negotiations to cooperate on products. In the future, based on the securing of stable product rights, the Group will promote prosperous development of products in the China market with more ample resources and refined market planning. Meanwhile, the Group will also continue to facilitate the application of its existing products under registration for launching in the market. This is an important endeavour of the Group's sustainable development in the future.

With regard to the future development of the network, the Group will continue to expand the scale of the marketing and promotion network, further strengthen its network coverage, continuously expand its network to the rural market, and focus on improving the efficiency and professional standards of the network. The Group will further enhance the reasonable layout of its marketing and promotion network and reinforce its headquarters' supervision and management over the network operation. The Group will also further establish a strong training and academic communication platform for the development of the marketing and promotion network and further improve various incentive mechanisms to consistently promote the healthy development of the network.

Since its listing on the HKEx three years ago, the Group has been adhering to the commitment of accountability to shareholders, constantly cultivating an outstanding enterprise that is pragmatic and proactive, exercising stringent internal control, and ensuring efficient management. The Group will continuously devote itself to society and human health and will continue to strive in the future!

Chairman
Lam Kong
Shenzhen China
26 March 2014

Management Discussion and Analysis

Business Review

During the Reporting Period, the Group recorded turnover of US$363.3 million (2012: US$281.9 million), representing a year-on-year increase of 28.9%, while profit for the period reached US$102.7 million (2012: US$85.1 million), up 20.6% year-on-year. Basic earnings per share was US4.258 cents (2012: US3.522 cents), representing a year-on-year increase of 20.9%.

The year 2013 was a year of adjustments for the Group. During the Reporting Period, the Group was confronted with some challenges – the Direct Network sought to rapidly complement the market after adjustments in its organizational structure and personnel; two major products, Augentropfen Stulln Mono Eye-drops and ShaDuoLiKa, could not cater to market demand due to the inadequate production capacity of the manufacturers. In the third quarter of 2013, the growth of the overall Chinese healthcare market dampened due to the Chinese governmental anti-corruption measures which affected the growth of the Group to a certain extent. With the gradually flourishing operation of the adjusted organizational structure of the Group's Direct Network, the progressively improved supply capacity of product manufacturers, more moderate policy environment of the industry and constantly improved internal management, the Group believes it will continue to maintain sustainable and steady growth in the future.

Product Introduction and Development

Products are considered the soul of the Group's sustainable development. Stable and controllable product rights will be the Group's primary strategic consideration as well as the key objective of the Group's product development. Regarding the introduction of new products, the Group continued to pay upfront fees, equity investment, etc., to have effective control of marketing rights of products in China. During the Reporting Period, the Group obtained three herbal medicine products from Zeller, a Switzerland pharmaceutical company, via certain consideration payable for 30 years of exclusive rights to import, register, sell, market, promote and distribute the products in the China market for its Direct Network, which fully guaranteed the Group's steady rights on these three products. During the Reporting Period, the Group also completed the acquisition of a 100% equity interest in the manufacturer of GanFuLe, a drug that was previously marketed by the Group, and achieved effective control of the drug. Meanwhile, to assure the long-term development of XiDaKang, during the Reporting Period, the Group on one hand obtained 100% product rights of the product, and on the other hand, utilized its existing production base located in Li County, Hunan Province to produce the product. The production of XiDaKang shifted from Guangxi Province to Hunan Province has effectively integrated production resources and thereby guaranteeing steady and lasting supply of the product in the future. Meanwhile, to ensure the reliability of the raw materials for the product, the Group also invested in and constructed an agricultural base in Li County, Hunan Province for the supply of the main raw materials of the product to ensure the quality of the product from the origin. In addition, the Group achieved successful cooperation with Biocodex of France once again and signed an agreement with it for exclusive promotion and distribution its product Stimol® in China during the Reporting Period.

In terms of the market development of products, due to the untimely expansion of the production capacity of the manufacturer of Augentropfen Stulln Mono Eye-drops and the refurbishment of the manufacturer of ShaDuoLiKa in accordance with the latest Chinese GMP requirements, the supply of these two products failed to meet the development needs of the China market and thereby posed a certain negative impact on their sales in the first half of 2013. Other products of the Group still achieved sustained sales growth during the Report Period. The supply of these two products started to recover gradually from the second half of 2013.

During the Reporting Period, flagship products Deanxit and Urosofalk under the Direct Network of the Group have relatively broad hospital coverage, and their product images have won the support of doctors and patients after decades of promotion. During the Reporting Period, the Group continuously contributed to building a professional academic brand image for the two products and took the initiative in searching for new growth points and breakthrough of products with the opportunity of further extending the Direct Network to the rural market. In terms of the four potential products under the Direct Network - XinHuoSu, Augentropfen Stulln Mono Eye-drops, Salofalk and Bioflor - the Group concentrated on improving the regional market layout of the products, constantly enhancing hospital coverage and department expansion and at the same time strengthening Chinese doctors' understanding and recognition of products by holding multi-layer academic activities. Regarding the development of product under the Agency Network, given the intense market competition, the Group continued to adjust and optimize the structure of its current agencies and enhanced the requirements upon product market development and hospital coverage, and thereby effectively promoted the sustainable development of products under the Agency Network during the Reporting Period. Meanwhile, for products with certain academic demands and exclusiveness under the Agency Network (such as XiDaKang and Yin Lian Qing Gan Ke Li), the Group proactively discussed with agents for a more effective, longer-term and stable cooperation pattern during the Reporting Period.

The phase III clinical trial of Tyroserleutide (CMS024), a polypeptide drug used to treat primary liver cancer, researched and developed by the Group with independent intellectual property rights, saw substantial progress during the Reporting Period, fulfilling all enrollments of 300 subjects and unblinded clinical trial data by 28 February 2014. In addition, of the nine products of the Group now undergoing import drug registration application in China, four were newly signed during the Reporting Period. The Group has been active in promoting these applications in accordance with each requirement of the CFDA.

(i) Products under the Direct Network

Main Products	As a Percentage of the Group's Revenue (%)
Deanxit (Flupentixol and Melitracen)	27.9
Ursofalk (Ursodeoxycholic Acid)	20.1
XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")	10.1
Salofalk (Mesalazine)	4.5
Bioflor (Saccharomyces Boulardii)	4.1
Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-drops)	3.6

Deanxit (Flupentixol and Melitracen)

Deanxit is manufactured by H.Lundbeck A/S of Denmark and is used for the treatment of mild to moderate depression and anxiety. During the Reporting Period, Deanxit recorded sales of US$101.5 million, an increase of 15.2% when compared to last year, accounting for 27.9% of the Group's turnover. Deanxit still maintained steady growth during the Reporting Period, mainly benefitting from the sustainable efforts of the Group to mold its brand image as well as discover its potential for growth. In addition, during the Reporting Period, the Group strengthened the academic promotion in the rural market, which effectively boosted its development in rural areas. As at 31 December 2013, sales of Deanxit covered over 10,700 hospitals throughout China. Due to the friendly cooperation with its manufacturer over decades, as well as the favorable development of Deanxit in China market, the Group has managed to renew its exclusive promotion and sales agreement for the China market for another five years during the Reporting Period.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. During the Reporting Period, Ursofalk recorded sales of US$73.1million, an increase of 20.3% when compared to last year, accounting for 20.1% of the Group's turnover. During the Reporting Period, the Group continued to work on penetration of the product in core markets and gradually started to extend coverage to surrounding markets. Furthermore, during the Reporting Period, the Group further participated in high-end academic activities to continuously elevate the professional academic image of the product. As at 31 December 2013, sales of Ursofalk covered over 5,900 hospitals throughout China.

XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")

XinHuoSu, manufactured by China Chengdu Rhodiola Biological Pharmaceutical Co., Ltd, is a National Class One biological agent used to treat acute heart failure. During the Reporting Period, XinHuoSu recorded sales of US$36.6 million, an increase of 36.6% when compared to last year, accounting for 10.1% of the Group's turnover. During the Reporting Period, the Group accelerated the improvement of its regional sales layout and specified the promotion proposal and continued to promote further recognition of the efficacy of the product by doctors with the help of clinical academic platforms. As at 31 December 2013, sales of XinHuoSu covered over 1,200 hospitals throughout China. Due to technical modifications to both the production lines of lyophilized BNP and relevant ancillary facilities by the manufacturer of the product to meet the latest Chinese GMP requirements, production of the product was suspended on 31 December 2013. The manufacturer has prepared sufficient inventory in line with the market situation after its communication with the Group, and committed in the announcement which released on 24 December 2013 that the current inventory of XinHuoSu was sufficient to satisfy market demand before the completion of GMP refurbishment. As such, the Group has received the entirety of its promised inventory. The exclusive agreement for promotion and sales of XinHuoSu in China signed by the Group and the manufacturer expired on 31 December 2013, and the Group is currently in negotiations with the manufacturer to discuss further cooperation on the product.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is mainly used to treat Ulcerative Colitis and Crohn's disease and is consisted of three dosage forms, namely: coated tablets, suppositories and enemas. During the Reporting Period, Salofalk recorded sales of US$16.3 million, an increase of 42.9%, when compared to last year, accounting for 4.5% of the Group's turnover. During the Reporting Period, the Group intensified efforts in market development of the product, further deepened hospital development and department penetration of the product, and particularly enhanced the development and promotion of formulation for topical therapy. As at 31 December 2013, sales of Salofalk covered over 2,000 hospitals throughout China. The sales of Salofalk in the past five years met the requirement of the exclusive rights for promotion and sales of Salofalk in China that the Group gained in September 2008, according to the agreement, the exclusive rights were automatically renewed for another five years during the Reporting Period.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a probiotics agent used by both adults and children to treat diarrhea and diarrhea symptoms caused by the disturbance of intestinal flora. During the Reporting Period, Bioflor achieved sales of US$15.0 million, an increase of 63.1% when compared to last year, accounting for 4.1% of the Group's turnover. As Bioflor was introduced in 2010, the Group's focus during the Reporting Period was to continuously expand its usage as well as to improve doctors' favorable understanding of the product. During the Reporting Period, the Group continued to intensify the application of the product to adult gastroenterology on the basis of pediatrics. As at 31 December 2013, sales of the product covered over 1,600 hospitals throughout China.

Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-drops)

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macula degeneration and all forms of ocular asthenopia. Due to the insufficient supply from the manufacturer, during the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of US$13.1 million, a decline of 1.2% when compared to last year, accounting for 3.6% of the Group's turnover. Under the circumstance of the supply shortage, the Group mainly concentrated on protecting and maintaining the stability of the current market. Meanwhile, the stepping up of promotional efforts on the usage of the product in the treatment of ocular asthenopia paved the way for growth of the product after supply was resumed. As at 31 December 2013, sales of Augentropfen Stulln Mono Eye-drops covered over 4,300 hospitals throughout China.

Augentropfen Stulln Mono Eye-drops is one of the main products of the Group under the Direct Network. During the Reporting Period, the Group communicated with the manufacturer of the product a number of times to discuss the problem of product supply, and actively identified measures to achieve stable supply of the product. Due to the start-up of the manufacturer's new production lines, the supply of the product took a comparatively obvious turn for the better in the fourth quarter of 2013 and has remained quite stable since then.

(ii) Products under the Agency Network

Main Products	As a Percentage of the Group's Revenue (%)
ShaDuoLiKa (YanHuNing Injection)	14.4
YiNuoShu (Ambroxol Hydrochloride for Injection)	8.1
XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)	1.1
Yin Lian Qing Gan Ke Li	0.1

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, developed and manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd., is a common injection of anti-infective TCM used in pediatrics, respiratory and emergency departments. During the Reporting Period, ShaDuoLiKa recorded sales of US$52.3 million, accounting for 14.4% of the Group's turnover. The refurbishment of the manufacturer of the product in accordance with the latest Chinese GMP requirements in the first half of 2013 resulted in an influence on the supply of the drug. Although supply recovered gradually in the second half of the year, the sales volume of the product nevertheless recorded a slight decline by 4.0% compared to last year. In order to sustain market equilibrium during the supply shortage, the Group adopted a marketing strategy geared against production to relocate ShaDuoLiKa in the market in a rational manner in the first half of 2013. With supply recovering gradually in the second half of the year, the Group's priority for the product was to resume and redevelop the market and to engage in joint efforts with the manufacturer and agencies to enhance market education and risk monitoring concerning security in the clinical application of the product.

YiNuoShu (Ambroxol Hydrochloride for Injection)

The Group owns the controlling rights for YiNuoShu and commissions Kangzhe (Hunan) Medical Company Limited and TIPR Pharmaceutical Responsible Co., Ltd to manufacture the product. YiNuoShu is an expectorant product used for respiratory diseases. During the Reporting Period, YiNuoShu retained steady growth amid fierce market competition and recorded sales of US$29.5 million, accounting for 8.1% of the Group's turnover. During the Reporting Period, the Group proactively identified appropriate agencies for YiNuoShu in the untapped markets, and along with the opportunity of expansion of the Essential Drug List in various regions, promoted the development of the product in the rural market.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

XiDaKang, the only Protein Hydrolysate enteral nutrition agent to have received approval in China, is sold in the form of an oral solution and granules. During the Reporting Period, XiDaKang recorded sales of US$4.0 million, accounting for 1.1% of the Group's turnover. XiDaKang is one of the important products under the Agency Network of the Group. During the Reporting Period, in addition to a series of strategic arrangements for its production, the Group also actively took the initiative to promote the market development of the product, which further advanced clinical scientific research on XiDaKang, and also hosted a number of specific training sessions based on product characteristics so as to continuously enhance the agencies' academic understanding of the product and to improve the effectiveness of promotion.

Yin Lian Qing Gan Ke Li

Yin Lian Qing Gan Ke Li, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate, and is mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, fatty liver and hypertension. Since the market foundation of Yin Lian Qing Gan Ke Li was comparatively weak, the Group was mainly committed to expanding the market coverage of the product during the Reporting Period, consolidating its existing market foundation while proactively identifying suitable agents for the product and meeting its academic needs for clinical promotion with certain academic support. Yin Lian Qing Gan Ke Li recorded sales of US$0.3 million, accounting for 0.1% of the Group's turnover.

