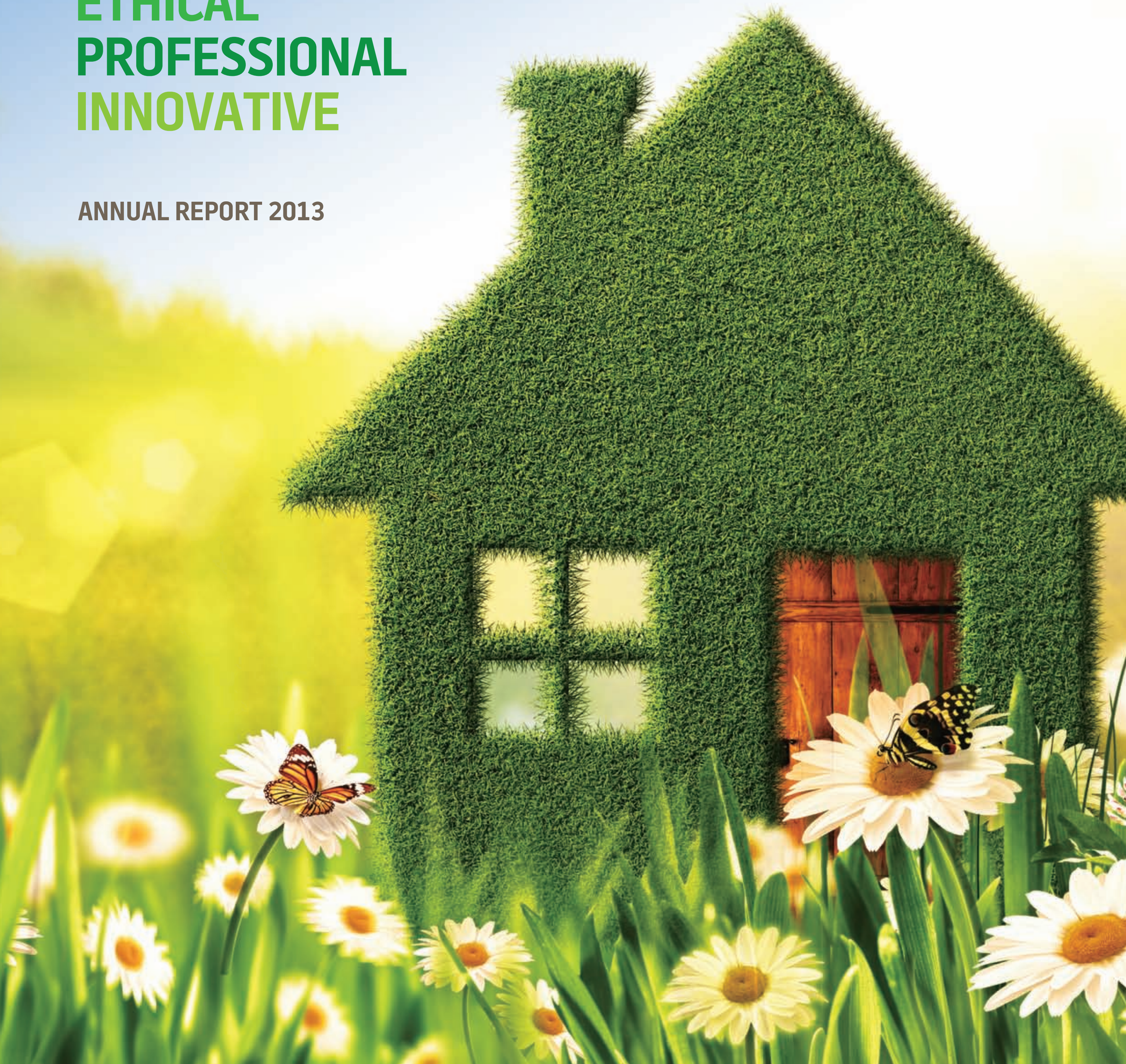
瑞年國際
Real Nutriceutical

瑞年國際有限公司
REAL NUTRICEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2010

ETHICAL
PROFESSIONAL
INNOVATIVE

ANNUAL REPORT 2013



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wang Fucai *(Chairman and Chief Executive Officer)*
Mr. Yu Yan
Mr. Li Lin
Mr. Yi Lin
Mr. Zhang Yan
Ms. Au-yeung Kam Ling Celeste

Non-executive Directors

Mr. Ip Tak Chuen, Edmond
Mr. Tsang Sze Wai, Claudius

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

AUDIT COMMITTEE

Dr. Wong Lung Tak Patrick, BBS, J.P. *(Chairman)*
Dr. Fong Chi Wah
Mr. Xu Hua Feng

REMUNERATION COMMITTEE

Dr. Fong Chi Wah *(Chairman)*
Mr. Wang Fucai
Dr. Wong Lung Tak Patrick, BBS, J.P.
Mr. Xu Hua Feng

NOMINATION COMMITTEE

Mr. Wang Fucai *(Chairman)*
Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Poon Yick Pang, Philip

AUTHORISED REPRESENTATIVES

Ms. Au-yeung Kam Ling Celeste
Mr. Poon Yick Pang, Philip

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

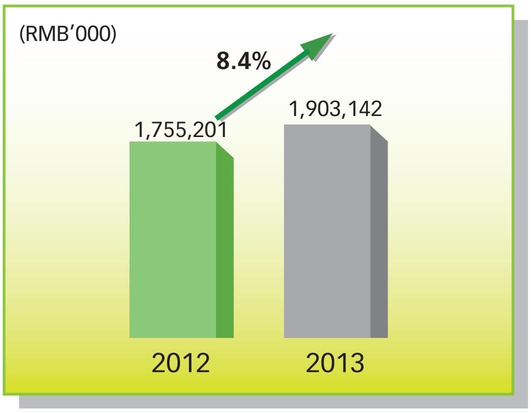
28th Floor
The Hennessy
256 Hennessy Road
Wan Chai, Hong Kong

FINANCIAL HIGHLIGHTS

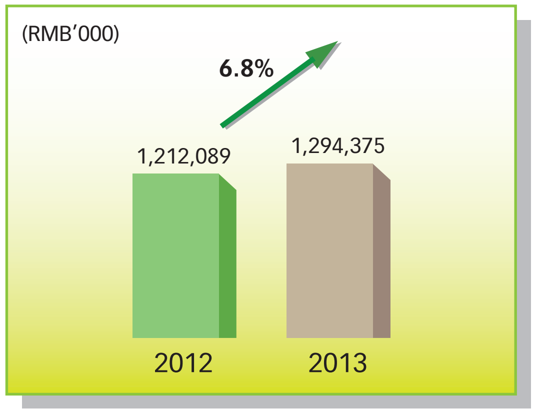
	2013 **RMB'000**	2012 RMB'000	Change %
Turnover	**1,903,142**	1,755,201	8.4%
Gross profit	**1,294,375**	1,212,089	6.8%
Profit attributable to owners of the Company	**493,125**	465,928	5.8%
Basic earnings per share (cents)	**43.9**	41.5	5.8%
Declared final dividend (HK cents)	**3.5**	3.2	9.4%

FINANCIAL HIGHLIGHTS

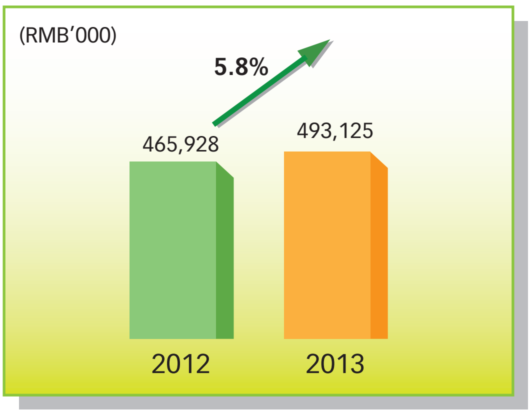
Turnover



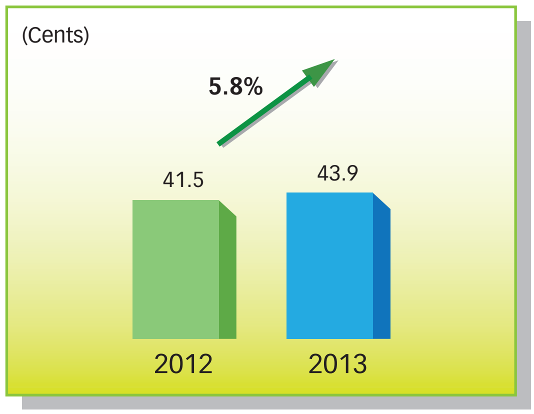
Gross Profit



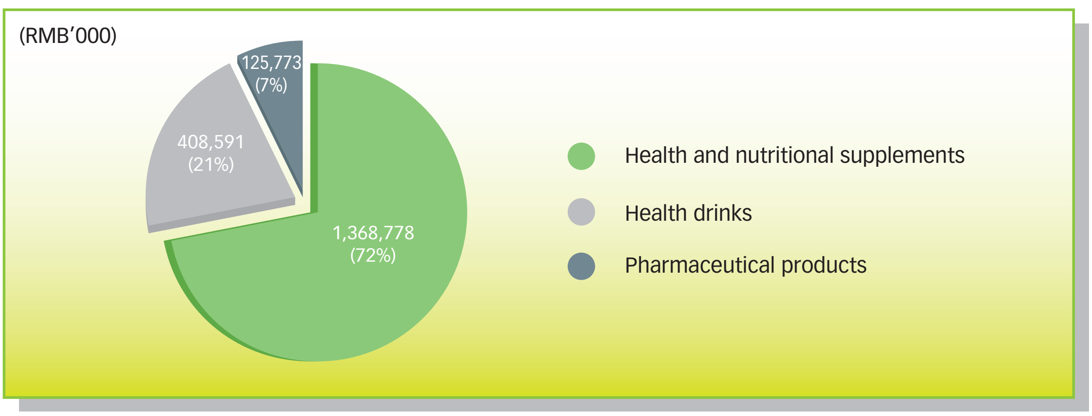
Profit attributable to owners of the Company



Basic earnings per share



Sales analysis by categories



CHAIRMAN'S STATEMENT

We are pleased to present the final results of Real Nutriceutical Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2013.

Chairman
Mr. Wang Fucai

BUSINESS REVIEW

In 2013, the Group's turnover increased by 8.4% to RMB1,903.1 million and net profit increased by 5.8% to RMB493.1 million. The overall gross profit margin slightly decreased to 68.0% in 2013 from 69.1% in 2012, mainly due to the change in sales mix and slight increase in production costs. The increase in net profit was mainly attributable to the increase of turnover.

During the year, sales of health and nutritional supplement products increased by 9.3% to RMB1,368.8 million as a result of sales growth from amino acid tablets and liquid products. Meanwhile, sales of health drinks increased by 4.9% to RMB408.6 million and sales of pharmaceutical products grew by 11.0% to RMB125.8 million.

The Group continued to expand its retail network in China at a steady pace. The Group's health and nutritional supplement products were sold through the third party's retail network which expanded to approximately 71,000 retail outlets as at December 31, 2013 from approximately 65,000 retail points as at the end of 2012. During the year, newly developed retail points included those at Nong Gong Shang Supermarket Chain, Nantong Xili Shopping Stores, Lotte Mart, and Nantong Kangle Pharmaceutical Stores Chain. Its health drinks were sold through a large number of retail outlets throughout China, while the pharmaceutical products were sold to over 380 hospitals.

While steadily developing its traditional sales channels, the Group actively expanded the network of its Real Nutri Health Stores and its direct sales on the internet to further drive the business growth. During the year, the Group had set up 25 new Real Nutri Health Stores in the cities, including Suzhou, Changzhou, Ningbo, Liyang and Zhongshan, bringing the total number of Real Nutri Health Stores to over 170 at the end of 2013. The expansion boosted the sales to RMB146.9 million for the year. The registered member of Real Nutri Health Club was over 220,000 as at the end of 2013. The Group provided a range of personalized health activities and services for its club members at Real Nutri Health Stores. The move enabled the Group to make further inroads to the local markets and nurture consumers' loyalty to its Real Nutri brand. During the year, the Group held over 1,000 club member activities including regimen programs in spring and summer, health tours and visits to its corporate headquarters. In addition, the Group posted satisfactory results for the sales of its health supplement products on the internet, with online sales revenue of RMB41.6 million for the year.