(iii) Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, GanFuLe, Exacin, KunNing Oral Solution, Xiang Fu Yi Xue Kou Fu Ye etc. recorded total sales amounting to approximately US$21.4 million, accounting for approximately 6.0% of the Group's turnover during the Reporting Period.

(iv) In-house Research Pharmaceutical Product

Tyroserleutide (CMS024), a National Class One New Drug researched and developed by the Group and with independent intellectual property rights, is used to treat primary liver cancer. The phase III clinical trial of Tyroserleutide, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma", officially commenced in 2011, enrolled all 300 subjects at the end of October in 2013, and convened the blind data review of the clinical trial in Shanghai, China to unblind the data and conduct preliminary statistical analysis on 28 February in 2014. In the Full Analysis Set (FAS), the treatment group and placebo group of the phase III clinical trial of Tyroserleutide failed to meet the primary and secondary endpoints (RFS and OS) with statistical significance. Therefore, the clinical trial failed to achieve its aim to register for selling the drug in the Chinese market. When considering the analysis of the two subgroups with and without tumor thrombosis in the hepatic portal vein branches of the clinical trial, tumor thrombosis in the hepatic portal vein branches seriously interfered with the primary efficacy evaluation. The subgroup with tumor thrombosis in the hepatic portal vein branches involving patients in serious condition, faster recurrence and shorter drug exposure time greatly affected the primary efficacy evaluation of the clinical trial, while the subgroup with no tumor thrombosis in the hepatic portal vein branches demonstrated a favorable trend for treatment group compared to placebo group on RFS and OS due to patients in better condition, lower recurrence and longer drug exposure time; in particular the OS approached statistical significance. Combined with observations from previous clinical trials, the Group believes that further investigations focusing on the patient population with better condition (such as, subjects with no tumor thrombosis in the hepatic portal vein branches) with OS as the primary endpoint is highly recommended. Consequently, the Group discussed and negotiated with Kangzhe R&D to continue conducting a follow-up clinical trial of Tyroserleutide and Kangzhe R&D will continue sponsoring the clinical trial. The Group will propose the protocol design for the next stage of Tyroserleutide clinical development after further analyzing and reseaching the data from the clinical trial.

Meanwhile, during the Reporting Period, the Group basically completed main construction work of the manufacturing facilities for Tyroserleutide, located in the new district of Pingshan in Shenzhen, China and is carrying forward the final construction and GMP certification for the production base. The Group will actively identify drugs suitable for production at the base so as to make full use of its production capacity.

(v) Products under Registration

The Group had nine products undergoing the application process for import drug registration during the Reporting Period which will contribute to the Group's revenue after they are officially issued Imported Drug Licenses (IDL) by the CFDA. Key information of these products is listed below:

<table>
<tr><th>Products</th><th>Indications</th><th>Manufacturers</th></tr>
<tr><td>Budenofalk</td><td>Mainly used to treat Inflammatory Bowel Disease (IBD) and Crohn's Disease</td><td>Dr. Falk Pharma GmbH
(Germany)</td></tr>
<tr><td>L-lysine Aescinat</td><td>Mainly used to treat symptoms of swelling and pain</td><td rowspan="2">Arterim Corporation
(Ukraine)</td></tr>
<tr><td>Thiotriazolin</td><td>Mainly used to treat chronic hepatitis arising from various causes, liver failure, ischemic heart disease, and myocardial infarction, etc.</td></tr>
<tr><td>Maltofer®</td><td>Mainly used to treat iron deficiency without anemia ("ID") and iron deficiency with anemia ("IDA")</td><td rowspan="2">Vifor Pharma
(Switzerland)</td></tr>
<tr><td>Uro-Vaxom®</td><td>For the treatment and prevention of recurrent urinary tract infections and to stimulate the immune system and the body's natural defense against urinary pathogens</td></tr>
<tr><td>Stimol®
(Citrulline Malate
Effervescence Powder)</td><td>Mainly used for the treatment of weakness and fatigue induced by various diseases and long-term fatigue and over-exertion, etc.</td><td>Biocodex
(France)</td></tr>
<tr><td>Ze 339</td><td>For the treatment of allergic rhinitis</td><td rowspan="3">Max Zeller Söhne AG
(Switzerland)</td></tr>
<tr><td>Ze 450</td><td>For the treatment of menopausal discomforts</td></tr>
<tr><td>Ze 440</td><td>For the treatment of pre-menstrual syndrome and menstrual cycle disorder</td></tr>
</table>

Network Expansion

During the Reporting Period, the Group continued to expand its marketing and promotion network, in addition to continuously expanding the scale of the network; it intensified the breadth and depth of network coverage. With the efforts of the Group, as at 31 December 2013, the Group's Direct Network had around 1,700 professional marketing, promotion and sales representatives and covered more than 14,000 hospitals across the country while the Agency Network had signed over 1,100 independent third-party sales representatives or agents and covered over 7,000 hospitals across the country. Furthermore, during the Reporting Period, the Group continued to promote the layout and market development of the marketing and promotion network in the rural market and preliminarily obtained achievements.

During the Reporting Period, the priority of the Group's Direct Network was to get through the run-in period between the adjusted organizational structure and the market as early as possible to fully utilize the advantage of the new network. In order to ensure sufficient supply of talents that meet the requirements of the Direct Network, during the Reporting Period, the Group executed a program in which new employees recruited in the second half of 2012 were distributed to various regions for internships and training sessions, and were arranged for appropriate positions on the basis of their performance. Meanwhile, a new round of campus recruitment was initiated in September 2013, and the Group will continuously via "Internship Program" and "Professional Talent Development Program" cultivate professional quality and vocational proficiency for new employees. In addition, the Group's headquarters enforced the supervision and feedback of the Direct Network under a new organizational structure in which business management responsibilities moved to the front lines along while putting in place a mechanism in which regional sales management reported to the headquarters in Shenzhen on a regular basis, consolidating the function of an information management system and thereby maintaining the flexibility of regional business management while reinforcing supervision from headquarters.

In terms of the development of the Agency Network, the Group emphasized the seeking of more premium agencies for its main products and products newly signed in recent years during the Reporting Period, and made use of an information management system to administer and track each key link during the sales process of agencies expecting to continuously elevate the managerial level of the Agency Network. Furthermore, agency training was also the priority of the Group during the Reporting Period. The Group continued to arrange a number of specific training sessions for agencies, especially on several products with certain academic demand, and the Group expected to fully foster and perform the agencies' capabilities in the clinical promotion of products via these training sessions.

In addition, to accommodate the Group's needs for the workplace in terms of its continuous business development and the growing number of employees, the Group through its wholly-owned subsidiary signed a temporary agreement for property acquisition with Shenzhen Da ShaHe Innovation Corridor Construction Investment and Management Company Limited* (the "Vendor") in August 2011. The Vendor will set up the Innovation Building* located in Ma Jialong Industrial Zone, Nanshan District, Shenzhen, China and with block parcel number 04-05-17 and sell it to the enterprise for office premises as headquarters in line with the requirements of "Interim Procedures for Corporate Headquarters Premises in Nanshan District"* and as approved by the Leading Group of Corporation Head Offices of Nnanshan District. According to the agreement, the Vendor needed to meet the requirement of completion acceptance of the property within 24 months starting from September 2011 and to summit the information relating to completion acceptance. The Vendor has to transfer the property to the Group within 30 working days after obtaining the project acceptance record. As at the end of the Reporting Period, the Group had not received notification on the completion of the property and the Group will announce any relevant progress in a timely manner.

** For Identification Only*

Outlook and Future Development

The Group considers the introduction and promotion of products and the expansion of its marketing and promotion network to be the two core strategies and also the main direction of the Group's sustainable development in the future.

The Group will continue to proceed with negotiations on new product introductions, single out premium prescription drugs with potential in the China market by profession, and enrich the product portfolio of the Group. The Group will adhere to prioritizing the effective control of product rights during product introduction, which is recognized as a strategic consideration for the Group's long-term development.

For the development of existing products, the Group will combine the characteristics of each product and its market situation to explore the rapid growth model of existing products. In addition to constantly enhancing hospital coverage and department penetration of products, the Group will also discuss and create new growth points during the next stage of development. Meanwhile, the Group will continue maintain favorable communications with suppliers and endeavor to guarantee the stability of the market rights and supply of the Group's existing products. In addition, the successful granting of market approval by the CFDA for products in the registration process will make a contribution to the growth of the Group in the near future.

In the area of network development, for the Direct Network, the Group will continue to utilize campus recruitment to continue to provide outstanding talents for the expansion and refinement of the network and strengthen professional training to gradually forge a talent network with profession and high level of quality for the Group's development. Meanwhile, the Group will go on to improve the management and regulation of the Direct Network, establish a more justified distribution and incentive system, and motivate the mature and steady operation of the Direct Network. For the Agency Network, the Group will continue to commit itself to expanding the scale of the network, select agencies that fit with product development, optimize the operational pattern of agencies as well as further consolidate the management and supervision of the network. The Group will also continue to provide agencies with specific training sessions and give full play to agencies' initiative in product promotion.

The Group will also continue to make efforts to intensify internal management and supervision to secure its business operations and financial management in compliance with the relevant laws and regulations and to continuously improve its risk prevention mechanism as it expects to achieve greater progress.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements as shown in the Annual Report.

The Group prepared the consolidated financial statements in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

Turnover represents the revenue we generated from the sale of in-licensed products and our in-house manufactured pharmaceutical products.

	2013		2012	
	US$'000	Weight	US$'000	Weight
Deanxit	101,485	27.9%	88,079	31.2%
Ursofalk	73,108	20.1%	60,750	21.6%
ShaDuoLiKa	52,345	14.4%	22,520	8.0%
XinHuoSu	36,641	10.1%	26,820	9.5%
YiNuoShu	29,497	8.1%	26,150	9.3%
Salofalk	16,348	4.5%	11,439	4.1%
Bioflor	15,031	4.1%	9,214	3.3%
Augentropfen Stulln Mono eye-drops	13,126	3.6%	13,280	4.7%
GanFuLe	5,844	1.6%	5,018	1.8%
Exacin	4,044	1.1%	3,684	1.3%
XiDaKang	3,956	1.1%	3,326	1.2%
Cystistat	1,038	0.3%	1,041	0.4%
Yin Lian Qing Gan Ke Li	326	0.1%	81	0.0%
Others	10,467	3.0%	10,464	3.6%
	363,256	100.0%	281,866	100.0%

Turnover increased by 28.9% from US$281.9 million for the year ended 31 December 2012 to US$363.3 million for the year ended 31 December 2013, mainly due to an increase in sales volume; the selling price of products remained stable, except that the price of ShaDuoLiKa sold to the agencies was increased by 138.2% during the Reporting Period.

Gross Profit and Gross Profit Margin

Gross profit increased by 19.5% from US$165.8 million for the year ended 31 December 2012 to US$198.1 million for the year ended 31 December 2013, primarily reflecting growth in turnover. Excluding the effect of the factor that the price of ShaDuoLiKa selling to the agencies was increased, gross profit margin increased to 59.5% for the year ended 31 December 2013 from 58.8% for the year ended 31 December 2012, mainly due to an increase in the weighting of the products with higher gross profit margin.

Selling Expenses and Selling Expenses as a Percentage of Turnover

Selling expenses increased by 31.3% from US$57.5 million for the year ended 31 December 2012 to US$75.5 million for the year ended 31 December 2013, primarily reflecting an increase in turnover and the number of sales staff of the Group, and the continuous extension & deepening of the Direct Network. Also selling expenses as a percentage of turnover increased by 0.4 percentage points from 20.4% for the year ended 31 December 2012 to 20.8% for the year ended 31 December 2013.

Administrative Expenses and Administrative Expenses as a Percentage of Turnover

Administrative expenses increased by 24.9% from US$18.8 million for the year ended 31 December 2012 to US$23.5 million for the year ended 31 December 2013, mainly due to an increase in maintenance expenses, and a one-off auction fee arising from acquisition of Kangzhe Lengshuijiang and its post-acquisition expenses. Administrative expenses as a percentage of turnover decreased by 0.2 percentage points from 6.7% for the year ended 31 December 2012 to 6.5% for the year ended 31 December 2013 as the Group benefited from economies of scale.

Other Gains and Losses

Other gains and losses increased by 105.5% from US$7.0 million for the year ended 31 December 2012 to US$14.3 million for the year ended 31 December 2013, mainly due to an increase in exchange gain arising from the appreciation of Renminbi, and interest income.

Finance Costs

Finance costs increased by 35.6% from US$2.0 million for the year ended 31 December 2012 to US$2.7 million for the year ended 31 December 2013, mainly due to an increase in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 20.6% from US$85.1 million for the year ended 31 December 2012 to US$102.7 million for the year ended 31 December 2013, due to the continuous and stable growth in sales.

Inventories

Inventories increased by 76.9% from US$15.5 million as at 31 December 2012 to US$27.4 million as at 31 December 2013,mainly reflecting the increase in line with the growth in turnover. Average inventory turnover days decreased from 57 days for the year ended 31 December 2012 to 47 days for the year ended 31 December 2013.

Trade Receivables

Trade receivables increased by 23.8% from US$50.3 million as at 31 December 2012 to US$62.3 million as at 31 December 2013, primarily reflecting the growth in sales. At the same time, as a result of strengthened management of account receivables, average trade receivables turnover days decreased from 59 days for the year ended 31 December 2012 to 57 days for the year ended 31 December 2013.

Trade Payables

Trade payables increased by 15.4% from US$9.6 million as at 31 December 2012 to US$11.1 million as at 31 December 2013, mainly reflecting the increase of inventories. Average trade payables turnover days decreased from 32 days for the year ended 31 December 2012 to 23 days for the year ended 31 December 2013.

Liquidity and Financial Resources

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2013	2012
	US$'000	US$'000
Net cash from operating activities	54,082	69,790
Net cash used in investing activities	(28,071)	(52,977)
Net cash used in financing activities	(55,973)	(8,307)
Net (decrease) increase in cash and cash equivalent	(29,962)	8,506
Cash and cash equivalent at beginning of the year	107,162	97,906
Effect of foreign exchange rate changes	2,831	750
Cash and cash equivalent at end of the year	80,031	107,162

Net cash from operating activities
The Group's net cash generated from operating activities was US$54.1 million for the year ended 31 December 2013 compared with US$69.8 million for the year ended 31 December 2012, a decrease of 22.5% mainly due to the increase in payment and prepayment for purchase of drugs.

Net cash used in investing activities
For the year ended 31 December 2013, the Group's net cash used in investing activities was US$28.1 million compared with US$53.0 million for the year ended 31 December 2012, a decrease of 47.0% mainly due to a decrease in the placement of pledged bank deposit.

Net cash used in financing activities
For the year ended 31 December 2013, the Group's net cash used in financing activities was US$56.0 million compared with US$8.3 million for the year ended 31 December 2012, an increase of 573.8% mainly due to an increase in dividend paid, and no corresponding borrowings to be made with some deposits pledged during the current year.

Net Current Assets

	As at 31 December	
	2013	2012
	US$'000	US$'000
Current Assets		
Inventories	27,401	15,488
Trade receivables	62,312	50,345
Other receivables	78,580	42,546
Tax recoverable	171	1,052
Pledged bank deposit	73,485	73,261
Bank balances and cash	80,031	107,162
	321,980	289,854
Current Liabilities		
Trade payables	11,130	9,642
Other payables	29,005	15,533
Secured bank borrowings	51,521	64,845
Deferred consideration payables	940	812
Tax payable	4,278	2,605
	96,874	93,437
Net current assets	225,106	196,417

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2013	2012
	US$'000	US$'000
Purchase of available-for-sale investments	-	13,635
Purchase of intangible assets	-	5,244
Purchase of property, plant and equipment	22,059	5,752
Purchase of land use right	1,805	-
	23,864	24,631

Debts

The following table shows the Group's debts:

	As at 31 December	
	2013	2012
	US$'000	US$'000
Interest bearing secured bank borrowings	51,521	64,845

The Group's gearing ratio, calculated as secured bank borrowings divided by total assets, decreased to 8.2% as at 31 December 2013 from 11.7% as at 31 December 2012, mainly reflecting a decrease in secured bank borrowings.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 30 to the financial statements.

Dividend

For the year ended 31 December 2013, the Group paid an interim dividend for 2013 and a final dividend for 2012 of US$20.2 million and US$18.7 million, respectively. For the year ended 31 December 2012, the Group paid an interim for 2012 and a final dividend for 2011 of US$15.6 million and US$12.9 million, respectively.

Director and Senior Management

Executive Director

Mr. Lam Kong, aged 49, is the Chairman, Chief Executive Officer ("CEO") and the President of the Group and was appointed as an executive Director, on 18 December 2006. He acquired Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe") through his company over 18 years ago, building the business from a small company engaged in trading of pharmaceutical products to a leading pharmaceutical service company providing marketing, promotion and sale services. Mr. Lam is responsible for the formulation, implementation and management of the Group's development and growth strategy and the management of the overall operation of the Group. Mr. Lam possesses clinical experience and has over 18 years of experience in marketing, promotion, sale and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, the name of which was changed to Guangdong Medical College in 1992. Mr. Lam is a member of the Nomination Committee of the Company.

Mr. Lam is a controlling shareholder of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on pages 30 of this annual report.

Mr. Chen Hongbing, aged 47, is the Chief Operating Officer and the Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the operation of the Group's marketing, promotion and sale business and office administration. He had acquired about four years' clinical experience as a resident doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He graduated from Nanjing Medical College with a bachelor's degree in clinical medicine in 1990.

Mr. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 30 of this annual report.

Ms. Chen Yanling, aged 43, is the Chief Financial Officer and the Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's financial affairs, accountant, financing, taxation, audit, internal control and investor relations affairs. She received her accountancy qualification in 1997 from the Ministry of Personnel of the People's Republic of China and received EMBA from the International East-west University in 1999.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 30 of this annual report.

Mr. Hui Ki Fat, aged 72, was appointed as an executive Director on 26 April 2007. Mr. Hui has also been a director of the Group's subsidiary since 1999. He was a director and general manager of Jebsen & Company Ltd. in Tianjin, China for which he worked from 1968 to 1981 and from 1983 to 1998.

Mr. Hui is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 30 of this annual report.

Ms. Sa Manlin, aged 54, was appointed as an executive Director on 11 December 2012. Ms. Sa joined the Group in 1995 and has remained with the Group since then. Ms. Sa is responsible for the products' marketing and promotion matters of Shenzhen Kangzhe. She had acquired about ten years' clinical experience prior to joining the Group in 1995. Ms. Sa received a bachelor's degree in medicine from Shanghai University of Traditional Chinese Medicine in 1984 and a master's degree in Business Administration from the Asia International Open University (Macau) in 2003 which was officially renamed as City University of Macau in 2011.

Ms. Sa is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 30 of this annual report.

Independent Non-executive Directors

Mr. Cheung Kam Shing, **Terry**, aged 51, was appointed as an independent non-executive Director of the Company on 18 August 2010. Mr. Cheung has more than 29 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. He is currently the Chief Operating Officer of Greater China Professional Services Limited, being a professional services company providing corporate governance, asset valuation, and other corporate advisory services, since July 2010. The companies he worked for after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as Managing Director at Culturecom Holdings Limited (a company listed on the Stock Exchange with stock code 0343) from 2000 to 2005. He later served as Managing Director of Nouveau Investment Group Limited from 2005 to mid 2010. Mr. Cheung received his bachelor's degree in social sciences from the University of Hong Kong in 1984 and his master's degree in science (financial economics) from the University of London in 1995. Mr. Cheung is the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr. Huang Ming, aged 50, was appointed as an independent non-executive Director of the Company on 9 October 2013. Mr. Huang was an Assistant Professor and Associate Professor of Finance at Stanford University, Graduate School of Business from 1998 to 2002, and was the Associate Dean and Visiting Professor of Finance and the Professor of Finance at Cheung Kong Graduate School of Business from 2004 to 2005 and from 2008 to 2010 respectively, and was the Head of School of Finance of Shanghai University of Finance and Economics from 2006 to April 2009. He has been a Professor of Finance at the Johnson Graduate School of Management at Cornell University since July 2005, and has been a Professor of Finance at China Europe International Business School since July 2010. Mr. Huang has been a non-executive Director of the Annuity Fund Management Board of China National Petroleum Corporation since 2007. He has been a non-executive Director of Yingli Green Energy Holding Company Limited (stock code: YGE) and Qihoo 360 Technology Co. Ltd. (stock code: QIHU), companies listed on the New York Stock Exchange, since 2008 and 2011 respectively, and he has also been an independent non-executive Director of Fantasia Holdings Group Co., Ltd. (stock code: 1777), a company listed on the Stock Exchange, since 2009. Mr. Huang is currently a non-executive Director of 360buy Group, Guosen Securities Co. Ltd. and Tebon Securities Co. Ltd. Mr. Huang graduated from Peking University in 1985 majoring in physics, and then obtained his doctor's degree in physics and finance from Cornell University and Stanford University respectively. Mr. Huang is the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company.

Mr. Wu Chi Keung, aged 57, was appointed as an independent non-executive Director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently the managing Director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive Director of Jinchuan Group International Resources Co., Ltd (stock code: 2362), GreaterChina Professional Services Limited (stock code: 8193), Zhong Fa Zhan Holdings Limited (stock code: 475), China Renji Medical Group Limited (stock code: 648), Huabao International Holdings Ltd. (stock code: 336) and YuanShengTai Dairy Farm Ltd. (stock code: 1431), all the shares of which are listed on the Stock Exchange. Mr. Wu was also an independent non-executive Director of JF Household Furnishings Limited (stock code: 776) from 16 August 2011 to 5 October 2012. Mr. Wu is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants in the United Kingdom. Mr. Wu graduated from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in 1980 with a high diploma in accountancy. Mr. Wu is the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company.

Senior Management

Dr. Wong Wai Ming, aged 53, has been the Chief Technical Officer of the Group since 2010. He first joined the Group in 2000 and then became the Chief R&D Officer in 2007. He is responsible for dealing with technical issues in introducing products and providing technical advice to the Group for selecting pharmaceutical products. Prior to this, Dr. Wong worked as manager of China pharma department for Jebsen Co. Ltd. He studied bio-chemistry and received his bachelor's degree in science and PhD from the University of Hong Kong in 1983 and 1993, respectively.

Company Secretary

Ms. Zhang Lingyan, aged 42, joined the Group in 2000 and currently holds the positions of Company Secretary, Director of Legal and Investment Affairs of the Group and Director of the CEO's office. Ms. Zhang is primarily responsible for overseeing the legal and investment affairs of the Group, including compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Ms. Zhang obtained a bachelor's degree in management majored in ideological and political education and a master's degree in jurisprudence from Nanjing Normal University in 1993 and 2000, respectively. Ms. Zhang has extensive experience in corporate governance and compliance matters. During the Reporting Period, Ms. Zhang had received the professional training for no less than 15 hours to promote her skill and knowledge.

Directors' Report

The board of Directors of the Company (the "Board") is pleased to present the Directors' report and audited consolidated financial statements of the Group for the year ended 31 December 2013.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 37 to the financial statements.

Results

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income in page 44.

Reserves

Movements in reserves for the year ended 31 December 2013 are set out in the consolidated statement of changes in equity in page 47 and note 28 to the financial statements.

Distributable Reserves

As at 31 December 2013, the Company had distributable reserves of US$324.2 million available for distribution to our shareholders.

Property, Plant and Equipment

Details of changes in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Share Capital

Movements in the share capital of the Company are set out in note 27 to the financial statements.

Final Dividend

The Board of Directors is pleased to recommend a final dividend of US0.863 cent (equivalent to HK$0.067) per Share for the year ended 31 December 2013 to shareholders whose names appear on the register of members of the Company on Monday, 12 May 2014. The register of members of the Company will be closed from Thursday, 8 May 2014 to Monday, 12 May 2014 (both days inclusive). The final dividend will be paid to shareholders on Monday, 19 May 2014 after the shareholders' approval at the AGM dated on Wednesday, 30 April 2014.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association (the "Articles of Association") or the laws of the Cayman Islands which oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Directors

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

Executive Directors

Mr. LAM Kong (Chairman and CEO)
Mr. CHEN Hongbing (Chief Operating Officer)
Ms. CHEN Yanling (Chief Financial Officer)
Mr. HUI Ki Fat
Ms. SA Manlin

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng (resigned on 9 October 2013)
Mr. HUANG Ming (appointed on 9 October 2013)
Mr. WU Chi Keung

Pursuant to Article 16.2 of the Articles of Association, any director appointed by the Board to fill a causal vacancy or as an addition to the Board shall hold office until the next following AGM of the Company and shall be eligible for re-election at that meeting. Mr. Huang Ming was appointed by the Board on 9 October 2013 as an independent non-executive Director. Accordingly, Mr. Huang shall retire from his office at the AGM and, being eligible, will offer himself for re-election at the AGM.

Pursuant to Article 16.18 of the Articles of Association, at every AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall be eligible for re-election. Accordingly, Mr. Lam Kong, Mr. Chen Hongbing and Mr. Wu Chi Keung will retire from their offices at the AGM and, being eligible, offer themselves for re-election at the AGM.

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Mr. Lam Kong, Mr. Chen Hongbing, Mr. Wu Chi Keung and Mr. Huang Ming. Details of these retiring Directors are set out in the circular issued on 28 March 2014.

Annual Confirmation of Independence

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Listing Rules on the Stock Exchange.

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 23 to 26 of this annual report.

Directors' Service Contracts

Each of the Directors of the Company has respectively entered into an appointment letter with the Company, and all the executive Directors and independent non-executive Directors were appointed for a three-year and one-year term, respectively. Their appointments are subjected to retirement from office by rotation and re-election at the AGM of the Company in accordance with the Articles of Association. Save as disclosed above, none of the Directors has entered or intend to enter into any contract of service with the Company or any of its subsidiaries which cannot be determinable by the employer within one year without payment of compensation (except for statutory compensation).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Key Employee Benefit Scheme

Details of the key employee benefit scheme is set out in note 36 to the financial statements.

Directors' interests in Contracts of Significance

During the Reporting Period, none of the Directors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2013, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,215,219,000 (L) (Note 2)	50.32%
		Interest in controlled corporation	2,396,500 (L) (Note 3)	0.10%
		Interest in controlled corporation	9,361,162 (L) (Note 4)	0.39%
Mr. Chen Hongbing	The Company	Beneficial owner	39,993,225 (L)	1.66%
		Interest in controlled corporation	75,000,000 (L) (Note 5)	3.11%
		Beneficiary of a trust	9,361,162 (L) (Note 6)	0.39%
Ms. Chen Yanling	The Company	Beneficial owner	7,835,250 (L)	0.32%
		Interest in controlled corporation	3,750,000 (L) (Note 7)	0.16%
		Beneficiary of a trust	9,361,162 (L) (Note 6)	0.39%
Mr. Hui Ki Fat	The Company	Beneficial owner	6,000,000 (L)	0.25%
Ms. SA Manlin	The Company	Beneficial owner	6,712,237 (L)	0.28%
		Family interest	750,000 (L) (Note 8)	0.03%
		Beneficiary of a trust	9,361,162 (L) (Note 6)	0.39%

Notes:

1. The letter "L" denotes long positions in the Shares.
2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
3. These interests in respect of warrants are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
4. These Shares are held by Fully Profit Management (PTC) Limited, a company wholly owned by Mr. Lam Kong. Fully Profit Management (PTC) Limited is the trustee of the Key Employee Benefit Trust, (a discretionary trust established by the Company on 31 July 2009 for the Key Employee Benefits Scheme). Please refer to note 6 below for further details.
5. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.
6. These Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the Key Employee Benefit Trust. The discretionary objects of the discretionary trust include Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin and they are deemed to be interested in these 9,361,162 Shares. The references to these 9,361,162 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.
7. These Shares are held by Ms. Chen Yanling through Great Creation Holdings Limited, a company wholly owned by her.
8. These Shares are held by Mr. Zhang Ziqiang, the spouse of Ms. Sa Manlin, in respect of which Ms. Sa Manlin is deemed to be interested in.