CHAIRMAN'S STATEMENT

To consistently enhance the influence of its brand, the Group adopted long-term and systematic marketing campaigns to promote its corporate image through different media and marketing activities. During the year, the Group placed television commercials in over 50 broadcast channels of CCTV, satellite TV, local TV and public transport TV covering most of the country, especially the eastern and central regions. The Group also held various promotional activities regularly. During the year, the Group held over 1,000 promotional events and also participated in a number of major domestic and international exhibitions and conferences, including the Annual General Meeting of International Council on Amino Acid Science ("ICAA") in Germany, International Amino Acid Industry Development Symposium in Shanghai, which was jointly hosted by the Group, China Fermentation Industry Association and ICAA, The 20th China International Advertising Festival in Nanjing, The 8th International Retailers' Sourcing Fair in Nanjing, The First China Business Conference in 2013 and Sushang's First Choice for China Business Cities Investment Award Ceremony in Suzhou and The 2013 China Guiyang International Featured Commodity Fair of Agricultural Product in Guiyang. The Group grasped the trends of multimedia development and seized opportunities there by using internet to promote Real Nutri's brand and products. The Group launched its advertising campaigns on the internet through popular portals and online shopping websites like Tencent, Sohu, Sina, Taobao, Yihaodian and JD.com. It also leveraged such online channels as the Real Nutri official blog and WeChat to enhance the brand awareness in internet media. During the year, the Real Nutri official blog organised a number of activities and regularly uploaded the Group's latest news and healthcare information in order to build an efficient interactive communication platform between the Group and its club members as well as health conscious internet surfers. As at the end of 2013, the number of fans of the Real Nutri official blog was over 290,000.


Health drinks are sold through selected retail outlets in China.

During the year, the Group's health drinks business held about 1,500 promotional activities such as giving complimentary health drinks at shopping malls and supermarkets, roadshows and thematic promotional activities. It also sponsored a number of large scale events including GREE Cup — The 6th Healthy Baby Family Sport Day, Guang Jiu Wan Cup — The First International and China Boxing Tournament, Shun Brand Cup — Wuxi Golf Association September Tournament and The First China Kids Model Look — Final Contest in Shenzhen.

The Group's medicine business held over 600 academic promotions and attended a number of major medical conferences, including The 16th Annual Meeting of Chinese Society of Clinical Oncology in Xiamen where the Group held the Xinzhe Sub-Conference for a number of top Chinese oncology experts to present the efficacy and development of the Group's Topotecan Hydrochloride Capsules, The 14th Jiangsu Annual Meeting of Ophthalmology, The 10th International Sichuan Chinese-American Ophthalmology Symposium in Chengdu, The 7th Hubei Ophthalmologists Conference of Chinese Medical Doctor Association and Annual Meeting of Ophthalmology, Liaoning Cataract Technology Summit, Harbin International New Ophthalmology Technology Forum and The Conference on The Latest Ophthalmology Development in Wuhan.

CHAIRMAN'S STATEMENT

The infrastructure facilities of a new production base for health and nutritional supplements in Wuxi has been completed.

During the year, the Group completed a series of infrastructure projects to lay a solid foundation for its future development. Such projects mainly covered the following four areas: (1) construction of the purification system and ancillary facilities of a new production base in Wuxi for health and nutritional supplements, (2) construction of a plant building and purification system, construction of a joint laboratory with the Peking University Health Science Center, as well as Good Manufacturing Practice ("GMP") system upgrade and new equipment in Nanjing pharmaceutical production base, (3) purchase of land for and construction of a production plant and a research and development centre for new-generation polypeptide products in Suqian, Jiangsu province, and (4) construction of plant building and administrative office building for raw material plantation base in Suzhou, Anhui province. The production lines for anti-cancer drug hard capsules and one-time eye drops vials at the Group's Nanjing pharmaceutical manufacturing plant passed the certification process under the new standards of GMP for drugs. The infrastructure facilities of a new production base for health and nutritional supplements in Wuxi had been completed and the plant was well prepared for production of new oral liquid and solid dosage in 2014. The Group attaches high importance to product research and development. In that regard, the Group has adopted advanced equipments and technologies, and actively collaborated with domestic professional research teams. For instance, the Group and the Peking University Health Science Center jointly established The Peking University and Real Nutri Joint Laboratory which commenced operation in November 2013. The Group also developed more high quality health and nutritional supplements which are easy to consume for the mass market. We were continuously improving products' formulas and packaging, innovating and introducing health supplement products of specific efficacies in order to serve diverse nutritional needs of different customer groups. During the year, the Group launched a number of new health supplement products including Grape Seed Extract Softgel, Wheat Germ Oil Softgel, Coenzyme Softgel, and Glucosamine Chondroitin Complex Softgel.

The Group introduced CITIC Merchant Co., Limited, a member of the CITIC Group, as its strategic investor. In addition to further diversifying the shareholder base of the Group, the move will also help the Group identify excellent healthcare enterprises for business co- operation or acquisition, thus accelerating the Group's development into a key enterprise in the China's mega healthcare industry.

CORPORATE SOCIAL RESPONSIBILITY

The Group proactively fulfilled its corporate social responsibilities and participated in various charity activities during the year. For instance, it donated medical equipments, emergency medicines and amino acids products to the victims of natural disasters such as those in the earthquake stricken areas in Ya'an, Sichuan, and the flooded areas in Sichuan and Gansu and the aged people at Wuxi Elderly Home. It also participated in the project of treating severe illnesses for the poverty-stricken people in Shaoxing. Furthermore, the Group's staff also took part in the voluntary work in the Annual Elder Gymnasium Athletics Meet 2013 of the Aberdeen Kai-fong Welfare Association and the fund-raising activities of The Community Chest Green Day 2013 and Casual Day.

CHAIRMAN'S STATEMENT

PROSPECTS

As Chinese economy prospers, the enhancement of the country's demographic structure and medical healthcare are on top of the government's agenda. The Chinese government has already implemented a series of medical and population policies to tackle the social problems of the aging population and to foster a healthier and more intelligent population. It has also issued guidelines for raising the health supplement industry's standards. For medium and long term, citizens' demand for high quality health supplements will continue to grow. The Group is optimistic about the prospects of China's mega health and nutritional supplements industry, and will continue to expand business in a pragmatic and prudent approach.

The number of retail outlets is expected to reach 80,000 by the end of 2014.

The Group will apply a dual business development strategy of building brand and expanding market. Specifically, it will continue to expand its sales network, further penetrate the existing markets, and develop new markets through closer co-operation with distributors. The Group has set a target of expanding the third party's retail network to over 80,000 retail outlets by the end of 2014. Apart from the traditional sales channels, the Group will keep innovating and developing other sales models such as Real Nutri Health Stores and direct sales on the internet. It will also use its Real Nutri Health Club membership program to deliver more comprehensive and professional products and services. The Group plans to open at least 40 Real Nutri Health Stores in 2014 in major provinces like Jiangsu, Zhejiang, Anhui, Guangdong, Sichuan, Shandong and Beijing. The Group will introduce a revolutionary healthcare regimen experience to its club members and consumers in order to nurture the Real Nutri brand loyalty. As mobile internet media has huge potential as a sales and marketing channel, the Group will continue to devote resources to its online direct sales business, and reinforce brand building efforts on the internet. It will also refine the online shopping system and services so as to fully capture the opportunities arising from the new-generation mobile multimedia internet network.

The Group will conduct a new marketing program with Real Nutri Health Bus which will be equipped with advanced diagnostic equipments to carry out free tests on areas like body composition, arteries health and brain health. At the same time, it will popularize the nutritional advice, health sciences and healthcare interaction games amongst the township communities and allow local residents to experience the Real Nutri spirit of "Professional Devotion to Health". The first phase of the program will be piloted in Shaoxing, Zhejiang province. Each bus can organize about 120 community health tests activities in one year. The next phase of the program will be conducted in eastern China and then the rest of the country to promote the benefits of amino acids regimen across different provinces and to project a sincere and professional image of Real Nutri.

CHAIRMAN'S STATEMENT

Over 170 Real Nutri Health Stores were opened by the end of 2013.

The Group will keep abreast of the consumption trends nutritional health supplement market by consistently optimizing the product portfolio. Building on the next-generation amino acids technology, the Group will develop more specific products catering for the healthcare needs in different stages of a human life. The Group plans to launch several new health supplement products including Real Nutri Vitamin B Complex Tablets and Amino Acids Protein Complex Capsules, Amino Acids Ginseng Capsules, Natto Kinase Tablets and Cordyceps Mycelia Tablets. For the health drinks business, the Group plans to launch a brand new amino acid drinks packed in aluminum cans in order to make them available to various consumer groups through different sales channels. Meanwhile, the Group's pharmaceutical business plans to develop and introduce more novel medicines to enrich the product portfolio.

The Group stays alert to the business opportunities in the market for children's health supplements in China and devotes itself to the development of high quality health supplements formulated for infants and children. The Third Plenary Session of the 18th Communist Party of China Central Committee in 2013 adopted a policy of allowing couples to give birth to two children if one of the parents is the only child of a family. The new rule means that the government will fine-tune its birth control policy and promote more balanced development of the Chinese population in the long term. The new policy presents a new development blueprint for industries of infant milk powder, foods and related products in the country. In order to cope with the market opportunities under the new policy, the Group will speed up the development of its children's health supplements and related food business.

The China Food and Drug Administration revised Good Supply Practice for Pharmaceutical Products in 2013 in order to raise the quality control requirement for all pharmaceutical enterprises. The new rules specify new requirements on the entire medicine supply chain process and comprehensive management, and command full compliance by pharmaceutical manufacturing enterprises to new regulations governing the sales, storage and transportation of pharmaceutical products before the end of 2015. The new rules will raise the entry barrier for pharmaceutical distribution industry. Large pharmaceutical distribution enterprises will benefit from the new rules, but small distributors will be phased out if they fail to raise their operation standards. This will spur a faster consolidation of the pharmaceutical industry. In addition, The China Food and Drug Administration already required the manufacturers of sterile drugs such as blood products, vaccines and injections to comply with the new GMP by the end of 2013. Those manufacturers failing to meet GMP requirements will be prohibited from manufacturing any pharmaceutical products. Both the Group's pharmaceutical manufacturing and distribution businesses comply with the requirements of the new pharmaceutical rules and regulations which will benefit the Group's moves to acquire new customers and to further expand the medicine business.

CHAIRMAN'S STATEMENT

The Group will continue to make the best use of its competitive advantages, the abundant resources and connections of its strategic shareholders to strengthen its leading position in China's amino acids health supplement market. It will also seek opportunities for mergers and acquisitions in order to consolidate its business and enlarge its scope of business. The Group aims to increase the returns to shareholders and aspire to become one of the leading enterprises in China's mega healthcare market.

DIVIDEND

The Board of Directors recommended the payment of a final dividend of HK3.5 cents per share for the year ended December 31, 2013 (2012: HK3.2 cents).

ACKNOWLEDGEMENTS

I acknowledge with deep gratitude the work and support of the Board of Directors and the staff of the Group, which have been crucial to our success. I am confident that their endeavours will continue to help the Group achieve greater accomplishments in the years ahead. I would also like to take this opportunity to express my sincere appreciation to all our shareholders, customers and suppliers for their continuous support.

Wang Fucai
Chairman

Hong Kong, March 26, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The turnover of the Group in 2013 was RMB1,903.1 million, representing an increase of approximately 8.4% from RMB1,755.2 million in 2012. Profit attributable to owners of the Company increased by approximately 5.8% to RMB493.1 million in 2013 from RMB465.9 million in 2012. The Company's basic earnings per share ("Share") reached RMB43.9 cents (2012: RMB41.5 cents) based on the weighted average number of 1,123.0 million (2012: 1,123.6 million) Shares in issue during the year. The increase in financial results in 2013 was mainly attributable to the increase in sales of health and nutritional supplements.

Turnover

The turnover of the Group increased by approximately 8.4% from RMB1,755.2 million in 2012 to RMB1,903.1 million in 2013. Sales of health and nutritional supplements increased by approximately 9.3% from RMB1,252.4 million in 2012 to RMB1,368.8 million in 2013, which was primarily due to the increase in sales of amino acids tablets and liquid products. Sales of health drinks increased by approximately 4.9% from RMB389.4 million in 2012 to RMB408.6 million in 2013. Turnover from sales of pharmaceutical products increased by approximately 11.0% from RMB113.3 million in 2012 to RMB125.8 million in 2013.

Gross profit

The Group's gross profit increased from RMB1,212.1 million in 2012 to RMB1,294.4 million in 2013. The Group's average gross profit margin decreased from 69.1% in 2012 to 68.0% in 2013. Such decrease in gross profit margin was mainly due to the change in sales mix and slight increase in production cost.

Other income and Other gains and losses

The Group's other income decreased from RMB50.6 million in 2012 to RMB46.4 million in 2013, which was mainly due to the decrease in interest income from bank deposits. The Group's other gains increased from loss RMB0.5 million in 2012 to gains RMB6.1 million in 2013, which was mainly due to the gain from change in fair value of derivative component of convertible loan notes.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 7.5% from RMB472.3 million in 2012 to RMB507.7 million in 2013, represented approximately 26.9% in 2012 and 26.7% in 2013 of the Group's turnover. Such increase was primarily due to the increase in depreciation of the Real Nutri Health Stores from RMB19.7 million in 2012 to RMB31.8 million in 2013 and the rental fee for the Real Nutri Health Stores from RMB18.6 million in 2012 to RMB50.2 million in 2013.