Directors' Right to Acquire Shares or Debentures

At no time during the year any right to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2013, the Directors were not aware of any other person (other than the Directors of the Company), who held interest and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions

Details of connected transactions are set out in note 34 and note 36 to the financial statements.

Existing Share Options

The Company granted share options of 708,695 shares with an exercise price of GBP1.38 per share on 26 June 2007. These options were exercisable over five years which was vested on 26 June 2007 and has expired on 25 June 2012. There was no outstanding share option at 31 December 2013 and no share option has been granted during the Reporting Period.

Employees

As at 31 December 2013, the Group had 2,760 employees.

Directors' and Management Emoluments

Particulars of directors' emoluments and the five highest paid individuals of the Group are set out in note 8 and note 9 to the financial statements, respectively.

For the year ended 31 December 2013, emoluments of Chief Technical Officer Dr. Wong Wai Ming and Company Secretary Ms. Zhang Lingyan was between HK$300,000 and HK$800,000 each.

Major Customers and Suppliers

For the year ended 31 December 2013, the percentage of sales to the Group's five largest customers was approximately 13.4% of the Group's total sales, and sales to the top customer accounted for approximately 4.0% of the total sales.

For the year ended 31 December 2013, the percentage of purchases from the Group's five largest suppliers was approximately 87.1% of the Group's total purchases, and purchase from the top supplier accounted for approximately 26.8% of the total purchases.

Except as disclosed in note 34 to the consolidated financial statements, none of the Group's directors, the contacts of the directors, the shareholders had an interest in supplier or customer.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on pages 34 to 41 of this annual report.

Sufficiency of Public Float

According to the publicly available information and as far as the Directors were aware of, as at the date of this annual report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

Non-competition and Indemnity Agreements

The Company entered into a deed of non-competition with Mr. Lam Kong and his wholly owned company registered in the British Virgin Islands - Treasure Sea Limited ("Treasure Sea") on 14 September 2010 (the "Non-competition Deed"). Mr. Lam Kong and Treasure Sea jointly undertook not to carry on businesses that are in competition with the Company's businesses.

Mr. Lam Kong and Treasure Sea stated that they complied with the relevant clauses of the Non-competition Deed, and did not engage in businesses that are in competition or may compete with the businesses of the Company and any of its subsidiaries, and also did not directly or indirectly hold any business interest that is in competition with the businesses of the Company and any of its subsidiaries during the Reporting Period.

The independent non-executive Directors have reviewed the compliance of the Non-competition Deed by Mr. Lam Kong and Treasure Sea during the Reporting Period, and reviewed the relevant business information provided by the Company. The independent non-executive Directors were of the opinion that Mr. Lam Kong and Treasure Sea complied with the relevant terms of the Non-competition Deed during the Reporting Period from and did not cause any competition with the Company. The Board of Directors operated and managed the Company's businesses independently in the interests of the Company and its shareholders as a whole.

Donations

The Company made no donation in any form for the year ended 31 December 2013.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2013 to 31 December 2013, except for a deviation from the Code provision A.2.1 in respect of the roles of chairman of the board ("Chairman") and Chief Executive Officer ("CEO") which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on page 34 of this annual report.

Competing Interests

None of the Directors or managements and their respective associates (as defined in the Listing Rules) has an interest in a business which competes or may compete with the businesses of the Company or any of its subsidiaries or has any other conflict of interest with the Company during the Reporting Period.

Audit Committee

The details of Audit Committee are set out in page 37 to 38 of the Corporate Governance Report of this annual report.

Auditors

The Company has appointed Deloitte Touche Tohmatsu as auditors since the listing of the Company on the Main Board of the HKEx on 28 September 2010. The financial statements in the Annual Report for the year have been audited by Deloitte Touche Tohmatsu. A resolution will be submitted at the AGM of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

Corporate Governance Report

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance and has adopted sound governance and disclosure practices. The Company believes that maximizing long-term shareholder value by increasing the Group's accountability and transparency through continuous improving the level of corporate governance.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2013 to 31 December 2013, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2013. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period.

Operation of the Board

In accordance with good corporate governance principles, the Board convened regular meetings in accordance with, and complied strictly with the applicable laws, regulations and the Articles of Association in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders as a whole.

The role and responsibilities of the Board broadly cover reviewing and approving corporate mission and broad strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate measures and control systems to manage these risks; and reviewing and approving important matters such as financial results, investments and divestments and other material transactions.

The Company has established three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee, which mainly comprise independent non-executive Directors and responsible for overseeing particular aspects of the Group's business, and to provide the Group with recommendations for improvements. Please see below for the work scope of these committees. The Board has delegated the responsibilities of the day-to-day management and operation of the Group's businesses to the senior management of the Company and its subsidiaries.

Composition of the Board

As at the date of this annual report, the Board consists of eight Directors, including five executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling, Mr. Hui Ki Fat and Ms. Sa Manlin; three independent non-executive Directors, namely Mr. Cheung Kam Shing, Terry, Mr. Huang Ming and Mr. Wu Chi Keung. Biographical details of the Directors are set out on pages 23 to 26 of this annual report. Save as disclosed in the section headed "Directors and Senior Managements' Biographies" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Appropriate insurance cover for the Directors' and senior managements' liabilities in respect of legal actions against the Directors and senior managements of the Company arising out of corporate activities of the Group has been arranged by the Company.

Board Attendances and Time Commitment

During the Reporting Period, the Company held five Board meetings and one AGM. The following is the attendance record of the Directors at such meetings held during the Reporting Period.

Name	Title	Attendance Rate	
		Board Meeting	AGM
Mr. Lam Kong	Chairman and CEO	5/5	1/1
Mr. Chen Hongbing	Chief Operating Officer	5/5	1/1
Ms. Chen Yanling	Chief Finance Officer	5/5	1/1
Mr. Hui Ki Fat	Executive Director	5/5	1/1
Ms. Sa Manlin	Executive Director*	4/5	1/1
Mr. Cheung Kam Shing, Terry	Independent Non- Executive Director	5/5	1/1
Dr. Peng Huaizheng*	Independent Non- Executive Director	5/5	1/1
Mr. Huang Ming*	Independent Non- Executive Director	0/5	0/1
Mr. Wu Chi Keung	Independent Non- Executive Director	5/5	1/1

*Notes:

1. Dr. Peng Huaizheng resigned on 9 October 2013.
2. Mr. Huang Ming was appointed on 9 October 2013.

Upon reviewing (i) the annual confirmation of the time commitment given by each Director; (ii) the directorships and major commitments of each Director; and (iii) the attendance rate of each Director for the Board meetings and AGM, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Reporting Period.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Independent Non-Executive Directors

For the year ended 31 December 2013, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

The independent non-executive Directors are appointed for a period of one year. All of them are subject to retirement by rotation and re-election by shareholders at AGM in accordance with the Articles of Association of the Company. The responsibilities of the independent non-executive Directors include, without limitation: regular attendance at meetings of the Board and of Board Committees of which they are members; provision of independent opinion at meetings of the Board and other Board Committees; service on the Audit Committee, Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company as a whole.

Directors' Continuous Professional Development

On appointment to the Board, each newly appointed Director has received professional lawyer's training covering the general, statutory and regulatory obligations of being a director of a listed company to ensure that he/she is sufficiently aware of his /her responsibilities under the Listing Rules and other relevant legal requirements.

From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Company Secretary also organizes and arranges seminars on the latest development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the Reporting Period, the Company organized for the Directors and senior management certain in-house workshops on the Listing Rules.

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

	Corporate Governance/ Updates on Laws, rules and Regulations/Updates on Industry Specific	
	Written Materials	**Briefings/Seminars**
Executive Directors		
Mr. Lam Kong	√	√
Mr. Chen Hongbing	√	√
Ms. Chen Yanling	√	√
Mr. Hui Ki Fat	√	√
Ms. Sa Manlin	√	
Independent Non-Executive Directors		
Mr. Cheung Kam Shing, Terry	√	√
Dr. Peng Huaizheng*	√	√
Mr. Huang Ming*	√	√
Mr. Wu Chi Keung	√	√

*Notes:

1. Dr. Peng Huaizheng resigned on 9 October 2013.
2. Mr. Huang Ming was appointed on 9 October 2013.

Committees

The Company has established Audit Committee, Remuneration Committee and Nomination Committee. The function of each of these committees is to study pertinent issues in its area of expertise and to provide opinion and recommendations for consideration by the Board under its own defined terms of reference.

Audit Committee

The Company established an Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Huang Ming as the Committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual result announcement and annual report for the year ended 31 December 2013 have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2013, the Audit Committee has held two meetings on 19 March and 6 August 2013, respectively. At the meetings, the Audit Committee reviewed the annual results for 2012 with the external auditors, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2013
Mr. Wu Chi Keung	2/2
Mr. Cheung Kam Shing, Terry	2/2
Dr. Peng Huaizheng*	2/2
Mr. Huang Ming*	0/2

*Notes:
1. Dr. Peng Huaizheng resigned on 9 October 2013.
2. Mr. Huang Ming was appointed on 9 October 2013.

Remuneration Committee

The Company established a Remuneration Committee in 2007. The Remuneration Committee comprises three independent non-executive Directors, and is chaired by Mr. Huang Ming, with Mr. Cheung Kam Shing, Terry and Mr. Wu Chi Keung as the committee members.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board on the policy and structure for remunerations of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; (iii) approving the terms of Directors' service contracts, and (iv) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time. The terms of reference of the Remuneration Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

The Remuneration Committee held two meetings on 6 August and 9 October 2013, respectively. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2013
Dr. Peng Huaizheng*	1/2
Mr. Huang Ming*	0/2
Mr. Cheung Kam Shing, Terry	2/2
Mr. Wu Chi Keung	2/2

*Notes:
1. Dr. Peng Huaizheng resigned on 9 October 2013.
2. Mr. Huang Ming was appointed on 9 October 2013.

Nomination Committee

The Company established the Nomination Committee in 2007. The Nomination Committee comprises one executive Director and three independent non-executive Directors, and is chaired by Mr. Cheung Kam Shing, Terry, with Mr. Lam Kong, Mr. Huang Ming and Mr. Wu Chi Keung as the committee members.

The Company is committed to equality of opportunity in all aspects of its business. The Board Diversity Policy (the "Policy") was adopted in September 2013.

Diversity of board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience. In informing its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time.

The Nomination Committee will review the Policy on a regular basis to ensure its continued effectiveness.

The primary duties of the Nomination Committee are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, and to take up references and to consider related matters. The nomination procedures and the process and criteria adopted by the nomination committee to select and recommend candidates for directorship are posted on the Company's website (http://www.cms.net.cn). The terms of reference of the Nomination Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

The Nomination Committee held three meetings on 26 June, 6 August and 9 October 2013, respectively. During the Reporting Period, the Nomination Committee has reviewed the appointment of the Directors, the structure, size and composition of the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2013
Mr. Cheung Kam Shing, Terry	3/3
Mr. Lam Kong	3/3
Mr. Wu Chi Keung	3/3
Dr. Peng Huaizheng*	3/3
Mr. Huang Ming*	0/3

*Notes:

1. Dr. Peng Huaizheng resigned on 9 October 2013.
2. Mr. Huang Ming was appointed on 9 October 2013.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Auditor's Remuneration

For the year ended 31 December 2013, we have appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for the service was HK$1.7 million.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2013. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

Internal Controls

The Directors are responsible for maintaining a reliable and effective internal control system. The Company has established an internal audit department with relatively independent internal audit functions. An audit committee has also been established and is responsible to the Board. The Directors are in a position to supervise, assess and improve the Company's internal controls at all levels of management, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial, operational and risk management, in order to safeguard the Company's assets and promote shareholders' interests.

For the year ended 31 December 2013, the Company further enhanced its internal control system, strengthened awareness on risk management, regulated work flows, promoted construction of ERP system and improved risk management; at the same time, the Company emphasized financial management and control functions of the Group, enhanced construction of financial system, strengthened audit function, stabilized investment procedures, and fully reinforced supervision efforts. Through series of measures, both internal management and operational efficiency of the Group have been significantly improved. The Board of Directors of the Company review its internal control system from time to time and consider that the internal control system of the Company is effective, resources in accounting and financial reporting functions, qualifications of staff and their experience, training undergone and the relevant budget are sufficient.

Shareholders' Rights

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times has the right, by written requisition specifying the objects of the meeting and signed by the requisitionists to the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited (Shops 1712-1716, 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong). Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

Articles of Association

During the Reporting Period, there were no changes made in the Company's Articles of Association.

Communications with Shareholders and Investors

The Company actively communicates with shareholders and investors through multiple channels as shown below: (i) Held Annual General Meeting and Extraordinary General Meeting which provides a platform for shareholders and investors to communicate with the board of directors of the Company (ii) Timely release of the latest news and updates of the Company on the official website for the investors viewing; (iii) Send information and internal magazine of the Company to shareholders and investors through e-mail or post at regular intervals.

During the Reporting Period, the Company actively attended different forms of investors' communication activities, including face to face dialogue with investors, telephone conference and roadshow activities organized by sell side institutions, with the hope that investors can thoroughly understand the business model and development strategy of the Company. For the year ended 31 December 2013, Management of the Company has received over 1,000 domestic and oversea institution representatives or individual investors. In addition, with the help of independent third-parties we have actively increased the interaction and communication with investors, and employed professional Hong Kong institution as consultant of investor relations, effectively maintain and improve investor relations affairs.

The Company believes that shareholders' rights should be well respected and protected. According to the Listing Rules, the Company set up Shareholders Communication Policy and will regularly review this Policy to ensure its effectiveness. As during the Reporting Period, the Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules, and have reported to our shareholders and investors through various formal channels, and maintain good communication with shareholders and investors so that they may make an informed assessment for their investment and exercise their rights as shareholders. In the future, the Company will maintain effective communications with investors.

Deloitte.
德勤

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 103, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

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

Deloitte Touche Tohmatsu

Certified Public Accountants
Hong Kong
26 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013 US$'000	2012 US$'000
Turnover	5	363,256	281,866
Cost of goods sold		(165,172)	(116,064)
Gross profit		198,084	165,802
Other gains and losses	6	14,318	6,968
Selling expenses		(75,516)	(57,534)
Administrative expenses		(23,503)	(18,810)
Finance costs	7	(2,715)	(2,002)
Share of result of an associate		83	59
Profit before taxation		110,751	94,483
Income tax expense	10	(8,074)	(9,355)
Profit for the year	11	102,677	85,128
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation		7,031	393
Items that may be reclassified subsequently to profit or loss:			
Change in fair value on available-for-sale investments			
- fair value gain		3,356	2,718
- deferred tax relating to change in fair value		(764)	(631)
Share of other comprehensive income of an associate		(1)	2
Fair value gain on hedging instruments in cash flow hedges		-	645
Other comprehensive income for the year, net of income tax		9,622	3,127
Total comprehensive income for the year		112,299	88,255
Profit (loss) for the year attributable to:			
Owners of the Company		102,825	85,039
Non-controlling interests		(148)	89
		102,677	85,128
Total comprehensive income (expense) attributable to:			
Owners of the Company		112,335	88,161
Non-controlling interests		(36)	94
		112,299	88,255
		US cent	US cent
Earnings per share	13		
Basic		4.258	3.522
Diluted		4.258	3.522

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2013

	NOTES	2013 US$'000	2012 US$'000
Non-current assets			
Property, plant and equipment	14	35,740	10,169
Prepaid lease payments	15	9,849	4,440
Interest in an associate	16	1,034	1,173
Intangible assets	17	40,023	35,224
Goodwill	18	180,749	178,634
Available-for-sale investments	19	20,288	16,374
Deferred tax assets	20	3,192	2,959
Deposit paid for acquisition of property, plant and equipment		16,157	13,940
		307,032	262,913
Current assets			
Inventories	21	27,401	15,488
Trade and other receivables	22	140,892	92,891
Tax recoverable		171	1,052
Pledged bank deposits	23	73,485	73,261
Bank balances and cash	23	80,031	107,162
		321,980	289,854
Current liabilities			
Trade and other payables	24	40,135	25,175
Secured bank borrowings	25	51,521	64,845
Deferred consideration payables	26	940	812
Tax payable		4,278	2,605
		96,874	93,437
Net current assets		225,106	196,417
Total assets less current liabilities		532,138	459,330
Capital and reserves			
Share capital	27	12,074	12,074
Reserves	28	509,655	436,246
Equity attributable to owners of the Company		521,729	448,320
Non-controlling interests		2,142	2,654
		523,871	450,974

	NOTES	2013	2012
		US$'000	US$'000
Non-current liabilities			
Deferred tax liabilities	20	4,699	4,999
Deferred consideration payables	26	3,568	3,357
		8,267	8,356
		532,138	459,330

The consolidated financial statements on pages 44 to 103 were approved and authorised for issue by the Board of Directors on 26 March 2014 and are signed on its behalf by:

LAM Kong	CHEN Yanling
DIRECTOR	DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to the owners of the Company											
	Share capital	Share premium	Capital reserve	Surplus reserve fund	Investments revaluation reserve	Translation reserve	Hedging reserve	Accumulated profits	Dividend reserve	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000	US$'000 (note 28)	US$'000 (note 28)	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2012	8,049	269,672	2,058	11,499	-	15,685	(645)	69,416	12,879	388,613	2,560	391,173
Profit for the year	-	-	-	-	-	-	-	85,039	-	85,039	89	85,128
Other comprehensive income for the year	-	-	-	-	2,087	390	645	-	-	3,122	5	3,127
Total comprehensive income for the year	-	-	-	-	2,087	390	645	85,039	-	88,161	94	88,255
Dividends paid	-	-	-	-	-	-	-	(15,575)	(12,879)	(28,454)	-	(28,454)
Dividends proposed	-	-	-	-	-	-	-	(18,690)	18,690	-	-	-
Bonus issue (note 27)	4,025	(4,025)	-	-	-	-	-	-	-	-	-	-
Transfer of reserves	-	-	-	2,626	-	-	-	(2,626)	-	-	-	-
Balance at 31 December 2012	12,074	265,647	2,058	14,125	2,087	16,075	-	117,564	18,690	448,320	2,654	450,974
Profit for the year	-	-	-	-	-	-	-	102,825	-	102,825	(148)	102,677
Other comprehensive income for the year	-	-	-	-	2,592	6,918	-	-	-	9,510	112	9,622
Total comprehensive income for the year	-	-	-	-	2,592	6,918	-	102,825	-	112,335	(36)	112,299
Dividends paid	-	-	-	-	-	-	-	(20,236)	(18,690)	(38,926)	-	(38,926)
Dividends proposed	-	-	-	-	-	-	-	(20,839)	20,839	-	-	-
Transfer of reserves	-	-	-	1,819	-	-	-	(1,819)	-	-	-	-
Acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(476)	(476)
Balance at 31 December 2013	12,074	265,647	2,058	15,944	4,679	22,993	-	177,495	20,839	521,729	2,142	523,871

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013 US$'000	2012 US$'000
Operating activities			
Profit before taxation		110,751	94,483
Adjustments for:			
Amortisation of intangible assets	17	4,148	3,923
Interest expenses		2,517	1,772
Depreciation of property, plant and equipment	14	1,752	1,285
Impairment loss on goodwill	18	1,277	-
Allowance for inventories		932	1,599
Loss on disposal of property, plant and equipment		301	25
Release of prepaid lease payments		235	103
Imputed interest expense on deferred consideration payables		198	230
Allowance for (reversal of) bad and doubtful debts		58	(134)
Share of result of an associate		(83)	(59)
Dividends from available-for-sale investments		(79)	-
Interest income		(6,411)	(5,102)
Operating cash flows before movements in working capital		115,596	98,125
(Increase) decrease in inventories		(10,342)	3,985
Increase in trade and other receivables		(45,579)	(18,692)
Increase (decrease) in trade and other payables		3,045	(3,301)
Cash generated from operations		62,720	80,117
PRC Enterprise Income Tax paid		(8,631)	(9,916)
Hong Kong Profits Tax paid		(7)	(411)
Net cash from operating activities		54,082	69,790
Investing activities			
Release of pledged bank deposit		74,377	82,346
Interest received		6,086	5,102
Proceeds from disposal of property, plant and equipment		281	11
Dividend received from an associate		221	193
Dividends received from available-for-sale investments		79	-
Purchase of prepaid lease payments		(1,805)	-
Acquisition of a subsidiary	31	(12,885)	-
Purchase of property, plant and equipment		(22,059)	(5,752)
Placement of pledged bank deposit		(72,366)	(115,998)
Purchase of available-for-sale investments		-	(13,635)
Purchase of intangible assets		-	(5,244)
Net cash used in investing activities		(28,071)	(52,977)

	2013 US$'000	2012 US$'000
Financing activities		
New bank borrowings raised	50,236	107,488
Repayment of deferred consideration payables	(1,004)	(1,361)
Interest paid	(382)	(2,624)
Dividends paid	(38,926)	(28,454)
Repayment of borrowings	(65,897)	(83,356)
Net cash used in financing activities	(55,973)	(8,307)
Net (decrease) increase in cash and cash equivalents	(29,962)	8,506
Cash and cash equivalent at 1 January	107,162	97,906
Effect of foreign exchange rate changes	2,831	750
Cash and cash equivalent at 31 December represented by bank balances and cash	80,031	107,162

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by the Stock Exchange of Hong Kong Limited on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 8/F., Block A, Tong Fong Information Centre, Lang Shan Road, Nan Shan, Shenzhen, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, marketing, promotion and sale of drugs.

The functional currency of the Company is Renminbi (“RMB”) as it is the currency in which the majority of the Group’s transactions are denominated. The consolidated financial statements of the Group are presented in United States Dollars (“US$”), which is a currency widely and commonly recognised in the global economy and is freely convertible into a number of foreign currencies. Therefore, the directors consider the presentation in US$ to be more useful for its current and potential investors.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time in the current year:

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

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

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

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

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

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

Impact of the application of IFRS 12

IFRS 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 IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see note 16 for details).

IFRS 13 *Fair Value Measurement*

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 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).

IFRS 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 IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to IAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
IFRIC - Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.

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

3 Available for application - the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 July 2014, with limited exception.

5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 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 IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to IFRS 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 IFRS 9 or IAS 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 IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to IFRS 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 conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 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.

The amendments to IAS 16 and IAS 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 IAS 24 clarify that a management entity providing key management personnel services 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 IFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 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 IFRS 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, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 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 IAS 40; and
(b) the transaction meets the definition of a business combination under IFRS 3.

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

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2011 includes the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedging accounting.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are 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 accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 9 Financial Instruments - continued

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 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 IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The 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 of the Company anticipate that the adoption of IFRS 9 will have no material impact on the Group's result, the financial position and disclosure of the Group.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

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

The directors of the Company anticipate that the adoption of other new and revised IFRSs will have no material impact on the Group's result, the financial position and disclosure of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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 owners of the Company and to the non-controlling interests. Total comprehensive income of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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 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 values, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income taxes* and IAS 19 *Employee benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* are measured in accordance with that standard.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

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

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 cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

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 an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates - continued

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.

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

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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Internally-generated intangible assets - research and development expenditure

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

An internally-generated intangible asset arising from development activities (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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

<u>Intangible assets</u> - continued

Internally-generated intangible assets - research and development expenditure - continued

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. 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 (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and 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 with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

<u>Property, plant and equipment</u>

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate 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.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

Prepaid lease payments

Prepaid lease payments represent the cost of land use rights paid to the local land bureau of the PRC Government.

Land use rights are stated at cost and are charged to profit or loss in the consolidated statement profit or loss and other comprehensive income over the period for which the relevant land use right has been granted to the Group.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a 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.

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 or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

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 and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

AFS financial assets

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

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

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables 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 credit period granted, 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 the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the 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 investment, 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 directly in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

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

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.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities

The Group's financial liabilities, including trade and other payables, secured bank borrowings and deferred consideration payables, are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group used derivative financial instruments (primarily interest rate swaps and foreign currency forward contracts) to hedge its exposure against changes in interest rate and foreign currency exposure on bank borrowings.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derecognition

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

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

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

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 fee income is recognised 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such 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 an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (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 is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 exchanges 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 that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. US$) 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 the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

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

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 leases, such incentives are recognised as a liability. The aggregate benefit 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 and building

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

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

Borrowing costs

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

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

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

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 grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose 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 costs

Payments to state-managed retirement benefit schemes, which is a defined contribution scheme, are recognised as expenses when employees have rendered service entitling them to the contributions.

Payment to Key Employee Benefit Scheme, which is classified as a defined contribution scheme, are recognized as expenses in the reporting period in which the Board of Directors approve for the comtribution to a trust.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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 amount of assets and liabilities within the next financial year.

Estimated impairment of goodwill and intangible assets

For the purpose of impairment testing, the entire amount of goodwill and part of the intangible assets has been allocated to the four (2012: three) cash generating units ("CGU"s) (see note 18). The impairment assessment is based on the higher of fair value less costs to sell and value in use of the CGUs. The value in use of the related CGUs requires the Group to estimate the expected future cash flows from the CGUs. If the actual future cash flows are less than expected, impairment may be required. In the opinion of the directors of the Company, no impairment of intangible assets is required for the year ended 31 December 2013 and 2012. As at 31 December 2013, the carrying amount of goodwill is US$180,749,000 (net of impairment loss of US$1,277,000) (2012: carrying amount of US$178,634,000, net of impairment loss of nil).

Deferred tax assets

As at 31 December 2013, a deferred tax asset of approximately US$3,192,000 (2012: US$2,959,000) in relation to unrealised profits on inventories and impairment loss on property, plant and equipment has been recognised in the Group's consolidated statement of financial position. The recognition of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the profit or loss in the period in which such a reversal takes places.

Estimated impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of the customers of the Group were deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2013, the carrying amounts of trade receivables (net of allowance for bad and doubtful debts) and allowance for bad and doubtful debts are approximately US$62,312,000 (2012: US$50,345,000) and US$256,000 (2012: US$191,000), respectively.

Estimated allowance for inventories

As at 31 December 2013, the carrying amount of the Group's inventories is US$27,401,000 (2012: US$15,488,000). The management of the Group reviews an ageing analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow moving items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions. If the conditions of inventory of the Group become no longer suitable for use in production or sale, an additional allowance may be required.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable for goods sold during the year.

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used to resources allocation and assessment of segment performance.

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. Other than revenue analysis that is disclosed below, no operating results and other discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group primarily operates in the PRC. All revenue for external customers are attributed to the PRC and a majority of non-current assets of the Group are located in the PRC.

Revenue from major products

The following is an analysis of the Group's revenue by major products:

	2013 US$'000	2012 US$'000
Deanxit	101,485	88,079
Ursofalk	73,108	60,750
ShaDuoLiKa	52,345	22,520
XinHuoSu	36,641	26,820
YiNuoShu	29,497	26,150
Salofalk	16,348	11,439
Bioflor	15,031	9,214
Augentropfen Stulln Mono eye-drops	13,126	13,280
GanFuLe	5,844	5,018
Exacin	4,044	3,684
XiDaKang	3,956	3,326
Cystistat	1,038	1,041
Yin Lin Qing Gan Ka Li	326	81
Others	10,467	10,464
Total	363,256	281,866

No single customer contributes over 10% of the total sales of the Group for both years.