Administrative expenses

The Group's administrative expenses increased by approximately 17.0% from RMB90.0 million in 2012 to RMB105.3 million in 2013, represented approximately 5.1% in 2012 and 5.5% in 2013 of the Group's turnover. Such increase was primarily due to the depreciation of property, plant and equipment increased from RMB29.0 million in 2012 to RMB36.7 million in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

The Group's finance costs increased by approximately 43.2% from RMB23.4 million in 2012 to RMB33.6 million in 2013, which was primarily due to the interest for the convertible loan notes in 2013.

Taxation

Tax charge decreased by approximately 1.6% from RMB210.5 million in 2012 to RMB207.2 million in 2013 primarily due to the decrease in Enterprise Income Tax for advertising fee over the deductible limit. The Group's effective tax rates in 2012 and 2013 were 31.1% and 29.5%, respectively.

Profit attributable to owners of the Company

As a result of the foregoing, the Group's profit for the year increased from RMB465.9 million in 2012 to RMB493.1 million in 2013. The Group's profit margin decreased from approximately 26.5% in 2012 to approximately 25.9% in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

In 2013, net cash increased by RMB326.0 million. RMB623.2 million and RMB320.7 million were generated from operating activities and financing activities respectively, while RMB617.9 million were spent on investing activities.

Inventories

The Group's inventories increased to RMB74.7 million (2012: RMB66.8 million) as at December 31, 2013 primarily due to the increase in stock for the Chinese New Year in January 2014. The Group's inventories comprise raw materials, packaging materials, work in progress, finished goods and merchandise for resale. During the year, inventory turnover was approximately 42 days (2012: 42 days), same as last year.

Trade receivables

The Group's trade and bills receivables amounted to RMB551.7 million (2012: RMB506.9 million) as at December 31, 2013. During the year, the distributors were generally granted a credit term of 90 days. Turnover days for trade and bills receivables increased to 102 days (2012: 99 days), primarily due to some distributors' delay in payment.

Trade Payables

The Group's trade payables amounted to RMB124.2 million (2012: RMB35.1 million) as at December 31, 2013. During the year, the credit term provided by the suppliers generally was 90 days. Turnover days for trade payables increased to 54 days (2012: 32 days), which was primarily the result of the re-negotiation with suppliers to arrange the payment according to the credit term.

Borrowings

As at December 31, 2013, the Group had short-term bank loans in the amount of RMB435.0 million (2012: RMB195.0 million) and a gearing ratio of 9.4% (2012: 5.3%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at December 31, 2013, the Group has pledged the Group's land use right in amount of RMB97.8 million for the bank borrowing (2012: RMB41.4 million) and 40% of the registered capital of Wuxi Ruinian Industry & Commerce Co., Limited, a wholly-owned subsidiary of the Company, for the convertible loan notes issued in 2013.

Capital expenditure

During the year, the Group invested approximately RMB657.9 million (2012: RMB444.8 million) for purchase of property, plant and equipment, land use rights and intangible assets.

Capital commitments and contingent liabilities

As at December 31, 2013, the Group's capital commitments were approximately RMB222.4 million (2012: RMB205.1 million), all of which were related to acquisition of property, plant and equipment and technical knowhow. The Group has no material contingent liabilities as at December 31, 2013 (2012: nil).

Foreign exchange risk

RMB is the functional currency of the Company and its subsidiaries. Most of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are denominated in RMB. The Group is not subject to material currency risk as the Group has no major cash and cash equivalents denominated in foreign currency. For the year ended December 31, 2013, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Use of net proceeds from the Company's initial public offering and placing

The total net proceeds from the Listing after the issue of the over-allotment shares amounted to approximately HK$806.6 million (RMB692.6 million) and the total net proceeds from placing in October 2010 amounted to approximately HK$597.2 million (RMB517.1 million). As at December 31, 2013, net proceeds of accumulated approximately RMB972.3 million has been applied on market expansion, capital expenditures, product development and other working capital, and the remaining of the net proceeds has been deposited into banks and qualified financial institutions, which are intended to be applied in accordance with the proposed application set out in the "Use of proceeds" section in the prospectus dated February 8, 2010 issued by the Company (the "Prospectus") and in the announcement dated October 28, 2010.

HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff are indispensable assets to the Group's success in the competitive market. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees in Hong Kong and the PRC. The Group reviews its human resources and remuneration policies periodically to ensure they are in line with market practice and regulatory requirements. As at December 31, 2013, the Group employed a work force of 899. The total salaries and related costs for the year ended December 31, 2013 amounted to approximately RMB33.7 million (2012: RMB27.9 million).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The board of directors (the "Directors") of the Company (the "Board") strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all shareholders.

Saved as disclosed below, the Company complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended December 31, 2013. The Company periodically reviews its corporate governance practices to ensure its continuous compliance.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2013.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in Company's securities. Having made specific enquiries of all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code for the year ended December 31, 2013.

BOARD OF DIRECTORS

(i) Board Composition

The Board currently comprises a combination of six executive Directors, two non-executive Directors and four independent non-executive Directors.

As at December 31, 2013, the Board consisted the following Directors:

Executive Directors

Mr. Wang Fucai *(Chairman and Chief Executive Officer)*
Mr. Yu Yan
Mr. Li Lin
Mr. Yi Lin
Mr. Zhang Yan
Ms. Au-yeung Kam Ling Celeste

Non-executive Directors

Mr. Ip Tak Chuen, Edmond
Mr. Tsang Sze Wai, Claudius

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors
Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility for formulating the business strategies and development plan while the senior management are responsible for supervising and executing the plans of the Company and its subsidiaries (together, the "Group").

(ii) Board Functions and Duties

The principal functions and duties conferred on the Board include:

- convening general meetings and reporting the Board's work at general meetings;
- implementing the resolutions passed by shareholders of the Company (the "Shareholders") in general meetings;
- deciding business plans and investment plans;
- preparing annual financial budgets and final reports;
- formulating the proposals for profit distributions, recovery of losses and for the increase or reduction of registered capital; and
- exercising other powers, functions and duties conferred by Shareholders in general meetings.

(iii) Board Meetings

During the year, the Board convened a total of four meetings in person or by means of electronic communication. Prior notices convening the board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary of the Company is responsible for keeping minutes for the board meetings.

CORPORATE GOVERNANCE REPORT

(iv) Attendance Record

The following is the attendance record of the board meetings held by the Board:

	Attendance at meeting
Executive Directors	
Mr. Wang Fucai *(Chairman and Chief Executive Officer)*	4/4
Mr. Yu Yan	4/4
Mr. Li Lin	4/4
Mr. Yi Lin	4/4
Mr. Zhang Yan	4/4
Ms. Au-yeung Kam Ling Celeste	4/4
Non-executive Directors	
Mr. Ip Tak Chuen, Edmond	4/4
Mr. Tsang Sze Wai, Claudius	4/4
Independent Non-executive Directors	
Dr. Wong Lung Tak Patrick, BBS J.P.	4/4
Dr. Fong Chi Wah	4/4
Mr. Chan Kee Ming	4/4
Mr. Xu Hua Feng	3/4

(v) Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed four independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. One of the independent non-executive Directors, Dr. Wong Lung Tak Patrick, BBS J.P., has over 30 years in the accounting profession. Dr. Wong is a Certified Public Accountant (Practising) in Hong Kong.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

CORPORATE GOVERNANCE REPORT

(vi) Chairman and Chief Executive Officer

Provision A.2.1 of the CG Code provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Wang Fucai has been performing both the roles of Chairman and Chief Executive Officer. Mr. Wang is the founder of the Group and has over 30 years of experience in the health care and pharmaceutical industry. Given the current stage of development of the Group, the Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

(vii) Appointment and Re-election of Directors

According to the articles of association of the Company, at each annual general meeting one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years.

All of the Directors of the Company including the non-executive Directors and the independent non-executive Directors are appointed for a specific term. Each of the executive Directors has entered into a service contract with the Company for a term of two years. Each of the non-executive Directors and the independent non-executive Directors has entered into a service contract with the Company for a term of one year.

(viii) Directors' Remuneration

The remuneration committee makes recommendations to the Board on the remuneration package of the Directors and senior management personnel. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to, inter alia, their duties, responsibilities, experience and qualifications.

CORPORATE GOVERNANCE REPORT

(ix) Training and Support for Directors

Directors must keep abreast of their collective responsibilities. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

For the year December 31, 2013, the Directors participated in the following trainings:

	Type of Trainings
Executive Directors	
Mr. Wang Fucai *(Chairman and Chief Executive Officer)*	A, B
Mr. Yu Yan	A, B
Mr. Li Lin	A, B
Mr. Yi Lin	A, B
Mr. Zhang Yan	A, B
Ms. Au-yeung Kam Ling Celeste	A, B
Non-executive Directors	
Mr. Ip Tak Chuen, Edmond	A, B
Mr. Tsang Sze Wai, Claudius	A, B
Independent Non-executive Directors	
Dr. Wong Lung Tak Patrick, BBS J.P.	A, B
Dr. Fong Chi Wah	A, B
Mr. Chan Kee Ming	A, B
Mr. Xu Hua Feng	A, B

A: attending seminars and/or conferences and/or forums relating to directors' duties

B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

(x) Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

CORPORATE GOVERNANCE REPORT

(xi) Company Secretary

Mr. Poon Yick Pang, Philip, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the year, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of the Company Secretary is set out in the section entitles "Biography of Directors and Senior Management" in the annual report.

BOARD COMMITTEES

The Board has established Remuneration Committee , Nomination Committee and Audit Committee (collectively "Board Committees") with defined terms of reference. The terms of reference of the Board Committees are posted on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(i) Remuneration Committee

The terms of reference of the remuneration committee are in compliance with the provisions of the CG Code (where applicable). The remuneration committee comprises Mr. Wang Fucai, Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Xu Hua Feng. Dr. Fong Chi Wah is the chairman of the remuneration committee.

The primary responsibilities of the remuneration committee are to make recommendations to the Board on the remuneration package of the Directors and senior management personnel and to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the year, the remuneration committee has held one meeting, at which members of the remuneration committee has considered and reviewed the existing terms of remunerations of all the Directors and senior management, and the Group's remuneration policy in relation to that of comparable companies, time commitment and responsibilities of the Directors and senior management and desirability of performance-based remuneration. The remuneration committee considered that the existing terms of remunerations of the Directors and senior management were fair and reasonable.

The following is the attendance record of the committee meeting held by the remuneration committee.

	Attendance at meeting
Dr. Fong Chi Wah	1/1
Mr. Wang Fucai	1/1
Dr. Wong Lung Tak Patrick, BBS, J.P.	1/1
Mr. Xu Hua Feng	1/1

CORPORATE GOVERNANCE REPORT

(ii) Nomination Committee

The terms of reference of the nomination committee are in compliance with the provisions of the CG Code (where applicable). The nomination committee comprises Mr. Wang Fucai, Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah, Mr. Xu Hua Feng and Mr. Chan Kee Ming. Mr. Wang Fucai is the chairman of the nomination committee.

The primary responsibilities of the nomination committee are to review the structure, size and composition of the Board and make recommendations to the Board on the selection of, individuals nominated for directorships.

During the year, the nomination committee has held one meeting, at which members of the nomination committee has considered and reviewed the existing structure, size and composition of the Board. The remuneration committee considered that the existing structure, size and composition of the Board are reasonable.

The following is the attendance record of the committee meeting held by the nomination committee.

	Attendance at meeting
Mr. Wang Fucai	1/1
Dr. Fong Chi Wah	1/1
Dr. Wong Lung Tak Patrick, BBS, J.P.	1/1
Mr. Xu Hua Feng	1/1
Mr. Chan Kee Ming	1/1

(iii) Audit Committee

The terms of reference of the audit committee are in compliance with the provisions of the CG Code (where applicable). The primary duties of the audit committee are to review and supervise financial reporting processes and internal control system of the Group. At present, the audit committee comprises Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Xu Hua Feng, being the three independent non-executive Directors of the Company. Dr. Wong Lung Tak Patrick, BBS, J.P. is the chairman of the audit committee.

The audit committee is satisfied with their review of the auditor's remuneration, the independence of the auditor, Deloitte Touche Tohmatsu ("DTT"), and recommended the Board to re-appoint DTT as the Group's auditor in the year 2014, which is subject to the approval of shareholders at the forthcoming annual general meeting.