6. OTHER GAINS AND LOSSES

	2013 US$'000	2012 US$'000
Interest income	6,411	5,102
Net exchange gain (loss)	4,751	(720)
Government subsidies (note)	3,755	2,010
Dividends from available-for-sale investments	79	-
Loss on disposal of property, plant and equipment	(301)	(25)
Impairment loss on goodwill (note 18)	(1,277)	-
Fair value change on investments held for trading	-	2
Others	900	599
	14,318	6,968

Note: The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to reimburse the research and development expenses incurred in prior years and other subsidies granted to the Group to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

7. FINANCE COSTS

	2013 US$'000	2012 US$'000
Interest on bank borrowings wholly repayable within five years	2,517	1,772
Imputed interest on deferred consideration payables	198	230
	2,715	2,002

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	2013 US$'000	2012 US$'000
Directors' fees	184	184
Other emoluments to executive directors		
- basic salaries and allowances	416	332
- retirement benefits scheme contributions	14	19
	614	535

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS - continued

Details of emoluments paid by the Group to the directors and the chief executive are as follows:

	2013 US$'000	2012 US$'000
Mr. Lam Kong		
- directors' fee	23	23
- basic salaries and allowances	93	93
- retirement benefits scheme contributions	2	2
	118	118
Mr. Chen Hong Bing		
- directors' fee	23	23
- basic salaries and allowances	106	104
- retirement benefits scheme contributions	6	5
	135	132
Ms. Hou Xiao Xuan (Note 1)		
- directors' fee	-	22
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	7
	-	29
Ms. Chen Yan Ling		
- directors' fee	23	23
- basic salaries and allowances	85	84
- retirement benefits scheme contributions	6	5
	114	112
Mr. Hui Ki Fat		
- directors' fee	23	23
- basic salaries and allowances	47	46
- retirement benefits scheme contributions	-	-
	70	69

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS - continued

	2013 US$'000	2012 US$'000
Ms. Sa Man Lin (Note 2)		
- directors' fee	23	1
- basic salaries and allowances	85	5
- retirement benefits scheme contributions	-	-
	108	6
Mr. Peng Huaizheng (Note 3)		
- directors' fee	18	23
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	18	23
Mr. Wu Chi Keung		
- directors' fee	23	23
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	23	23
Mr. Cheung Kam Shing, Terry		
- directors' fee	23	23
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	23	23
Mr. Huang Ming (Note 4)		
- directors' fee	5	-
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	5	-
Total	614	535

Notes:

1. Resigned on 11 December 2012.
2. Appointed on 11 December 2012.
3. Resigned on 9 October 2013.
4. Appointed on 9 October 2013.

Mr. Lam Kong is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2013 included four directors (2012: three), details of whose emoluments are set out above. The emoluments of the remaining individual for the year ended 31 December 2013 (2012: two individuals) were as follows:

	2013	2012
	US$'000	US$'000
Employees		
- basic salaries and allowances	102	195
- retirement benefits scheme contributions	5	9
	107	204

The emoluments of the employee were within the following bands:

	Number of employees	
	2013	2012
Up to HK$1,000,000 (equivalent to approximately US$129,000)	1	2

During the year, no emoluments were paid by the Group to the directors or the highest paid individual (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

10. INCOME TAX EXPENSE

	2013	2012
	US$'000	US$'000
Current tax:		
PRC Enterprise Income Tax	11,049	7,846
Hong Kong Profits Tax	39	-
Other jurisdictions	6	6
	11,094	7,852
Underprovision in prior years		
PRC Enterprise Income Tax	11	-
Hong Kong Profits Tax	-	1
	11	1
Deferred taxation (note 20):		
- Current year	(3,031)	1,502
Taxation charge for the year	8,074	9,355

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable for the year.

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 rate of the PRC subsidiaries is 25%.

10. INCOME TAX EXPENSE - continued

Pursuant to relevant laws and regulation, 常德康哲醫藥有限公司 (Changde Kangzhe Pharmaceutical Co., Ltd.) (“Kangzhe Changde”) was eligible for certain tax concession in the PRC and such tax concession was subject to renewal by the relevant tax bureau annually. Changde Kangzhe was entitled to a reduced tax rate of 15% as approved by the relevant local tax authority in 2012. No tax concession is granted to Changde Kangzhe in 2013 and the applicable tax rate is 25%.

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Kangzhe Tianjin") is entitled to a reduced tax rate of 15% granted by the local tax authority until 31 March 2015. 廣西康哲廣明藥業有限公司 (Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd.) ("Kangzhe Guangming") is entitled to reduced tax rate of 15% for 10 years, starting from 1 January 2011.

Pursuant to EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2013, the newly established subsidiary, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) (“Kangzhe Agricultural”) is eligible for such tax concession.

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 (“Labuan Tax Act”) in Malaysia, CMS Pharmaceutical Agency Co., Ltd. (“CMS Pharmaceutical Agency”) is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately US$6,000) or 3% on net audited profits. For the years ended 31 December 2013 and 2012, CMS Pharmaceutical Agency elected to pay a lump sum tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit in 2013 and there was no estimated assessable profit in 2012.

The taxation for the year can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	2013 US$’000	2012 US$’000
Profit before taxation	110,751	94,483
Tax at the applicable tax rate (note)	27,688	23,621
Tax effect of share of result of an associate	(21)	(15)
Tax effect of expenses that are not deductible in determining taxable profit	1,923	1,343
Tax effect of income that is not taxable in determining taxable profit	(416)	(392)
Tax effect of tax losses not recognised	278	308
Tax effect of deductible temporary differences not recognised	5,270	-
Tax effect of tax concession	(2,903)	(3,703)
Effect on different applicable tax rates of subsidiaries	(276)	(67)
Effect of tax benefit arising from Labuan Tax Act	(20,768)	(11,893)
Underprovision in prior years	11	1
Utilisation of tax loss previously not recognised	(203)	-
(Release of) deferred tax arising from withholding tax on undistributed profit of a PRC subsidiary	(2,412)	98
Others	(97)	54
Taxation charge for the year	8,074	9,355

Note: The applicable PRC Enterprise Income Tax rate of 25% (2012: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. (“Kangzhe Shenzhen”), a major operating subsidiary of the Group.

11. PROFIT FOR THE YEAR

	2013 US$'000	2012 US$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	184	184
Other emoluments	416	332
Pension costs	14	19
	614	535
Other staff costs	30,268	23,169
Pension costs	2,222	1,474
Key employee benefit expense (note 36)	426	665
Total staff costs	33,530	25,843
Auditor's remuneration	281	252
Allowance for (reversal of) bad and doubtful debts	58	(134)
Allowance for inventories	932	1,599
Release of prepaid lease payments	235	103
Depreciation of property, plant and equipment	1,752	1,285
Amortisation of intangible assets (included in cost of goods sold)	4,148	3,923
Cost of inventories recognised as an expense	158,196	109,838
Minimum lease payment under operating lease in respect of property	1,291	1,144

12. DIVIDENDS

	2013 US$'000	2012 US$'000
Dividend paid		
Dividend recognised as distribution during the year:		
2013 Interim - US$0.00838 (2012: 2012 interim dividend US$0.00645) per share on 2,414,747,512 (2012: 2,414,747,512) shares	20,236	15,575
2012 Final - US$0.00774 (2012: 2011 final dividend US$0.008) per share on 2,414,747,512 (2012: 1,609,831,675) shares	18,690	12,879
	38,926	28,454

Dividend proposed

	2013 US$'000	2012 US$'000
Dividend proposed during the year:		
2013 final - US$0.00863 (2012: 2012 final dividend of US$0.00774) per share on 2,414,747,512 (2012: 2,414,747,512) shares	20,839	18,690

The Board of Directors have declared a final dividend of US$0.00863 per ordinary share of par value of US$0.005 for the year ended 31 December 2013 (2012: US$0.00774 per ordinary share of par value of US$0.005).

13. EARNINGS PER SHARE

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

	2013 US$'000	2012 US$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	102,825	85,039

	Number of ordinary shares As at 31 December 2013 & 2012
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	2,414,747,512

The Group has no outstanding potential ordinary shares as at 31 December 2013 and 2012 and during the year ended 31 December 2013 and 2012.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Leasehold improvement US$'000	Plant and machinery US$'000	Motor vehicles US$'000	Furniture, fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST							
At 1 January 2012	4,899	205	4,050	3,109	1,583	683	14,529
Currency realignment	12	-	13	8	4	3	40
Additions	-	-	866	579	170	2,130	3,745
Disposals	(6)	-	(160)	(23)	(34)	-	(223)
Transfer	16	-	-	-	-	(16)	-
At 31 December 2012	4,921	205	4,769	3,673	1,723	2,800	18,091
Currency realignment	376	6	202	113	54	267	1,018
Acquired on acquisition of a subsidiary	4,553	-	473	1	32	-	5,059
Additions	4,980	-	3,367	928	179	12,631	22,085
Disposals	-	-	(1,128)	(128)	(42)	-	(1,298)
Transfer	791	-	274	-	-	(1,065)	-
At 31 December 2013	15,621	211	7,957	4,587	1,946	14,633	44,955
DEPRECIATION							
At 1 January 2012	1,618	205	2,643	1,295	1,044	-	6,805
Currency realignment	4	-	8	4	3	-	19
Provided for the year	284	-	334	509	158	-	1,285
Eliminated on disposals	(3)	-	(143)	(10)	(31)	-	(187)
At 31 December 2012	1,903	205	2,842	1,798	1,174	-	7,922
Currency realignment	66	6	87	61	37	-	257
Provided for the year	473	-	506	617	156	-	1,752
Eliminated on disposals	-	-	(576)	(103)	(37)	-	(716)
At 31 December 2013	2,442	211	2,859	2,373	1,330	-	9,215
CARRYING VALUES							
At 31 December 2013	13,179	-	5,098	2,214	616	14,633	35,740
At 31 December 2012	3,018	-	1,927	1,875	549	2,800	10,169

14. PROPERTY, PLANT AND EQUIPMENT - continued

The property, plant and equipment are depreciated over their estimated useful lives as follows:

Buildings	Over the shorter of the lease terms, or 4.50%
Leasehold improvement	Over the shorter of the lease terms, or 4.50%
Plant and machinery	9% - 18%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

15. PREPAID LEASE PAYMENTS

	2013 US$'000	2012 US$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	10,104	4,519
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	255	79
Non-current asset	9,849	4,440
	10,104	4,519

The Group has pledged leasehold land with a net book value of approximately RMB18,289,000 (equivalent to approximately US$3,000,000) (2012: RMB18,687,000, equivalent to approximately US$2,973,000) to secure general banking facilities granted to the Group.

16. INTEREST IN AN ASSOCIATE

	2013 US$'000	2012 US$'000
Cost of unlisted investments in an associate	1,687	1,687
Share of post-acquisition profits and other comprehensive income, net of dividends received	(653)	(514)
	1,034	1,173

As at 31 December 2013 and 2012, the details of the associate are as follows:

Name of associate	Place of establishment/ incorporation	Attributable equity interest held by the Group	Principal activities
Ophol Limited ("Ophol")	Hong Kong	24.49%	Investment holding and provision of agency service

16. INTEREST IN AN ASSOCIATE - continued

Summarised financial information of an associate

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 IFRSs.

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

Ophol Limited

	2013 US$'000	2012 US$'000
Current assets	724	690
Non-current assets	3,501	4,102
Current liabilities	(2)	(2)

	2013 US$'000	2012 US$'000
Turnover	341	244
Profit for the year	337	240
Other comprehensive income for the year	(3)	9
Total comprehensive income for the year	334	249
Dividends received from the associate during the year	221	193

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements.

	2013 US$'000	2012 US$'000
Net assets of Ophol Limited	4,223	4,790
Proportion of the Group's ownership interest in Ophol Limited	24.49%	24.49%
Carrying amount of the Group's interest in Ophol Limited	1,034	1,173

17. INTANGIBLE ASSETS

	Exclusive distribution rights US$'000 (Note a(i) & Note c(i))	Exclusive agency right US$'000 (Note b)	Patent rights US$'000 (Note c(i))	Total US$'000
COST				
At 1 January 2012	7,920	7,403	24,440	39,763
Exchange adjustments	24	-	60	84
Additions (note a(ii))	5,244	-	-	5,244
At 31 December 2012	13,188	7,403	24,500	45,091
Exchange adjustments	410	-	834	1,244
Additions (note c(ii))	-	-	5,928	5,928
Acquired on acquisition of a subsidiary (note c(iii))	-	-	2,549	2,549
Adjustment arising on acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	(620)	(620)
At 31 December 2013	13,598	7,403	33,191	54,192
AMORTISATION				
At 1 January 2012	2,041	2,792	1,102	5,935
Exchange adjustments	5	-	4	9
Charge for the year	1,707	740	1,476	3,923
At 31 December 2012	3,753	3,532	2,582	9,867
Exchange adjustments	144	-	107	251
Charge for the year	1,730	740	1,678	4,148
Adjustment arising on acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	(97)	(97)
At 31 December 2013	5,627	4,272	4,270	14,169
CARRYING VALUES				
At 31 December 2013	7,971	3,131	28,921	40,023
At 31 December 2012	9,435	3,871	21,918	35,224

17. INTANGIBLE ASSETS - continued

(a) Exclusive distribution right

(i) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "XinHuoSu Agreements") with 西藏諾迪康藥業股份有限公司 (Tibet Rhodiola Pharmaceutical Holding Co., Ltd.) ("Rhodiola") in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which was distributed in the PRC market under the trade name of XinHuoSu for a term of three years with effect from 1 July 2008 to 30 June 2012.

Pursuant to the XinHuoSu Agreements, the Group obtained the exclusive distribution right of XinHuoSu for nil consideration and committed to handle the Phase IV clinical trials of XinHuoSu for 2,000 cases in the PRC to meet the drug safety standards set by the Food and Drug Administration in the PRC ("SFDA"). The drug, XinHuoSu, to be used in the 2,000 case clinical trials would be provided by Rhodiola free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group. The management of the Group estimated the total costs to be incurred for completion of the 2,000 case clinical trials would be approximately RMB6,500,000 (equivalent to approximately US$919,000).

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of XinHuoSu on the basis that the Group should complete the clinical trials of XinHuoSu and would bear all the costs of the clinical trials. Therefore, the costs to be incurred in clinical trials of US$919,000 were capitalised as an intangible asset.

As at 31 December 2011, the exclusive distribution right was fully amortised.

(ii) On 23 August 2012, the Group entered into a product rights transfer agreement (the "Agreement") with 北京亞東生物製藥有限公司 (Beijing Yadong Biopharmaceutical Co., Ltd.) ("Beijing Yadong"), an independent third party. According to the Agreement, Kangzhe Tianjin purchased from Beijing Yadong the exclusive distribution rights of three Traditional Chinese Medicinal Products - Yin Lian Qing Gan Ke Li, Xiang Fu Yi Xue Kou Fu Ye, Ma Jiang Jiao Nang (collectively referred to as "Three Products") for a term of 20 years with effect from 23 August 2012 at a consideration of RMB33,000,000 (equivalent to approximately US$5,244,000). Tianjin Kangzhe will exclusively promote and sell the Three Products in the PRC and Beijing Yadong will be responsible for the production of the Three Products as required by Tianjin Kangzhe and sell the Three Products exclusively to Tianjin Kangzhe.

The exclusive distribution rights are amortised over their expected useful lives of 20 years.

17. INTANGIBLE ASSETS - continued

(b) Exclusive agency right

On 26 April 2008, a transfer agreement was entered into between Ophol, Qingdao League and Pharma Stulln GmbH ("Pharma"), the supplier of Augentropfen Stulln Mono ("Stulln") in Germany in connection to the transfer of the exclusive agency right of Stulln in the PRC from Qingdao League to Ophol at nil consideration. After Ophol has obtained the exclusive agency right of Stulln in the PRC, Ophol agreed to transfer such exclusive agency right to the Group on condition that the 51% equity interest of Qingdao League owned by Kangzhe Shenzhen would be transferred to Qingdao Leatu Trading Ltd., a company which has common shareholder with Ophol under the sale and purchase agreement. On 15 July 2008, the Group entered into a supplementary agreement with Ophol and Pharma in connection to the transfer of exclusive agency right of Stulln, from Ophol to CMS Pharmaceutical Agency, a wholly-owned subsidiary of the Company, at a consideration of RMB60,000,000 (equivalent to approximately US$8,779,000). CMS Pharmaceutical Agency will pay annually of RMB6,000,000 (equivalent to approximately US$878,000) to Ophol over the next ten years to settle the consideration. The directors of the Group recognised the payable as a deferred consideration (see note 26) in the amount of US$6,775,000, which represents the present value of the annual consideration of US$878,000 over next 10 years discounted at 5%. CMS Pharmaceutical Agency has replaced Qingdao League as the exclusive agent of Stulln for Pharma in the PRC from 1 August 2008 to 31 July 2018.

The expected useful life of the exclusive agency right is 10 years.

(c) Acquisition of exclusive distribution rights and patent rights

(i) The Group acquired 100% of equity interest in Great Move Enterprises Limited ("Great Move") and 51% of equity interest in Kangzhe Guangming on 3 April 2011 and 30 April 2011, respectively. This included the acquisition of exclusive distribution rights and patent rights for the sales of several products. The exclusive distribution rights and patent rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent rights at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. The fair value of the exclusive distribution rights at the date of acquisition was determined based on the multi-period excess earnings method by capitalising future cashflows derived from the intangible assets for the remaining term of the distribution rights.

As at the acquisition date, the major patent rights owned by Kangzhe Tianjin, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to US$21,035,000 and US$1,264,000, respectively and the exclusive distribution rights owned by Kangzhe Tianjin amounted to US$6,002,000. The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to US$894,000 and US$1,199,000, respectively through the acquisition of Kangzhe Guangming.

The expected useful lives of the exclusive distribution rights and patent rights are ranging from 1 year to 17 years.

17. INTANGIBLE ASSETS - continued

(c) Acquisition of exclusive distribution rights and patent rights - continued

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection to the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000 (equivalent to approximately US$6,561,000). The Sellers, who directly hold 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 (equivalent to approximately US$4,920,000) and annual payment of RMB1,000,000 (equivalent to approximately US$164,000) to the Sellers over the next ten years. The directors of the Group recognised the payable as a deferred consideration payable (see note 26) in the amount of US$1,008,000, which represents the present value of the annual consideration of US$164,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the patent right of XiDaKang is also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the patent right owner of XiDaKang.

As at 31 December 2013, the expected remaining useful life of the patent right is 14 years.

(iii) The Group acquired 100% of equity interest in Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. (formerly known as Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd.) ("Kangzhe Lengshuijiang") on 28 February 2013. This included the acquisition of the patent right of GanFuLe. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right.

As at the acquisition date, the patent right owned by Kangzhe Lengsuijiang, represented GanFuLe, amounted to US$2,549,000.

The expected useful live of the patent right is 11 years.

18. GOODWILL

	US$'000
COST	
At 1 January 2012 and 31 December 2012	178,634
Arising on acquisition of a subsidiary (note 31)	3,392
At 31 December 2013	182,026
IMPAIRMENT	
At 1 January 2012 and 31 December 2012	-
Impairment loss recognised in the year	1,277
At 31 December 2013	1,277
CARRYING VALUES	
At 31 December 2013	180,749
At 31 December 2012	178,634

For the purposes of impairment testing, the entire amount of goodwill has been allocated to four (2012: three) CGUs, representing four subsidiaries, namely Kangzhe Tianjin, Kangzhe Lengshuijiang, Kangzhe Guangming and Sky United Trading Limited ("Sky United") (2012: Kangzhe Tianjin, Kangzhe Guangming and Sky United). Kangzhe Tianjin and Sky United are engaged in marketing, promotion and sale of drugs and trading of drugs, respectively. Kangzhe Lengshuijiang and Kangzhe Guangming are engaged in production of medicines. The relevant intangible assets (excluding exclusive agency right of US$3,131,000 and patent right of XiDaKang of US$6,473,000) (2012: excluding exclusive agency right of US$3,871,000) (the "relevant intangible assets") are allocated to the CGUs. The carrying amounts of goodwill (net of accumulated impairment losses) and the relevant intangible assets as at 31 December 2013 and 2012 allocated to these units are as follows:

	Goodwill		Intangible assets	
	2013	2012	2013	2012
	US$'000	US$'000	US$'000	US$'000
Kangzhe Tianjin	176,978	176,978	27,980	29,471
Kangzhe Lengshuijiang	3,392	-	2,439	-
Sky United	379	379	-	-
Kangzhe Guangming	-	1,277	-	1,882
	180,749	178,634	30,419	31,353

The recoverable amounts of Kangzhe Tianjin, Kangzhe Lengshuijiang and Sky United are determined based on value in use calculations. As at 31 December 2013 and 2012, the recoverable amount of Kangzhe Guangming has been determined based on fair value less costs to sell and value in use calculations, respectively (see below). The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past performance and expectations of future changes in the market.

18. GOODWILL - continued

Kangzhe Tianjin

At 31 December 2013, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 11% (2012: 10%). Kangzhe Tianjin's cash flows beyond the third-year period are extrapolated using a steady growth rate ranging from 0% to 10% (2012: 0% to 10%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Kangzhe Lengshuijiang

At 31 December 2013, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 11%. Kangzhe Lengshuijiang's cash flows beyond the third-year period are extrapolated using a declining growth rate from 20% to 10%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Kangzhe Guangming

At 31 December 2012, the impairment review was determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 10%. For impairment review purpose, the cash flow projection was extrapolated for ten years based on the assumption that a growth rate of 10% was expected after the third year. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Due to the synergetic effect from business combination, management of the Group believed that the growth rate was reasonable.

On 31 December 2013, the Group had entered into a shares transfer agreement with an independent third party, 廣州市康迪爾醫藥有限公司 , to dispose of the subsidiary, Kangzhe Guangming, which is engaged in manufacture of XiDaKang, for a net consideration of RMB12,000,000 (approximately US$1,968,000). Up to the date of approval for issuance of the consolidated financial statements, the disposal still has not been completed.

The management is of the opinion that the value in use calculation is not an appropriate basis for the determination of the recoverable amount of Kangzhe Guangming as at 31 December 2013 due to the disposal of the subsidiary. As at 31 December 2013, the recoverable amount of Kangzhe Guangming was determined based on fair value less costs to sell calculations, determined using the net consideration received from 廣州市康迪爾醫藥有限公司 , subsequent to the reporting period.

The Group therefore recognised an impairment loss of approximately US$1,277,000 (2012: nil) in relation to goodwill arising on acquisition of Kangzhe Guangming in current year.

The intangible assets previously allocated to Kangzhe Guangming, for the purpose of impairment testing in 2012, are transferred to Kangzhe Hunan, which has replaced Kangzhe Guangming as the owner of the intangible assets of XiDaKang and engaged in production of XiDaKang starting from 27 December 2013. At the end of the reporting period, management reviews the carrying amounts of the these intangible assets with finite useful lives and determines there is no indication that these assets have suffered an impairment loss.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2013 US$'000	2012 US$'000
Listed investments		
Equity securities listed in Shanghai Stock Exchange	20,288	16,374

The investment is denominated in RMB and its fair value is based on the quoted market prices. During the year ended 31 December 2013, change in fair value of US$3,356,000 (2012: US$2,718,000) was recognised in other comprehensive income.

20. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories US$'000	Undistributed profits of PRC subsidiary US$'000	Fair value adjustments to assets acquired in business combinations US$'000	Fair value gain on available-for-sale investments US$'000	Others (note) US$'000	Total US$'000
At 1 January 2012	4,599	(2,314)	(2,275)	-	89	99
Credit (charge) to profit or loss for the year (note 10)	(1,697)	(98)	325	-	(32)	(1,502)
Charge to other comprehensive income for the year	-	-	-	(631)	-	(631)
Exchange differences	-	-	(5)	(1)	-	(6)
At 31 December 2012	2,902	(2,412)	(1,955)	(632)	57	(2,040)
Acquisitions	-	-	(1,648)	-	-	(1,648)
Credit (charge) to profit or loss for the year (note 10)	261	2,412	387	-	(29)	3,031
Charge to other comprehensive income for the year	-	-	-	(764)	-	(764)
Adjustment arising on acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	47	-	-	47
Exchange differences	-	-	(103)	(31)	1	(133)
At 31 December 2013	3,163	-	(3,272)	(1,427)	29	(1,507)

Note: These mainly represent the deferred tax assets recognised in relation to impairment loss on plant and machinery used for production of medicines for the year ended 31 December 2009.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013 US$'000	2012 US$'000
Deferred tax assets	3,192	2,959
Deferred tax liabilities	(4,699)	(4,999)
	(1,507)	(2,040)

20. DEFERRED TAX - continued

At 31 December 2013, the Group had unused tax losses of approximately US$3,357,000 (2012: US$3,062,000) available for offsetting against future profits, including an unused tax loss of approximately US$815,000 arising on acquisition of a subsidiary during the year ended 31 December 2013. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2013 are tax losses of approximately US$1,698,000 (2012: US$546,000) that will be expired within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2013, tax losses of approximately US$529,000 (2012: US$912,000) was expired.

As at 31 December 2013, the Group had deductible temporary differences associated with unrealised profits on inventories of US$33,815,000 (2012:US$11,572,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of US$12,734,000 (2012: U$11,572,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining US$21,081,000 (2012: nil) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. As at 31 December 2012, deferred taxation had been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of Kangzhe Shenzhen amounting to US$48,240,000. As at 31 December 2013, the Directors of Company is in an opinion that Kangzhe Shenzhen will not declare any dividends in respect of its accumulated profits. The Group is able to control the timing of reversal of the temporary differences of Kangzhe Shenzhen and it is probable that the temporary difference will not reverse in the foreseeable future starting from the year ended 31 December 2013. The deferred taxation of US$2,412,000 has been released in the year ended 31 December 2013.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to US$155,225,000 (2012: US$69,124,000) 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.

21. INVENTORIES

	2013	2012
	US$'000	US$'000
Raw materials	1,839	718
Work in progress	562	300
Finished goods	25,000	14,470
	27,401	15,488

22. TRADE AND OTHER RECEIVABLES

	2013 US$'000	2012 US$'000
Trade receivables	62,568	50,536
Less: Allowance for bad and doubtful debts	(256)	(191)
	62,312	50,345
Bills receivables	26,041	28,714
Purchase prepayment	38,735	5,721
Other receivables and deposits	13,804	8,111
Total trade and other receivables	140,892	92,891

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months was allowed to some selected customers.

An aging analysis of the trade receivables (net of allowance for bad and doubtful debts) presented based on the invoice date at the respective reporting period, which approximated the respective revenue recognition date is as follows:

	2013 US$'000	2012 US$'000
0 - 90 days	58,784	47,772
91 - 365 days	3,378	2,480
Over 365 days	150	93
	62,312	50,345

The bills receivables of the Group are of the age within six months at the end of the reporting period.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$8,011,000 (2012: US$5,125,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES - continued

The following is an aging analysis of trade receivables which are past due but not impaired:

	2013 US$'000	2012 US$'000
0 - 90 days	5,537	3,492
91 - 365 days	2,324	1,540
Over 365 days	150	93
	8,011	5,125

The Group has provided full impairment for receivables that aged over 3 years from invoice date because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts:

	2013 US$'000	2012 US$'000
Balance at beginning of the reporting period	191	331
Impairment losses (reversal) recognised on receivables	58	(134)
Amount written off as uncollectible	-	(7)
Currency realignment	7	1
Balance at end of the reporting period	256	191

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of US$256,000 (2012: US$191,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank deposits and pledged bank deposits carry interest at the prevailing market rate of approximately 0.50% to 4.90% (2012: 0.50% to 5.55%) per annum.

The pledged bank deposits amounting to US$73,485,000 (2012: US$73,261,000) represent deposits pledged to banks to secure the issuance of letters of credit. Therefore the pledged bank deposits are classified as current assets.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2013 US$'000	2012 US$'000
US$	161	108
Euro ("EURO")	957	15
Hong Kong Dollars ("HK$")	74	15
RMB	5	-

24. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting period as follows:

	2013 US$'000	2012 US$'000
0 - 90 days	10,882	9,212
91 - 365 days	54	324
Over 365 days	194	106
	11,130	9,642
Payroll and welfare payables	8,311	5,825
Other tax payables	2,203	1,555
Amount due to shareholders of non-controlling interests	4,920	-
Other payables and accruals	13,571	8,153
	40,135	25,175

The credit period on purchases of goods is ranging from 0 to 120 days.