During the year, the audit committee has held two meetings, at which the members of audit committee have reviewed and discussed with the external auditor of the Group's interim results for the period ended June 30, 2013 and the audited annual results for the year ended December 31, 2012, who is of the opinion that such statements have complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE REPORT

The following is the attendance record of the committee meeting held by the audit committee.

	Attendance at meeting
Dr. Wong Lung Tak Patrick, BBS, J.P.	2/2
Dr. Fong Chi Wah	2/2
Mr. Xu Hua Feng	1/2

AUDITOR'S REMUNERATION

The Group's external auditor is Deloitte Touche Tohmatsu. For the year ended December 31, 2013, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditor is set out below:

	For the year ended December 31, 2013 HK$'000
Annual audit services	2,980
Non-audit services	1,280

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

DIRECTOR'S RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the accounts of the Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to the Board to enable it to make an informed assessment of the financial and other Board decisions.

INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Company, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. They have carried out an annual review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The internal control system is implemented to minimise the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board is responsible for implementing the internal control system and reviewing its effectiveness. For the year ended December 31, 2013, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on internal control of the CG Code.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER'S RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

Pursuant to the articles and 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 have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the remuneration committee, the audit committee and the nomination committee and, in their absence, other members of the respective committees are available to answer questions at Shareholders' meetings.

The forthcoming annual general meeting ("AGM") will be held on May 27, 2014. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.ruinian.com.hk, where extensive information and updates on the Company's financial information, corporate governance practices and other information are posted and available for public access.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Fucai (**王福才**), aged 58, is the founder, the chairman of the board of directors and the chief executive officer of the Company and is responsible for the overall management, strategic development and major decision making of the Group. Mr. Wang was appointed as an executive Director of the Company on August 30, 2006. Mr. Wang received a graduation certificate (畢業證) from the Medical Department of Harbin Medical University (哈爾濱醫科大學) in July 1983. Mr. Wang established Wuxi Ruinian Industry and Commerce Co. Ltd. ("Ruinian Industry") in 1997 to develop his own business and is now the chairman and general manager of Ruinian Industry. He is an associate director of China Food and Drug Administration Magazine (國家食品藥品監督管理局監督雜誌) and a permanent member of the Association of Hong Kong & Kowloon Practitioners of Chinese Medicine Limited. Mr. Wang possesses over 30 years of experience in the health care and pharmaceutical industry, including over 10 years in the nutritional supplement industry. Mr. Wang served in BeiMan TeGang and its affiliated hospital (北滿特鋼及其附屬醫院), a state-owned entity, from 1983 to 1992 and was appointed as the Medical Superintendent from 1990 to 1992, during which he gained experiences in management and administration. From 1992 to 1997, Mr. Wang worked in Shenzhen Hygienic Development Company (深圳市衛生發展公司) as the general manager and was responsible for the sale of pharmaceutical products.

Mr. Yu Yan (**于岩**), aged 49, is an executive Director and is responsible for the Group's production and administration. Mr. Yu was appointed as an executive Director of the Company on August 30, 2006. Mr. Yu has over 26 years of experience in management. He was the supervisor and factory manager of Northern Steel Development Factory (北鋼北發工業公司) and its subsidiary from 1986 to 1996.

Mr. Li Lin (**李林**), aged 46, is an executive Director and is responsible for the sales and marketing of the Group. Mr. Li was appointed as an executive Director of the Company on August 30, 2006. Mr. Li is a senior economist recognized by the Department of Personnel of Jiangsu Province based on the assessment by Jiangsu Qualification Evaluation Committee of Senior Professional Positions Specialised in Economic Field (江蘇省經濟專業高級專業技術資格評審委員會). He graduated from Hubei University (湖北大學) in July 1989 and obtained an executive MBA degree from Peking University (北京大學) in January 2007. He was employed by Wuhan Standard Vehicle Parts Factory (武漢汽車標準件廠) as a teacher, administrator of student affairs department and plant manager during the period between 1989 and 1995. He worked for Sanzhu Group Limited (三株集團有限公司) as a manager, regional manager and sales director until 2000 and has over 17 years of experience in sales and marketing.

Mr. Yi Lin (**伊林**), aged 50, is an executive Director and is responsible for the product development and administration of the Group. Mr. Yi was appointed as an executive Director of the Company on August 30, 2006. Mr. Yi obtained a Bachelor's Degree in Pharmaceutical Preparation (製劑) from Shenyang Medical University (瀋陽藥科大學) in 1987. During the period between 1987 and 1993, he was employed by Harbin Pharmaceutical Group (哈藥集團股份有限公司) and later promoted to be a sales manager. Mr. Yi was the head of sales of Shenzhen Bright Way Pharmaceutical Co., Ltd. (深圳凱程醫藥化工有限公司) during the period between 1993 and 1998 and the provincial, regional and Northern China regional manager of Shenzhen Xinpeng Biological Engineering Ltd. (深圳新鵬生物工程有限公司) during the period between 1998 and 2004. He has approximately 24 years of experience in sales and marketing.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Yan (**張宴**), aged 37, is an executive Director and is responsible for the finance and treasury of the Group. Mr. Zhang was appointed as an executive Director of the Company on August 30, 2006. Mr. Zhang completed a diploma study (大學專科) in Finance and Accounting from Shanghai University of Finance & Economics (上海財經大學) in July 1996. He joined Wuxi Desheng Silk Plant (無錫市德生綢廠) in September 1996 and was later promoted as an administrator of the human resources and accounts department. He has accumulated over 15 years of experience in accounting.

Ms. Au-yeung Kam Ling Celeste (**歐陽錦玲**), aged 51, is an executive Director and is responsible for the operations of the Group outside the PRC. Ms. Au-yeung was appointed as an executive Director of the Company on March 28, 2008. Ms. Au-yeung has over 20 years of experience in the health food industry. Ms. Au-yeung worked in Sunrider International (Hong Kong) Ltd., an international health food company from 1991 to 2001, where she was promoted to district operation manager and gained extensive knowledge and experience in the health food markets in Hong Kong and Southeast Asia. Prior to joining the Group, she worked as operation manager in both Ta Shing Indomold from 2001 to 2003 and Majestic Group from 2003 to 2004. Ms. Au-yeung completed a study in Journalism from Chu Hai College (珠海書院) in Hong Kong in 1986.

Non-executive Directors

Mr. Ip Tak Chuen, Edmond (**葉德銓**), aged 61, is a non-executive Director and joined the Group in October 2007. Mr. Ip was appointed as a non-executive Director of the Company on March 28, 2008. Mr. Ip is a senior management member at a number of companies. The following chart summarises Mr. Ip's positions at such companies:

Company[1]	Position
CK Life Sciences Int'l., (Holdings) Inc.	senior vice president and chief investment officer
Cheung Kong (Holdings) Limited	deputy managing director
Cheung Kong Infrastructure Holdings Limited	executive director and deputy chairman
TOM Group Limited	non-executive director
ARA Asset Management Limited	non-executive director
AVIC International Holding (HK) Limited	non-executive director
Shougang Concord International Enterprises Company Limited	non-executive director
ARA Asset Management (Fortune) Limited, the manager of Fortune Real Estate Investment Trust	non-executive director
ARA Trust Management (Suntec) Limited, the manager of Suntec Real Estate Investment Trust	director
Hui Xian Asset Management Limited, the manager of Hui Xian Real Estate Investment Trust	non-executive director

Note:

(1) All the above are listed companies or REITs listed in Hong Kong and/or Singapore.

Mr. Ip obtained a Bachelor of Arts degree in Economics in 1975 and a Master of Science degree in Business Administration in 1977.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsang Sze Wai Claudius, CFA (曾思維), aged 37, is a non-executive Director and joined the Group in May 2010. Mr. Tsang was appointed as a non-executive Director of the Company on May 26, 2010. Mr. Tsang first joined Templeton Asset Management Limited in July 2005. He is now the vice president and executive director of Templeton Asset Management Limited. Mr. Tsang is a chartered financial analyst. He had 15 years' experience in investment management industry and served various positions in Jardine Fleming Securities Asia Limited, Chinachem Group, Korean Development Bank and Lehman Brothers. Mr. Tsang obtained a bachelor degree of engineering from The Chinese University of Hong Kong in 1998 and a bachelor degree of law from Tsinghua University in 2006. He is a holder of a Chartered Financial Analyst charter of the CFA Institute.

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P. (黃龍德), aged 66, is an independent non-executive Director and joined the Group in March 2008. Dr. Wong was appointed as an independent non-executive Director of the Company on March 28, 2008. Dr. Wong is a Certified Public Accountant (Practising) in Hong Kong and the managing practising director of Patrick Wong CPA Limited, Wong Lam Leung & Kwok CPA Limited and Hong Kong Pengcheng CPA Limited. He has over 30 years experience in the accountancy profession. Dr. Wong holds a Doctor of Philosophy in Business degree, was awarded a Badge of Honour by the Queen of England in 1993 and was appointed a Justice of the Peace in 1998. He was also awarded a Bronze Bauhinia Star by the Government of the HKSAR in 2010. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Dr. Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Dr. Wong is an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, Galaxy Entertainment Group Limited, Guangzhou Baiyunshan Pharmaceutical Holdings Co, Ltd., Winox Holdings Limited, National Arts Entertainment and Culture Group Limited and Excel Development (Holdings) Limited, all of which are listed on the Stock Exchange.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Fong Chi Wah (**方志華**), aged 51, is an independent non-executive Director and joined the Group in March 2008. Dr. Fong was appointed as an independent non-executive Director of the Company on March 28, 2008. Dr. Fong is a Chartered Financial Analyst, a member of Hong Kong Institute of CPAs and the Institute of Certified Management Accountants, Australia, and the Hong Kong Institute of Directors. Dr. Fong has over 24 years of experience in various sectors of the financial industry, including direct investment, project and structured finance and capital markets, with a focus on the PRC and Hong Kong. Dr. Fong was a director of Baring Capital (China) Management Limited and held various management positions in ING Bank. He was appointed as an independent non-executive director of Syscan Technology Holdings Limited on December 19, 2003 and as an executive director of National Investments Fund Limited on November 1, 2005, and both companies are listed on the Stock Exchange. Dr. Fong obtained a bachelor's degree in management science (economics) from Lancaster University, United Kingdom, in 1984, a master's degree in business administration from Warwick University, United Kingdom, in 1986, a master's degree in investment management from the Hong Kong University of Science and Technology in 1999, a master's degree in practising accounting from Monash University, Australia, in 2001 and a doctorate in business administration from the Hong Kong Polytechnic University in 2007.

Mr. Xu Hua Feng (**徐華鋒**), aged 44, is an independent non-executive Director and joined the Group in September 2012. Mr. Xu was appointed as an independent non-executive Director of the Company on September 1, 2012. Mr. Xu obtained a Bachelor of Laws from the China Youth University for Political Sciences (中國青年政治學院) in 1992 and has been the Secretary of China Health Care Association (中國保健協會) since 2004. Mr. Xu has over 16 years of experience in the nutrition and health care food products industry. Mr. Xu was the Director of International Department of China Health Care Association, the Director of Office of China Health Care Association, the person-in-charge of the Research Group for "Regulatory System of Health Care Food Products in China" (「中國保健食品監管體系研究」課題組), the Executive Editor of the "Blue Book of the Development of Health Care Food Products in China" (《中國保健食品發展藍皮書》) and the member of the Expert Committee of World (China) Direct Selling Research Centre (世界直銷(中國)研究中心).

Mr. Chan Kee Ming (**陳基明**), aged 49, is an independent non-executive Director and joined the Group in May 2010. Mr. Chan was appointed as an independent non-executive Director of the Company on May 26, 2010. Mr. Chan is the honorable secretary of The Hong Kong Software Industry Association since 2008. Mr. Chan was the account executive of Federal Express Limited in 1990 and the general manager of Vanda Computer and Equipment Co Ltd from 1992 to 2000. Mr. Chan has over 13 years' experience in logistic business. From 2002 to 2009, Mr. Chan was a fellow member of the E-logistics Group and S-logistics Group of the Logistics Development Council of Hong Kong. Mr. Chan has been the chief executive officer of DigiLogistics Technology Limited since January 2000. Mr. Chan obtained a bachelor of arts degree from The University of Hong Kong in 1987.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Poon Yick Pang, Philip (**潘翼鵬**), aged 44, is the chief financial officer and the company secretary of the Company. He joined the Company in June 2008. Mr. Poon has over 20 years of corporate finance and accounting experience. Prior to joining the Company, he served senior financial positions in a number of companies listed in Hong Kong and the USA. Mr. Poon also served financial and investment positions in Advent International Corporation, a global private equity firm, and Lenovo Group Limited and Sun Hung Kai Properties Limited, both of which are listed in the Stock Exchange. Mr. Poon obtained a Bachelor of Commerce degree from the University of New South Wales in 1993 and is a holder of a Chartered Financial Analyst charter of the CFA Institute, a Certified Practising Accountant (Australia) and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Poon is an independent non-executive director of Trigiant Group Limited and Jiangnan Group Limited, both of which are listed in the Stock Exchange.

Mr. Quan Guangde (**全廣德**), aged 64, is the manager of the production department and an assistant to the chief executive officer. Mr. Quan is responsible for supervising the production of our nutritional health products. He joined the Group in October 2004 and was a mechanical engineer and head of the engineering team of the production department before being promoted to his current positions. Mr. Quan has over 30 years of experience in mechanical engineering, and was qualified as an engineer in 1987 and a senior engineer in 1996 in the PRC. Prior to joining the Group, Mr. Quan worked for various companies in the PRC as a mechanical engineer.

Mr. Yuan Jianjun (**袁建軍**), aged 43, is the manager of the sales auditing department and an assistant to the chief executive officer. Mr. Yuan is responsible for the auditing and analysis of the sales business and marketing and the daily management of the Group. He graduated from the Jiangxi School of Finance & Economics in July 1994, majoring in financial accounting. He joined the Group in August 2006 and has over 18 years of experience in financial accounting and auditing. He was qualified as an accountant in 2004 in the PRC. Prior to joining the Group, Mr. Yuan served in various companies in the PRC specialising in accounting and auditing.

DIRECTORS' REPORT

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43 of this annual report.

The Directors recommended the payment of a final dividend of HK3.5 cents per Share.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended December 31, 2013 amounted to approximately RMB471.6 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 16 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 27 to the consolidated financial statements of this annual report.

RESERVES

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 45 of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on page 100 of this annual report.

BORROWINGS

Details of bank loans of the Group as at December 31, 2013 are set out in note 25 to the consolidated financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the years ended December 31, 2013 and 2012, sales to the Group's five largest customers, in aggregate represented approximately 21.0% and 20.1% of the Group's total sales, respectively. For the years ended December 31, 2013 and 2012, sales to the single largest customers amounted to approximately 5.2% and 4.9% of the Group's total sales, respectively.

For the years ended December 31, 2013 and 2012, purchases of raw materials, packaging materials and merchandise for resale from the Group's five largest suppliers accounted for approximately 48.9% and 56.3% of the Group's total purchases, respectively. For the years ended December 31, 2013 and 2012, purchases from the single largest supplier amounted to approximately 12.8% and 17.3% of the Group's total purchases, respectively.

DIRECTORS' REPORT

For the year ended December 31, 2013, none of the Directors or any of their associates or any shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers.

DONATIONS

The Company made charitable donations totaling RMB558,000 during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report are as follows:

Executive Directors

Mr. Wang Fucai (reappointed as an executive director on May 25, 2012)
Mr. Yu Yan (reappointed as an executive director on May 5, 2011)
Mr. Li Lin (reappointed as an executive director on May 5, 2011)
Mr. Yi Lin (reappointed as an executive director on May 5, 2011)
Mr. Zhang Yan (reappointed as an executive director on May 29, 2013)
Ms. Au-yeung Kam Ling Celeste (reappointed as an executive director on May 25, 2012)

Non-executive Directors

Mr. Ip Tak Chuen, Edmond (reappointed as a non-executive director on May 29, 2013)
Mr. Tsang Sze Wai, Claudius (reappointed as a non-executive director on May 29, 2013)

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P. (reappointed as an independent non-executive director on May 25, 2012)
Dr. Fong Chi Wah (reappointed as an independent non-executive director on May 25, 2012)
Mr. Chan Kee Ming (reappointed as an independent non-executive director on May 29, 2013)
Mr. Xu Hua Feng (appointed as an independent non-executive director on September 1, 2012)

In accordance with article 84 of the articles of association of the Company, Mr. Yu Yan, Mr. Li Lin, Mr. Yi Lin and Ms. Au-yeung Kam Ling Celeste, who have been longest in office, shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Details of biography of Directors and senior management are set out on pages 23 to 27 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of two years subject to termination by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a service contract with the Company for a term of one year subject to termination by not less than one month's notice in writing served by either party on the other. The appointments are subject to the provisions of retirement by rotation of Directors under the articles of association of the Company.

DIRECTORS' REPORT

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is approved at general meetings. Other emoluments will be determined by the members of the remuneration committee with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 12 to the consolidated financial statements of this annual report.

EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme for its employees.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 31 to the consolidated financial statements of this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive Directors are independent in accordance with Rule 3.13.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at December 31, 2013, the interests and short positions of the Directors and chief executives of the Company in the share capital, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules, are set out below:

Name of Director	Capacity	Number and class of securities	Approximate shareholding percentage (%)
Mr. Wang Fucai[(2)]	interest of a controlled corporation	263,468,394 Shares (L)	23.46%
	short position	6,533,660 Shares (S)	0.58%
Dr. Wong Lung Tak Patrick, BBS, J.P.	beneficial owner	100,000 Shares (L)	0.01%

Notes:

(1) The letter "L" denotes the Director's long position in such securities and the letter "S" denotes the Director's short position in such securities.

(2) Furui Investments Limited ("Furui") owns the entire issued share capital of Strong Ally Limited and will be deemed to be interested in the 6,533,660 Shares held by Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme, and Mr. Wang Fucai owns the entire issued share capital of Furui and will be deemed to be interested in the 263,468,394 Shares held by Furui and Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.

Save as disclosed herein, as at December 31, 2013, none of the Directors and chief executives of the Company, or any of their sponsor, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SHARE OPTIONS

The Company has conditionally adopted a Pre-IPO Share Option Scheme on January 29, 2010 and a Share Option Scheme on February 1, 2010.

Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved by the written resolutions of the sole Shareholder passed on February 1, 2010:

(1) The purpose of the Share Option Scheme

The Share Option Scheme seeks to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(2) Who may join

The Board may at its discretion grant options to: (i) any executive Director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to the Company, any member of the Group or any Invested Entity (collectively, "Qualified Participants").

(3) Subscription Price

The subscription price ("Subscription Price") shall, subject to any adjustment, be a price determined by the Board but in any event shall be at least the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered to a Qualified Participant ("Offer Date");

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the Shares.

Detailed terms of the Share Option Scheme are set out in the paragraph headed "Other Information" on page 25 to 32 of Appendix VIII (Statutory and General Information) to the Prospectus.

As at the date of this annual report, no options have been granted or agreed to be granted under the Share Option Scheme.

DIRECTORS' REPORT

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme consists of two parts. The first part of the Pre-IPO Share Option Scheme is conditional upon the occurrence of the Listing and is granted by Strong Ally Limited, a wholly-owned subsidiary of Furui incorporated in the BVI. Under the first part of the Pre-IPO Share Option Scheme, selected employees and other individuals may be granted the rights to purchase from Strong Ally Limited an aggregate number of 20,000,000 Shares, representing approximately 2% of our issued share capital as of the Listing Date (assuming that the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme are not exercised). Under the second part of the Pre-IPO Option Scheme, our Company will grant rights to selected employees and other individuals to purchase an aggregate number of 20,000,000 Shares, representing approximately 2% of our total issued share capital as of the Listing Date (assuming that the Over-allotment Option, options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme are not exercised), or approximately 1.96% of our issued share capital as of the Listing Date as enlarged by the issue of additional new Shares upon exercise of all options granted by us under the Pre-IPO Share Option Scheme.

The terms of the Pre-IPO Share Option Scheme are substantially the same as the Share Option Scheme except for the following conditions:

(a) the exercise price per Share under the Pre-IPO Share Option Scheme is the offering price HK$3.0 per share;

(b) the grantees shall not, within six months from the Listing Date, exercise any of the options granted under the Pre-IPO Share Option Scheme;

(c) the Pre-IPO Share Option Scheme will only become effective if the following conditions precedent are fulfilled:

  (i) the Listing Committee of the Stock Exchange granting approval on the listing of, and permission to deal in, any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme;

  (ii) the Global Offering becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms thereof; and

  (iii) the commencement of dealing in the Shares on the Stock Exchange;

(d) option granted under the Pre-IPO Share Option Scheme shall lapse if the conditions precedent are not fulfilled; and

(e) the maximum number of Shares granted under the Pre-IPO Share Option Scheme shall not exceed 40,000,000 Shares in total.

As at February 3, 2010, options to subscribe for an aggregate of 20,000,000 Shares had been granted by the Group, and options to purchase for an aggregate of 20,000,000 Shares had been granted by Strong Ally Limited, to a total of 104 Qualified Participants under the Pre-IPO Share Option Scheme.

DIRECTORS' REPORT

On February 18, 2013, the exercisable period of the above Pre-IPO Share Option Scheme expired. On March 5, 2013, Strong Ally Limited extended the expiry date of the options to purchase shares of the Company to December 31, 2013.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme:

Grantee		Number of options outstanding on January 1, 2013	Exercised during the year	Lapsed during the year	Number of Options Outstanding up to December 31, 2013
(1)	Directors				
	Yu Yan	1,450,000	500,000	950,000	–
	Li Lin	920,000	840,000	80,000	–
	Yi Lin	870,000	420,000	450,000	–
	Zhang Yan	1,500,000	–	1,500,000	–
	Au-yeung Kam Ling Celeste	560,000	560,000	–	–
(2)	Employees and others	29,661,359	7,694,699	21,966,660	–

Notes:

(1) All options under the Pre-IPO Share Option Scheme were granted on February 3, 2010 at an exercise price of HK$3.0 per share.

(2) All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

During the period between the expiry of six months after the Listing Date and the expiry date of the Pre-IPO Share Option Period, one-third of the options granted under our Pre-IPO Share Option Scheme may be exercised; and 1/36th of the options granted under our Pre-IPO Share Option Scheme will become exercisable at the end of each calendar month beginning 12 months after the Listing Date until the expiry date of the Pre-IPO Share Option Period in 24 tranches. The options granted under the Pre-IPO Share Option Scheme shall lapse on the date when a grantee ceases to be a Qualified Participant.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company", and "Share Options", at no time for the year ended December 31, 2013 was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at December 31, 2013, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following person, other than any Director or the chief executives of the Company, was the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company:

Shareholders	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Furui[1]	beneficial owner and interest in a controlled corporation	263,468,394	23.46%
	short position	6,533,660	0.58%
Qin Shifeng (秦士豐)[2]	interest of spouse	263,468,394	23.46%
	short position	6,533,660	0.58%
Newport Consulting Ltd.[3]	interest in a controlled corporation	220,000,000	19.59%
CITIC Merchant Co., Limited[3]	interest in a controlled corporation	220,000,000	19.59%
Asian Capital Partners Group Company Limited[4]	interest in a controlled corporation	220,000,000	19.59%
CITIC International Assets Management Limited[4]	interest in a controlled corporation	220,000,000	19.59%
CITIC International Financial Holdings Limited[5]	interest in a controlled corporation	220,000,000	19.59%
China CITIC Bank Corporation Limited[6]	interest in a controlled corporation	220,000,000	19.59%
CITIC Limited[7]	interest in a controlled corporation	220,000,000	19.59%
CITIC Group Corporation[8]	interest in a controlled corporation	220,000,000	19.59%
Radiant Assets Management Limited[9]	interest in a controlled corporation	112,305,000	10.00%
Radiant Assets Limited[9]	interest in a controlled corporation	112,305,000	10.00%
Concorde Asia Group Limited[9]	interest in a controlled corporation	332,305,000	29.59%
Huang Bin[10]	interest in a controlled corporation	332,305,000	29.59%
Pyrope Assets Limited ("PAL")[11]	interest in a controlled corporation	56,387,161	5.02%

DIRECTORS' REPORT

Shareholders	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
CK Life Sciences Int'l., (Holdings) Inc[11] ("CK Life")	interest in a controlled corporation	56,387,161	5.02%
Gold Rainbow Int'l Limited("GRIL")[12]	interest in a controlled corporation	56,387,161	5.02%
Gotak Limited("GL")[12]	interest in a controlled corporation	56,387,161	5.02%
Cheung Kong (Holdings) Limited ("CKHL")[12]	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1")[13]	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1")[14]	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2")[14]	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing ("Mr. Li")[15]	interest in a controlled corporation	56,387,161	5.02%

Notes:

(1) Furui owns the entire issued share capital of Strong Ally Limited and will be deemed to be interested in the 6,533,660 Shares held by Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.

(2) Qin Shifeng (秦士豐) is the spouse of Mr. Wang Fucai and will be deemed to be interested in the 263,468,394 Shares which Mr. Wang Fucai is interested in through Furui and Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.

(3) CITIC Merchant Co., Limited directly owns the entire issued share capital of Newport Consulting Ltd. and will be deemed to be interested in the 220,000,000 Shares held by Newport Consulting Ltd.