Amount due to shareholders of non-controlling interests is unsecured, interest free and repayable on demand.

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2013 US$'000	2012 US$'000
EURO	527	-
RMB	4,920	-

25. SECURED BANK BORROWINGS

	2013 US$'000	2012 US$'000
Advanced from banks on discounted bills receivables with recourse - repayable within one year	51,521	64,845

As at 31 December 2013, the Group discounted bills receivable of US$51,521,000 (2012: US$64,845,000) to banks for cash proceeds of US$51,521,000 (2012: US$64,845,000). If the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. The receivables are arising from intra-group transactions which have then been fully eliminated on consolidation. The borrowings carried fixed interest at a range from 3.30% to 3.60% (2012: 3.25% to 3.38%) per annum.

26. DEFERRED CONSIDERATION PAYABLES

	2013	2012
	US$'000	US$'000
Non-current	3,568	3,357
Current	940	812
	4,508	4,169

During the year ended 31 December 2008, the Group acquired an agency right from Ophol which has become the associate of the Group during the year ended 31 December 2009 for a consideration of RMB60,000,000 (equivalent to approximately US$8,779,000) (see note 17(b)). The consideration is payable annually of RMB6,000,000 (equivalent to approximately US$878,000) for 10 years commencing on 26 April 2008. The present value of the discounted consideration determined based on a discount rate of 5% amounting to US$6,775,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2013, the carrying value amounting to US$3,500,000 (2012: US$4,103,000) is included in deferred consideration payables.

As at 31 December 2012, the deferred consideration payables of US$66,000 (2013: nil) represented consideration for the acquisition of an associate, Ophol.

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (equivalent to approximately US$6,561,000) (see note 17(c) (ii)). In addition to the first payment of RMB30,000,000 (equivalent to approximately US$4,920,000), the consideration is payable annually of RMB1,000,000 (equivalent to approximately US$164,000) for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to US$1,008,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2013, the carrying value amounting to US$1,008,000 is included in deferred consideration payables.

27. SHARE CAPITAL

	Number of shares	Amount
	'000	US$'000
Authorised share capital:		
At 31 December 2012 and 31 December 2013	20,000,000	100,000
Issued and fully paid:		
At 1 January 2012	1,609,831	8,049
Bonus issue (note)	804,916	4,025
At 31 December 2012 and 31 December 2013	2,414,747	12,074

Note: On 27 April 2012, the bonus issue has been distributed on the basis of 1 bonus share for every 2 shares held. Upon the exercise of the bonus issue, the bonus issue was credited as fully paid by way of capitalisation of an amount in the share premium account. Accordingly, 804,915,838 bonus shares were issued under the bonus issue.

All the shares which were issued by the Company during the year ended 31 December 2012 rank pari passu with each other in all respects.

28. RESERVES

<u>Capital reserve</u>

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Kangzhe Shenzhen granted by Mr. Lam Kong, a director and former shareholder of Kangzhe Shenzhen, to certain employees for their services rendered in prior year, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered in prior year, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Kangzhe Shenzhen to Sino Talent Limited ("Sino Talent") pursuant to the group restructuring in 2005 and the nominal value of Kangzhe Shenzhen's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International Limited ("CMS International") and Healthlink Consultancy Inc. ("Healthlink") pursuant to the group reorganisation in 2006 and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007. The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated on or before 2006.

On 19 April 2010, the Group acquired additional interest in Sky United. An amount of US$2,221,000, representing the excess of the fair value of the new ordinary shares issued by the Company over the decrease in the carrying value of the non-controlling interest is charged to capital reserve.

During the year ended 31 December 2010, a deemed distribution to a shareholder in respect of expenses incurred for a shareholder during the initial public offering exercise by the Company.

<u>Surplus reserve fund</u>

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

29. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2013	2012
	US$'000	US$'000
Financial assets		
Loans and receivable (including cash and cash equivalents)	241,869	259,482
Available-for-sale investments	20,288	16,374
Financial liabilities		
Others financial liabilities measured at amortised cost	(75,839)	(82,099)

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, secured bank borrowings and deferred consideration payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group's fair value interest rate risk is the risk that the fair value of a fixed rate financial instrument will fluctuate because of changes in market interest rates.

Currency risk

Some subsidiaries of the Company have foreign currency purchases, which also expose the Group to foreign currency risk. Approximately 22.7% (2012: 21.3%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

30. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Currency risk - continued

The carrying amounts of the Group's foreign currency denominated monetary assets (representing bank balances) and monetary liabilities (representing trade and other payables and deferred consideration payables) at the reporting date are as follows:

	Assets		Liabilities	
	2013	2012	2013	2012
	US$'000	US$'000	US$'000	US$'000
US$	161	108	-	-
EURO	957	15	527	-
HK$	74	15	-	-
RMB	5	-	9,428	4,169

Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The Group is mainly exposed to currency risk of the US$, EURO, HK$ and RMB. The following table details the Group's sensitivity to a 1% (2012: 1%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% (2012: 1%) change in foreign currency rates. The sensitivity analysis includes bank balances, trade and other payables and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 1% (2012: 1%) against the relevant foreign currencies. If there is a 1% (2012: 1%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the result for the year:

	2013	2012
	US$'000	US$'000
RMB (as functional currency of the relevant group entities) against US$	(2)	(1)
US$ (as functional currency of the relevant group entities) against EURO	(4)	-
RMB (as functional currency of the relevant group entities) against HK$	(1)	-
US$ (as functional currency of the relevant group entities) against RMB	94	42

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

30. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Other price risk

The Group's available-for-sale investments in listed securities are measured at fair value at each reporting date with reference to the market share prices. Therefore, the Group is exposed to equity price risk and the management will monitor the price movements and take appropriate actions when it is required. The Group's equity price risk is mainly concentrated on equity instruments operating in pharmaceutical industry sector quoted in the Shanghai Stock Exchange.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. As at 31 December 2013, if the prices of the respective equity instruments had been 5% higher/lower, investment valuation reserve would increase/decrease by US$783,000 (2012: US$632,000) as a result of the changes in fair value of available-for-sale investments.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2013 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, 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.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

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 on trade and other receivables, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

30. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of the reporting period.

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2013
	%	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2013						
Trade and other payables	-	19,810	-	-	19,810	19,810
Deferred consideration payables	6.12	955	3,821	820	5,596	4,508
Fixed interest rate borrowings	3.42	51,521	-	-	51,521	51,521
		72,286	3,821	820	76,927	75,839

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2012
	%	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2012						
Trade and other payables	-	13,085	-	-	13,085	13,085
Deferred consideration payables	5.00	812	3,815	239	4,866	4,169
Fixed interest rate borrowings	3.31	64,845	-	-	64,845	64,845
		78,742	3,815	239	82,796	82,099

Fair value measurements of financial instruments

Fair value of the Group's financial asset that is measured at fair value on a recurring basis

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

Financial asset	Fair value as at 2013	Fair value as at 2012	Fair value hierarchy	Valuation technique and key input
	US$'000	US$'000		
Listed AFS equity investments	20,288	16,374	Level 1	Quoted bid price in an active market

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

There were no transfers into or out of Level 1 during the year.

31. ACQUISITION OF A SUBSIDIARY

On 28 February 2013, the Group acquired an 100% interest in Kangzhe Lengshuijiang from an independent third party. Kangzhe Lengshuijiang is engaged in manufacture of GanFuLe, a traditional Chinese medicine. The purpose of the acquisition is to acquire the product rights of GanFuLe and take full advantage of the Group's existing promotion network.

Consideration transferred

	US$'000
Cash	12,918

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	US$'000
Property, plant and equipment	5,059
Prepaid lease payments	3,167
Intangible assets	2,549
Bank balances and cash	33
Trade and other receivables	398
Inventories	1,850
Trade and other payables	(1,882)
Amount due to a shareholder	(4,834)
Deferred tax liabilities	(1,648)
	4,692
Shareholder's receivable assigned to the Group	4,834
	9,526

In the opinion of the directors of the Company, the fair value of the receivables acquired (which principally comprised of trade and other receivables) approximated to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables were expected to be collected.

Goodwill arising on acquisition

	US$'000
Consideration transferred	12,918
Less: fair value of identifiable net assets acquired	(9,526)
Goodwill arising on acquisition	3,392

Goodwill arose in the acquisition of Kangzhe Lengshuijiang was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of revenue growth, future market development and cost control of Kangzhe Lengshuijiang. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

31. ACQUISITION OF A SUBSIDIARY - continued

Net cash outflow arising on acquisition

	US$'000
Consideration paid in cash	12,918
Less: cash and cash equivalent balances acquired	(33)
	12,885

Impact of acquisition on the results of the Group

Included in the profit for the year is US$240,000 attributable to Kangzhe Lengshuijiang. Revenue for the year includes US$3,001,000 generated from Kangzhe Lengshuijiang.

Had the acquisition of Kangzhe Lengshuijiang been completed at 1 January 2013, total group revenue for the year would have been US$364 million, and the profit for the year would have been US$102 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2013, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Kangzhe Lengshuijiang been acquired at the beginning of the reporting period, the directors have calculated depreciation and amortisation of plant and equipment and intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

32. OPERATING LEASE

The Group as lessee

The Group's total future minimum lease payments under non-cancellable operating lease in respect of property which fall due as follows:

	2013 US$'000	2012 US$'000
Within one year	311	801
In the second to fifth years inclusive	360	113
	671	914

The lease is negotiated for a lease term of 1 to 5 years at fixed monthly rental.

33. CAPITAL COMMITMENTS

	2013	2012
	US$'000	US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	12,442	12,774

34. RELATED PARTY TRANSACTIONS

(a) As at 31 December 2012, amount of approximately US$89,000 (2013: nil) included in trade and other receivables represented the amount due from a related company, Sunpharma GmbH ("Sunpharma"), a company in which Mr. Lam Kong, the director of the Company has beneficial and controlling interests.

(b) The Group entered into the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2013	2012
			US$'000	US$'000
Ophol	Associate	Imputed interest	198	230
Sunpharma	Related company	Purchase of goods	173	151

(c) The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in note 8.

35. RETIREMENT BENEFITS SCHEMES

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to US$2,236,000 (2012: US$1,493,000).

36. KEY EMPLOYEE BENEFIT SCHEME

The Key Employee Benefit Scheme (the "Scheme") was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the Scheme. A summary of some of the principal terms of the Scheme is set out in below.

(a) The purpose of the Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think to select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the Scheme is classified as defined contribution scheme.

During the year ended 31 December 2013, the Company contributed cash amounting to US$426,000 (2012: US$665,000) to the Fund and which were recognised as key employee benefit expenses in the profit or loss in the consolidated statement of profit or loss and other comprehensive income.

37. SUBSIDIARIES OF THE COMPANY

As at 31 December 2013 and 31 December 2012, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (note 4)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital 31 December 2013	31 December 2012	Equity interest held by the Group 31 December 2013 Directly	31 December 2013 Indirectly	31 December 2012 Directly	31 December 2012 Indirectly	Principal activities
CMS International (note 1)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (sino-foreign equity joint venture)	PRC	RMB26,240,000	RMB20,000,000	-	100%	-	100%	Production of medicines
Shenzhen Kangzhe Pharmaceutical Technology Development Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Kangzhe Pharmaceutical Industrial Limited (note 1)	British Virgin Islands	RMB21,288,000	RMB21,288,000	-	100%	-	100%	Investment holding
Kangzhe Shenzhen (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Kangzhe Changde (wholly-owned domestic enterprise)	PRC	RMB2,000,000	RMB2,000,000	-	100%	-	100%	Trading of drugs
CMS Pharmaceutical Agency	Malaysia	US$1	US$1	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Great move	British Virgin Islands	US$10,000	US$10,000	-	100%	-	100%	Investment holding
Generous Wealth Limited	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Kangzhe Tianjin (wholly foreign-owned enterprise)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Kangzhe Guangming (wholly-owned domestic enterprise)	PRC	RMB18,370,000	RMB18,370,000	-	51%	-	51%	Production of medicines
Kangzhe Lengshuijing (note 2) (wholly-owned domestic enterprise)	PRC	RMB10,080,000	-	-	100%	-	-	Production of medicines
Kangzhe Agricultural (note 3) (wholly-owned domestic enterprise)	PRC	RMB20,000,000	-	-	100%	-	-	Agriculture

Notes:
1. Being inactive subsidiaries.
2. The subsidiary was acquired on 28 February 2013 (Note 31).
3. The subsidiary was established on 23 January 2013.
4. None of the subsidiaries had issued any debt securities at the end of the year.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013 US$'000	2012 US$'000
Non-current assets		
Investments in subsidiaries	10	10
Amount due from a subsidiary	276,861	277,844
	276,871	277,854
Current assets		
Amount due from a subsidiary	60,000	40,000
Bank balances and cash	26	21
	60,026	40,021
Current liabilities		
Amount due to a subsidiary	478	470
Accruals	154	206
	632	676
Net current assets	59,394	39,345
Total assets less current liabilities	336,265	317,199
Capital and reserves		
Share capital (see note 27)	12,074	12,074
Reserves	324,191	305,125
Total equity	336,265	317,199

Movement in reserves

	Share premium US$'000	Capital reserve US$'000	Accumulated profits US$'000	Dividend reserve US$'000	Total US$'000
Balance at 1 January 2012	269,672	1,078	15,219	12,879	298,848
Profit and total comprehensive income for the year	-	-	38,756	-	38,756
Dividends paid	-	-	(15,575)	(12,879)	(28,454)
Dividends proposed	-	-	(18,690)	18,690	-
Bonus issue (note 27)	(4,025)	-	-	-	(4,025)
Balance at 31 December 2012	265,647	1,078	19,710	18,690	305,125
Profit and total comprehensive income for the year	-	-	57,992	-	57,992
Dividends paid	-	-	(20,236)	(18,690)	(38,926)
Dividends proposed	-	-	(20,839)	20,839	-
Balance at 31 December 2013	265,647	1,078	36,627	20,839	324,191