(4) CITIC International Assets Management Limited and Asian Capital Partners Group Company Limited hold one third or more of the issued share capital of CITIC Merchant Co., Limited separately and will be deemed to be interested in the 220,000,000 Shares held by CITIC Merchant Co,. Limited. By virtue of the above, CITIC International Assets Management Limited and Asian Capital Partners Group Company Limited are therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd. or CITIC Merchant Co., Limited is taken as interested as a substantial shareholder of the Company under the SFO.

(5) CITIC International Financial Holdings Limited holds one third or more of the issued share capital of CITIC International Assets Management Limited and will be deemed to be interested in the 220,000,000 Shares held by CITIC International Assets Management Limited. By virtue of the above, CITIC International Financial Holdings Limited is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd., CITIC Merchant Co., Limited or CITIC International Assets Management Limited is taken as interested as a substantial shareholder of the Company under the SFO.

DIRECTORS' REPORT

(6) China CITIC Bank Corporation Limited holds one third or more of the issued share capital of CITIC International Financial Holdings Limited and will be deemed to be interested in the 220,000,000 Shares held by CITIC International Financial Holdings Limited. By virtue of the above, China CITIC Bank Corporation Limited is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd., CITIC Merchant Co., Limited, CITIC International Assets Management Limited or CITIC International Financial Holdings Limited is taken as interested as a substantial shareholder of the Company under the SFO.

(7) CITIC Limited holds one third or more of the issued share capital of China CITIC Bank Corporation Limited and will be deemed to be interested in the 220,000,000 Shares held by China CITIC Bank Corporation Limited. By virtue of the above, CITIC Limited is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd., CITIC Merchant Co., Limited, CITIC International Assets Management Limited, CITIC International Financial Holdings Limited or China CITIC Bank Corporation Limited is taken as interested as a substantial shareholder of the Company under the SFO.

(8) CITIC Limited is wholly-owned by CITIC Group Corporation, CITIC Group Corporation is deemed to be interested in the same number of Shares in which CITIC Limited is interested under the SFO.

(9) Concorde Asia Group Limited directly owns the entire issued share capital of Asian Capital Partners Group Company Limited and will be deemed to be interested in the 220,000,000 Shares held by Asian Capital Partners Group Company Limited. Radiant Assets Management Limited holds 112,305,000 Shares of the Company and is wholly-owned by Radiant Assets Limited. Radiant Assets Limited is deemed to be interested in the same number of Shares in which Radiant Assets Management Limited is interested under the SFO. Since Radiant Assets Limited is wholly-owned by Concorde Asia Group Limited, Concorde Asia Group Limited is deemed to be interested in the same number of Shares in which Radiant Assets Limited is interested under the SFO.

(10) Concorde Asia Group Limited is wholly-owned by Mr. Huang Bin, Mr. Huang Bin is deemed to be interested in the same number of Shares in which Concorde Asia Group Limited is interested under the SFO.

(11) CK Life directly owns the entire issued share capital of PAL and will be deemed to be interested in the 56,387,161 Shares held by PAL.

(12) GRIL holds one third or more of the issued share capital of CK Life and will be deemed to be interested in the 56,387,161 Shares held by CK Life. By virtue of the above, GRIL is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL or CK Life is taken as interested as a substantial shareholder of the Company under the SFO. Since GRIL is wholly-owned by GL, GL is deemed to be interested in the same number of Shares in which GRIL is interested under the SFO. Since GL is wholly-owned by CKHL, CKHL is deemed to be interested in the same number of Shares in which GL is interested under the SFO.

(13) TUT1, as trustee of UT1, together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of one third or more of the voting power at their general meetings ("related companies"), hold more than one third of the issued share capital of CKHL. By virtue of the above and the interest of TUT1 as trustee of UT1 and its related companies in the shares in CKHL, TUT1 as trustee of UT1 is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL, CK Life, GRIL, GL or CKHL will be taken as interested as a substantial shareholder of the Company under the SFO.

(14) Each of TDT1 as trustee of DT1 and TDT2 as trustee of DT2 holds units in UT1. By virtue of the above and its interest of holding units in UT1, each of TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL, CK Life, GRIL, GL or CKHL will be taken as interested as a substantial shareholder of the Company under the SFO.

(15) Mr Li is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO. Mr Li is also interested in one third of the entire issued share capital of a company owning the entire issued share capital of TUT1, TDT1 and TDT2. By virtue of the above and as a director of CKHL, Mr Li is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL, CK Life, GRIL, GL or CKHL will be taken as interested as a substantial shareholder of the Company under the SFO.

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONTRACTS OF SIGNIFICANCE

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

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus, none of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Mr. Wang Fucai who is the Director of the Company, has provided an annual confirmation in respect of the compliance with the non-competition undertaking given by him (as described in the Prospectus) (the "Non-competition Undertaking") and information regarding his investment and engagement in the pharmaceutical business (as disclosed in the Prospectus) and the nature of such investment and engagement.

The independent non-executive Directors have also reviewed the compliance by Mr. Wang Fucai with the Noncompetition Undertaking and the information that they have provided regarding investment and engagement by him in the pharmaceutical business (as disclosed in the Prospectus), and the nature of such investment and engagement. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach of Mr. Wang Fucai of the Non-competition Undertaking given by him.

CONNECTED TRANSACTION

Significant related party transactions entered into by the Group for the year ended December 31, 2013, which do not constitute connected transactions under the Listing Rules on the Stock Exchange, are disclosed in notes 28 and 32 to the consolidated financial statements of this annual report.

AUDIT COMMITTEE

The Company established its audit committee on February 1, 2010. The audit committee currently comprises three independent non-executive Directors, namely Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Xu Hua Feng.

The audit committee has adopted a written terms of references which is in compliance with the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The audit committee is primarily responsible for the review and supervision of the financial reporting process and internal control system. It has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's interim results for the period ended June 30, 2013 and the audited annual results for the year ended December 31, 2013.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands where the Company is incorporated.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiries to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended December 31, 2013.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules. For the year ended December 31, 2013, the Company has complied with all the applicable code provisions as set out in the CG Code, except for deviation of the provision A.2.1 of the CG Code. For details of the Corporate Governance Report, please refer to pages 14 to 22 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 22 July 2013, the Company issued HK$200,000,000 (equivalent to RMB157,246,000) convertible bonds to Newport Consulting Ltd. pursuant to the subscription agreement dated May 28, 2013. The convertible bonds can be convertible into ordinary shares of the Company at a conversion price of HK$3.0 per convertible bonds. For the year ended December 31, 2013, none of the convertible bonds was converted or redeemed.

Save as above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities for the year ended December 31, 2013.

DIRECTORS' REPORT

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING AND PLACING

The total net proceeds from the Listing after the issue of the over-allotment shares amounted to approximately HK$806.6 million (RMB692.6 million) and the total net proceeds from placing in October 2010 amounted to approximately HK$597.2 million (RMB517.1 million). As at December 31, 2013, net proceeds of accumulated approximately RMB972.3 million has been applied on market expansion, capital expenditures, product development and other working capital, and the remaining of the net proceeds has been deposited into banks and qualified financial institutions, which are intended to be applied in accordance with the proposed application set out in the "Use of proceeds" section in the Prospectus and in the announcement dated October 28, 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float for the year ended December 31, 2013.

AUDITOR

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended December 31, 2013. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to reappoint Deloitte Touche Tohmatsu as the auditor of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from Friday, May 23, 2014 to Tuesday, May 27, 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, May 22, 2014.

The register of members will be closed by the Company from Tuesday, June 3, 2014 to Thursday, June 5, 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, May 30, 2014.

During the periods mentioned in the above, no transfer of shares of the Company will be registered.

On behalf of the Board
Wang Fucai
Chairman

Hong Kong, March 26, 2014

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF REAL NUTRICEUTICAL GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Real Nutriceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 98, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 26, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
Turnover	7	**1,903,142**	1,755,201
Cost of goods sold		**(608,767)**	(543,112)
Gross profit		**1,294,375**	1,212,089
Other income	8	**46,400**	50,617
Other gains and losses	9	**6,122**	(465)
Selling and distribution costs		**(507,703)**	(472,328)
Administrative expenses		**(105,343)**	(90,043)
Finance costs	10	**(33,551)**	(23,425)
Profit before taxation	11	**700,300**	676,445
Taxation	13	**(207,175)**	(210,517)
Profit for the year		**493,125**	465,928
Other comprehensive income (expense) for the year			
— exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss		**1,139**	(8)
Total comprehensive income for the year		**494,264**	465,920
Earnings per share	15		
— Basic		**43.9 cents**	41.5 cents
— Diluted		**43.9 cents**	41.5 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	16	**1,445,186**	1,090,733
Land use rights	17	**379,355**	276,483
Intangible assets	18	**69,292**	74,887
Deposits made on acquisition of property, plant and equipment		**90,761**	16,369
Advance payments for acquisition of technical knowhow	19	**156,155**	162,059
Deferred tax assets	20	**250**	2,180
		2,140,999	1,622,711
Current assets			
Inventories	21	**74,746**	66,830
Trade and other receivables	22	**738,194**	648,735
Bank balances and cash	23	**1,656,434**	1,329,295
		2,469,374	2,044,860
Current liabilities			
Trade and other payables	24	**211,356**	122,732
Taxation		**46,408**	39,457
Short-term bank loans	25	**435,000**	195,000
		692,764	357,189
Net current assets		**1,776,610**	1,687,671
Total assets less current liabilities		**3,917,609**	3,310,382
Non-current liabilities			
Deferred tax liabilities	20	**17,159**	14,686
Convertible loan notes	26	**160,467**	–
		177,626	14,686
Net assets		**3,739,983**	3,295,696
Capital and reserves			
Share capital	27	**9,858**	9,858
Reserves		**3,730,125**	3,285,838
Total equity		**3,739,983**	3,295,696

The consolidated financial statements on pages 43 to 98 were approved and authorised for issue by the Board of Directors on March 26, 2014 and are signed on its behalf by:

WANG FUCAI	**AU-YEUNG KAM LING CELESTE**
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	*EXECUTIVE DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital redemption reserve RMB'000 (Note b)	Share option reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000 (Note c)	Statutory surplus reserve fund RMB'000 (Note d)	Retained profits RMB'000	Total RMB'000
At January 1, 2012	9,867	1,214,992	459,745	62	13,657	2,124	(21,159)	158,639	1,039,014	2,876,941
Profit for the year	–	–	–	–	–	–	–	–	465,928	465,928
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	–	–	–	–	–	(8)	–	–	–	(8)
Total comprehensive income for the year	–	–	–	–	–	(8)	–	–	465,928	465,920
Shares repurchased	(9)	(1,884)	–	9	–	–	–	–	(9)	(1,893)
Recognition of equity-settled share-based payments	–	–	–	–	1,107	–	1,104	–	–	2,211
Dividends	–	–	–	–	–	–	–	–	(47,483)	(47,483)
Transfers	–	–	–	–	–	–	–	60,485	(60,485)	–
	(9)	(1,884)	–	9	1,107	–	1,104	60,485	(107,977)	(47,165)
At December 31, 2012	9,858	1,213,108	459,745	71	14,764	2,116	(20,055)	219,124	1,396,965	3,295,696
Profit for the year	–	–	–	–	–	–	–	–	493,125	493,125
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	–	–	–	–	–	1,139	–	–	–	1,139
Total comprehensive income for the year	–	–	–	–	–	1,139	–	–	493,125	494,264
Recognition of equity-settled share-based payments	–	–	–	–	17	–	875	–	–	892
Dividends	–	–	–	–	–	–	–	–	(50,869)	(50,869)
Transfers	–	–	–	–	–	–	–	49,031	(49,031)	–
	–	–	–	–	17	–	875	49,031	(99,900)	(49,977)
At December 31, 2013	9,858	1,213,108	459,745	71	14,781	3,255	(19,180)	268,155	1,790,190	3,739,983

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

Notes:

(a) Special reserve represents the aggregate of:

(i) the difference between the considerations paid by Jet Bright International Holdings Limited, a wholly-owned subsidiary of the Company, for the acquisition of the entire interest in 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Co., Limited) ("Ruinian Industry") and the nominal value of paid-in capital of Ruinian Industry in August 2006;

(ii) the difference between the nominal value of paid-in capital of 無錫瑞年營銷有限公司 (Wuxi Ruinian Sales Co., Ltd.) ("Ruinian Sales") and the distribution of Ruinian Sales' net assets upon its dissolution in October 2007; and

(iii) the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital and share premium of the Group's former holding company, Tongrui Holdings Limited, acquired pursuant to a group reorganisation in preparation for the listing of the Company's shares in 2010.

(b) Capital redemption reserve arose from repurchase of shares. The amount represent the nominal amount of the shares repurchased.

(c) Non-distributable reserve represents the aggregate of:

(i) capital contributions from and distributions to the beneficial controlling shareholder of the Company, Mr. Wang Fucai, in respect of the interest on trade finance arrangement with related companies prior to 2009;

(ii) deemed distributions to the controlling shareholder in respect of the acquisition of a subsidiary in 2009;

(iii) deemed distributions to the shareholders in respect of the listing expenses borne by the Company in 2010; and

(iv) capital contributions from Strong Ally Limited ("Strong Ally"), a wholly-owned subsidiary of the former ultimate holding company, in relation to share options granted by Strong Ally to qualifying participants of the Group in 2010 of which the exercisable period is further extended to December 31, 2013 during the current year with details set out in note 28 to the consolidated financial statements.

(d) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial information of the PRC subsidiaries while the amounts and allocation basis are based on the requirements of relevant laws and regulations in PRC. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	2013 RMB'000	2012 RMB'000
Operating activities		
Profit before taxation	**700,300**	676,445
Adjustments for:		
Interest income	**(40,032)**	(46,206)
Change in fair value of derivative component of convertible loan notes	**(4,614)**	–
Interest expenses	**33,551**	23,425
Depreciation of property, plant and equipment	**117,189**	83,258
Amortisation of intangible assets	**16,595**	14,695
Operating lease rentals in respect of land use rights	**3,896**	3,707
Equity-settled share-based payments	**892**	2,211
Operating cash flows before movements in working capital	**827,777**	757,535
Increase in inventories	**(7,916)**	(7,714)
Increase in trade and other receivables	**(89,459)**	(137,361)
Increase (decrease) in trade and other payables	**88,624**	(36,815)
Cash from operations	**819,026**	575,645
Taxation paid	**(195,821)**	(227,260)
Net cash from operating activities	**623,205**	348,385
Investing activities		
Interest received	**40,032**	46,206
Purchase of property, plant and equipment	**(451,648)**	(304,895)
Purchase of land use rights	**(110,393)**	(96,400)
Deposits paid on acquisition of property, plant and equipment	**(90,761)**	(16,369)
Advance payments paid for acquisition of technical knowhow	**(5,096)**	(27,150)
Net cash used in investing activities	**(617,866)**	(398,608)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	2013 RMB'000	2012 RMB'000
Financing activities		
Interest paid	**(25,666)**	(23,425)
Dividends paid	**(50,869)**	(47,483)
Proceeds on issue of convertible loan notes	**157,246**	–
Payment on repurchase of shares	**–**	(1,893)
Bank loans raised	**568,000**	670,000
Repayment of bank loans	**(328,000)**	(602,000)
Net cash from (used in) financing activities	**320,711**	(4,801)
Net increase (decrease) in cash and cash equivalents	**326,050**	(55,024)
Cash and cash equivalents at January 1	**1,329,295**	1,384,327
Effect of foreign exchange rate changes	**1,089**	(8)
Cash and cash equivalents at December 31	**1,656,434**	1,329,295
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,656,434**	1,329,295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

1. GENERAL

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company while the Group is principally engaged in the manufacture and sales of health and nutritional supplements and pharmaceutical products. The address of the registered office of the Company and the address of the principal place of business are disclosed in the section headed "Corporate Information" in the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

In the current year, the Company and its subsidiaries (collectively referred as the "Group") have applied, for the first time, the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning on January 1, 2013.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

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

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes). HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements. HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (see note 6 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped 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 HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

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

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

1 Effective for annual periods beginning on or after January 1, 2014, with early application is permitted.
2 Effective for annual periods beginning on or after July 1, 2014, with early application is permitted.
3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after January 1, 2016.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange 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 values at the end of each reporting period, as explained in the accounting policies set out below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

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

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

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

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

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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Basis of consolidation-continued

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

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

Revenue from the sales of goods is recognised when the goods are delivered and title has 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.

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.

Rental income from operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

Property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Property, plant and equipment-continued

Construction in progress 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 construction in progress 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 property, plant and equipment (other than construction in progress) over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	5% or the remaining period of the leases, if shorter
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

The estimated useful lives, residual value and depreciation method are reviewed at each reporting period, with the effect of any change 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 the profit or loss.

Land use rights

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land that are accounted for as operating leases are presented as "land use rights" in the consolidated statement of financial position.

When buildings are in the course of development for production or for administrative purposes, the amortisation of land use rights provided during the construction period is included as part of costs of construction in progress.

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided 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.

Research and development costs

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.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Intangible assets-continued

Research and development costs-continued

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 are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the assets is derecognised.

Impairment losses on tangible and intangible assets

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

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 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 as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Advertising expenses and prepayment for media airtime

Advertising expenses on supply of goods are recognised as and included in selling expenses in the profit or loss in the period in which the Group has a right to access those goods.

Advertising expenses on supply of services are recognised as and included in selling expenses in the profit or loss in the period in which the Group receives the services.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of 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.

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 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 of debt instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables 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 loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Impairment of loans and receivables-continued

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as 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 loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade 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 a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Financial liabilities and equity instruments-continued

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liability

Financial liabilities including trade and other payables, short-term bank loans and the liability component of convertible loan notes subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

Convertible loan notes issued by the Group that contain both liability and embedded derivatives (conversion option and early redemption option which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. At the date of issue, both the liability and embedded derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and embedded derivatives in proportion to their relative fair values. Transaction costs relating to the embedded derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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 tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 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 the initial recognition of 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Taxation-continued

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

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 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 are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

The financial statements of each group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of 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 arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk 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 term of relevant lease. Benefits received or receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

Retirement benefits costs

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

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

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Intangible assets

In accounting for intangible assets, management of the Group considers the potential impairment based on the recoverable amount. The intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable. Factors that would indicate potential impairment may include, but are not limited to, the significant change in technology, and operating or cash flow losses associated with the intangible assets.

Determining whether intangible assets is impaired requires an estimation of the recoverable amount of the cash-generating units to which intangible assets has been allocated. The recoverable amount of cash-generating units at the end of each reporting period is based on the value in use calculation which requires the management of the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment of intangible assets has been made during the year.

The carrying amount of intangible assets is RMB69,292,000 (2012: RMB74,887,000).

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Share-based payment transactions

The Group measures the fair value of shares granted by Strong Ally Limited ("Strong Ally") under Pre-IPO Share Option Schemes (as defined in note 28) at March 5, 2013 which is the date the Group extended the expiry date of the abovementioned share option schemes. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation methodology. This estimate requires determining the most appropriate inputs to the valuation methodology and key performance indicator of which details are set out in note 28. The Group recognised the total expenses of RMB892,000 for the year (2012: RMB2,211,000) in relation to the Pre-IPO Share Option Schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

5. 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 owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchange from prior year.

The capital structure of the Group consists of net debts, which includes bank loans and convertible loan notes, disclosed in notes 25 and 26 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new shares issue and share buy-backs as well as the raising of bank loans and convertible loan notes.

6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2013 **RMB'000**	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,208,092**	1,836,185
Financial liabilities		
Amortised cost	**716,919**	237,511
Derivative financial liabilities — derivative component of convertible loan notes	**13,293**	–

6. FINANCIAL INSTRUMENTS-CONTINUED

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, convertible loan notes, embedded derivative component of convertible loan notes and short-term bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

The Company's exposure to credit risk, foreign currency risk, liquidity risk and interest rate risk is insignificant as the Company does not have any significant financial instruments.

Credit risk

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

The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual 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 bank balances is minimal as such amounts are placed in banks with good reputation.

The Group has no significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries.

Foreign currency risk

At the end of the reporting period, the carrying amounts of the Group's foreign currency denominated monetary assets which consists of bank balances and cash that are denominated in Hong Kong dollars and United States dollars ("USD") amounted to RMB27,624,000 (2012: RMB32,050,000) and RMB16,090,000 (2012: RMB27,000) (see note 23) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

6. FINANCIAL INSTRUMENTS-CONTINUED

Foreign currency risk-continued

The sensitivity analysis below has been determined based on the exposure to exchange rates of RMB against HK$ or USD. For a 5% weakening of RMB against HK$ or USD and all other variables were held constant, the Group's profit before taxation are as follows:

	2013 RMB'000	2012 RMB'000
Increase in profit before taxation	**2,186**	1,428

There would be an equal and opposite impact on the profit before taxation where the RMB strengthens against HK$ or USD.

In directors' 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.

Liquidity risk management

The directors of the Company 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 Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up to reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or if variable, based on the prevailing interest rate at the end of each reporting period.

	Weighted average interest rate	On demand and 3 months or less RMB'000	3 – 6 months RMB'000	6 – 12 months RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Financial liabilities								
At December 31, 2013								
Trade and other payables	–	134,745	–	–	–	–	134,745	134,745
Short-term bank loans								
— variable rate	6.3%	56,891	72,269	148,683	3,040	55,322	336,205	315,000
— fixed rate	6.2%	90,752	459	30,056	–	–	121,267	120,000
Convertible loan notes	13.0%	147,174	–	–	–	–	147,174	147,174
		429,562	72,728	178,739	3,040	55,322	739,391	716,919

6. FINANCIAL INSTRUMENTS-CONTINUED

Liquidity risk management-continued

	Weighted average interest rate	On demand and 3 months or less RMB'000	3 – 6 months RMB'000	6 – 12 months RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Financial liabilities								
At December 31, 2012								
Trade and other payables	–	42,511	–	–	–	–	42,511	42,511
Short-term bank loans								
— variable rate	6.3%	29,078	666	45,141	–	–	74,885	73,000
— fixed rate	6.2%	1,862	21,747	102,717	–	–	126,326	122,000
		73,451	22,413	147,858	–	–	243,722	237,511

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing bank balances and short-term bank loans at variable interest rates. Bank loans and convertible loan notes at fixed interest rates expose the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and variable rate bank loans at the end of the reporting period and assumed that the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates on bank balances and bank loans had been 50 basis points lower and all other variables were held constant, the potential effect on profit before taxation is as follows:

	2013 RMB'000	2012 RMB'000
Decrease in profit before taxation	**(4,580)**	(4,253)

There would be an equal and opposite impact on the profit before taxation where they had been 50 basis points higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

6. FINANCIAL INSTRUMENTS-CONTINUED

Fair value of financial instruments

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

Financial liabilities	Fair value as at December 31 2013	2012	Fair value hierarchy	Valuation technique(s) and key input(s)
Conversion option derivative and early redemption option embedded in the convertible loan notes classified as derivative financial liabilities	**Liabilities — RMB13,293**	Liabilities — Nil	Level 3	The fair values of the embedded conversion option and the issuer's early redemption option were determined using binomial option pricing model, based on spot price, conversion price, dividend yield, time to maturity, risk-free rate, volatility and discount rate that reflects the credit risk of counterparties.

There were no transfers between Level 1, 2 and 3 in the period.

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 value at the end of the reporting period.

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial liabilities	–	–	**13,293**	**13,293**

Note: The categorisation of fair value measurements into the different levels of the fair value hierarchy depends 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.

6. FINANCIAL INSTRUMENTS-CONTINUED

Fair value of financial instruments–continued

The fair values of the financial liabilities included in the level 3 categories above have been determined in accordance with generally accepted pricing models based on binomial option pricing model, based on spot price, conversion price, dividend yield, time to maturity, risk-free rate, volatility and the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Reconciliation of Level 3 fair value measurements

For the year ended December 31, 2013

	Derivative financial liabilities RMB'000
At January 1, 2013	–
Issued during the year	17,836
Change in fair value recognised in profit or loss (note 9)	(4,614)
Currency realignment	71
At December 31, 2013	13,293

7. TURNOVER AND SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports which are reviewed by the Chief Executive Officer in order to allocate resources to the reportable segments and to assess their performance.

The Group's reportable segments under HKFRS 8 are as follows:

Health and nutritional supplements	–	manufacture and sales of health and nutritional supplements
Health drinks	–	manufacture and sales of health drinks
Pharmaceutical products	–	manufacture and sales of pharmaceutical products

Each reportable segment derives its turnover from the sales of products. They are managed separately because each product requires different production and marketing strategies.

Turnover represents the fair value of the consideration received or receivable for goods sold to outside customers during the year.

Segment results represent the gross profits earned by each segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

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

	Turnover		Results	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Health and nutritional supplements	**1,368,778**	1,252,441	**1,064,718**	1,000,504
Health drinks	**408,591**	389,424	**147,026**	136,727
Pharmaceutical products	**125,773**	113,336	**82,631**	74,858
	1,903,142	1,755,201	**1,294,375**	1,212,089
Advertising and promotional expenses			**(348,371)**	(345,509)
Other operating expenses			**(264,675)**	(217,327)
Other income			**7,876**	4,411
Change in fair value of derivative component of convertible loan notes			**4,614**	–
Interest income			**40,032**	46,206
Interest expenses			**(33,551)**	(23,425)
Profit before taxation			**700,300**	676,445

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Information of segment assets and segment liabilities are as follows:

Segment assets represent property, plant and equipment, land use rights, intangible assets, deposits made on acquisition of property, plant and equipment, advance payments for acquisition of technical knowhow, inventories and trade and other receivables which are directly attributable to the relevant reportable segment. Segment liabilities represent trade and other payables which are directly attributable to the relevant reportable segment. These are the measures reported to the Chief Executive Officer for the purpose of resource allocation and assessment of segment performance. No operating segments identified by the Chief Executive Officer have been aggregated in arriving at the reportable segments of the Group.

	2013 RMB'000	2012 RMB'000
Assets		
Segment assets		
— health and nutritional supplements	**1,859,011**	1,407,649
— health drinks	**548,942**	566,418
— pharmaceutical products	**545,736**	362,029
	2,953,689	2,336,096
Deferred tax assets	**250**	2,180
Unallocated corporate assets (note a)	**1,656,434**	1,329,295
Consolidated total assets	**4,610,373**	3,667,571
Liabilities		
Segment liabilities		
— health and nutritional supplements	**132,290**	77,917
— health drinks	**61,712**	20,827
— pharmaceutical products	**17,354**	23,988
	211,356	122,732
Taxation	**46,408**	39,457
Deferred tax liabilities	**17,159**	14,686
Unallocated corporate liabilities (note b)	**595,467**	195,000
Consolidated total liabilities	**870,390**	371,875

Notes:

(a) Unallocated corporate assets represent bank balances and cash.

(b) Unallocated corporate liabilities represent short-term bank loans and convertible loan notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Other information

	2013 RMB'000	2012 RMB'000
Amounts included in the measure of segment result or segment assets:		
Additions to non-current assets other than deferred tax assets		
— health and nutritional supplements	**472,132**	315,619
— health drinks	**14,724**	47,687
— pharmaceutical products	**174,667**	82,417
	661,523	445,723
Depreciation of property, plant and equipment		
— health and nutritional supplements	**68,592**	55,575
— health drinks	**35,826**	17,575
— pharmaceutical products	**12,771**	10,108
	117,189	83,258
Amortisation of intangible assets		
— health and nutritional supplements	**6,800**	5,730
— pharmaceutical products	**9,795**	8,965
	16,595	14,695
Operating lease rentals in respect of land use rights		
— health and nutritional supplements	**2,094**	1,905
— health drinks	**863**	863
— pharmaceutical products	**939**	939
	3,896	3,707

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Other information-continued

Turnover from external customers attributed to the Group by location of operations, other than the Company's country of domicile, is presented as follows:

	2013 RMB'000	2012 RMB'000
Turnover		
— Mainland China (the "PRC")	**1,902,633**	1,754,408
— Hong Kong	**509**	793
	1,903,142	1,755,201

Total non-current assets other than deferred tax assets by location of assets, other than the Company's country of domicile is presented as follows:

	2013 RMB'000	2012 RMB'000
Total non-current assets other than deferred tax assets		
— PRC	**2,140,507**	1,620,417
— Hong Kong	**242**	114
	2,140,749	1,620,531

Information about major customers

For the years ended December 31, 2013 and December 31, 2012, there was no customer which accounted for more than 10% of total turnover.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

8. OTHER INCOME

	2013 RMB'000	2012 RMB'000
Interest income	**40,032**	46,206
Facilities rental income	**6,329**	3,910
Others	**39**	501
	46,400	50,617

9. OTHER GAINS AND LOSSES

	2013 RMB'000	2012 RMB'000
Gain from change in fair value of derivative component of convertible loan notes	**4,614**	–
Net foreign exchange gain (loss)	**1,508**	(465)
	6,122	(465)

10. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on borrowings wholly repayable within five years		
— bank borrowings	**(25,666)**	(23,425)
— convertible loan notes	**(7,885)**	–
	(33,551)	(23,425)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

11. PROFIT BEFORE TAXATION

	2013 **RMB'000**	2012 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 12)	**6,837**	6,974
Other staff's retirement benefits scheme contributions	**3,111**	3,016
Other staff's equity-settled share-based payments	**317**	698
Other staff costs	**30,250**	24,189
	40,515	34,877
Amortisation of intangible assets included in		
— cost of goods sold	**6,677**	9,282
— administrative expenses	**9,918**	5,413
	16,595	14,695
Operating lease rentals in respect of		
— land use rights	**7,521**	4,185
Less: capitalised under construction in progress	**(3,625)**	(478)
	3,896	3,707
— rented premises	**51,068**	19,221
Advertising and promotional expenses	**348,371**	345,509
Auditor's remuneration		
— audit services	**2,380**	2,416
— non-audit services	**1,022**	1,230
Depreciation of property, plant and equipment	**117,189**	83,258
Equity-settled share-based payments to other participants	**280**	1,142

The cost of goods sold represented the cost of inventories recognised as expenses during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments of directors and the chief executive during the year are analysed as follows:

	2013					2012				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors										
— Mr. Wang Fucai	3,641	81	28	–	3,750	3,697	75	27	–	3,799
— Mr. Yu Yan	192	69	24	66	351	194	63	22	83	362
— Mr. Li Lin	192	26	9	66	293	194	24	8	83	309
— Mr. Yi Lin	192	26	9	66	293	194	24	8	83	309
— Mr. Zhang Yan	192	68	23	66	349	194	62	22	83	361
— Ms. Au-Yeung Kam Ling Celeste	894	–	12	31	937	908	–	11	39	958
Non-executive directors										
— Mr. Ip Tak Chuen, Edmond	144	–	–	–	144	146	–	–	–	146
— Mr. Tsang Sze Wai Claudius	144	–	–	–	144	146	–	–	–	146
Independent non-executive directors										
— Mr. Wong Lung Tak, Patrick	144	–	–	–	144	146	–	–	–	146
— Dr. Fong Chi Wah, Felix	144	–	–	–	144	146	–	–	–	146
— Mr. Chan Kee Ming	144	–	–	–	144	146	–	–	–	146
— Mr. Xu Hua Feng	144	–	–	–	144	49	–	–	–	49
— Mr. Bernard Ban-yew Yaw (resigned on September 1, 2012)	–	–	–	–	–	97	–	–	–	97
	6,167	270	105	295	6,837	6,257	248	98	371	6,974

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

For the year ended December 31, 2013, the five highest paid individuals included a director and the Chief Executive (2012: a director and the Chief Executive), details of whose emoluments are set out above. The emoluments of the remaining three (2012: three) highest paid employees were as follows:

	2013 RMB'000	2012 RMB'000
Employees		
— basic salaries and allowances	2,985	3,070
— equity-settled share-based payments	9	310
— retirement benefits scheme contributions	36	33
	3,030	3,413

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS-CONTINUED

Their emoluments were within the following bands:

	Number of employees	
	2013	2012
Up to HK$1,000,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	1

During the year, no emoluments were paid by the Group to the directors, the chief executive or the five highest paid individuals (including directors, the chief executive 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.

13. TAXATION

	2013	2012
	RMB'000	RMB'000
The charge comprises:		
Current tax		
— PRC Enterprise Income Tax	**(198,626)**	(200,783)
— PRC withholding tax	**(4,146)**	(3,151)
Deferred taxation	**(4,403)**	(6,583)
	(207,175)	(210,517)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

13. TAXATION-CONTINUED

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui [2009] No. 1, only the profits earned by foreign-investment enterprise prior to January 1, 2008, when distributed to foreign investors, can be grandfathered and exempted from PRC withholding tax. Whereas, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Details Implementation Rules. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China — HK TA), a Hong Kong resident company should be entitled to preferential tax rate of 5% when receiving dividend from its PRC subsidiary. The immediate holding company of 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Co., Limited) ("Ruinian Industry"), which is incorporated in Hong Kong and has been holding Ruinian Industry for more than a year, should be able to enjoy the preferential tax rate aforementioned. Deferred tax liability on the undistributed profits earned during the year ended December 31, 2013 have been accrued at the tax rate of 5% (2012: 5%) on the expected dividend stream of 30% (2012: 30%) which is determined by the directors of the Company.

南京瑞年百思特製藥有限公司 (Nanjing Ruinian Best Pharmaceutical Co., Ltd.) ("Nanjing Ruinian") and 無錫瑞年醫藥有限公司 (Wuxi Ruinian Pharmaceutical Company Limited) ("Ruinian Pharmaceutical") are wholly-owned by the same Hong Kong company, though 75% and 100% of which are held indirectly through Ruinian Industry respectively. According to Article 26 of the EIT Law, dividend income received by Ruinian Industry should be exempted from EIT. However, if Ruinian Industry pays the dividend to its holding company, it will be subject to the 5% withholding tax as mentioned above. For the direct interest of 25% held by the Hong Kong company, the preferential tax rate of 5% on dividend also applies as the Hong Kong company has been holding Nanjing Ruinian for more than a year. Deferred tax liability on the undistributed profits earned for the year ended December 31, 2013 have been accrued at the tax rate of 5% (2012: 5%) on the expected dividend stream of 30% (2012: 30%) which is determined by the directors of the Company after setting off the deficit incurred in prior period.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong had no assessable profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

13. TAXATION-CONTINUED

Tax charge for the year is reconciled to profit before taxation as follows:

	2013 RMB'000	2013 %	2012 RMB'000	2012 %
Profit before taxation	**700,300**		676,445	
Tax at the applicable income tax rate	**(175,075)**	**(25.0)**	(169,111)	(25.0)
Tax effect of expenses not deductible for tax purposes	**(25,481)**	**(3.6)**	(36,471)	(5.4)
Tax effect of 50% tax relief granted to the PRC subsidiary	**–**	**–**	3,738	0.6
Tax effect of tax losses not recognised	**–**	**–**	(1,959)	(0.3)
PRC withholding tax on undistributed earnings	**(6,619)**	**(0.9)**	(6,714)	(1.0)
Tax charge and effective tax rate for the year	**(207,175)**	**(29.5)**	(210,517)	(31.1)

14. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Dividends recognised as distribution during the year		
– 2012 final dividend of HK3.2 cents (2012: 2011 final dividend of HK3.0 cents) per share	**28,625**	27,399
– 2013 interim dividend of HK2.5 cents (2012: 2012 interim dividend of HK2.2 cents) per share	**22,244**	20,084
	50,869	47,483

The final dividend of HK3.5 cents per share (2012: HK3.2 cents per share) which was proposed by the directors of the Company for the year is subject to approval by the shareholders of the Company at the annual general meeting and is calculated on the basis of 1,123,036,000 shares in issue as at the date of this report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

15. EARNINGS PER SHARE

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

	2013 **RMB'000**	2012 RMB'000
Earnings:		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**493,125**	465,928

	2013 **'000**	2012 '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,123,036**	1,123,561
Effect of dilutive potential ordinary shares on share options	**–**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,123,036**	1,123,561

The computation of diluted earnings per share for the year ended December 31, 2013 and December 31, 2012 does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price of the shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2012	259,524	107,040	17,215	199,722	336,120	919,621
Additions	1,691	3,789	855	3,874	339,765	349,974
Transfers	65,000	71,175	–	206,435	(342,610)	–
At December 31, 2012	326,215	182,004	18,070	410,031	333,275	1,269,595
Additions	21	1,774	249	4,427	465,171	471,642
Transfers	45,373	27,420	–	–	(72,793)	–
At December 31, 2013	371,609	211,198	18,319	414,458	725,653	1,741,237
DEPRECIATION						
At January 1, 2012	30,362	8,655	3,938	52,649	–	95,604
Provided for the year	22,568	28,570	3,574	28,546	–	83,258
At December 31, 2012	52,930	37,225	7,512	81,195	–	178,862
Provided for the year	25,163	39,181	3,150	49,695	–	117,189
At December 31, 2013	78,093	76,406	10,662	130,890	–	296,051
CARRYING VALUES						
At December 31, 2013	293,516	134,792	7,657	283,568	725,653	1,445,186
At December 31, 2012	273,285	144,779	10,558	328,836	333,275	1,090,733

The Group's buildings are erected on land held under medium-term land use rights in the PRC.

At the end of the reporting period, there were accumulated operating lease rentals in respect of land use rights amounting to RMB9,907,000 (2012: RMB6,282,000) capitalised under construction in progress.

Also, at the end of the reporting period, there were certain buildings of the Group erected on land in the PRC with carrying value of RMB174,393,000 (2012: RMB136,831,000) were not granted formal title of their ownership. In the opinion of the directors, the lack of formal title does not impair the value of the relevant buildings. The directors also believe that the formal title of these buildings will be granted to the Group in due course.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

17. LAND USE RIGHTS

	2013	2012
	RMB'000	RMB'000
CARRYING VALUE		
At January 1	**276,483**	184,268
Additions	**110,393**	96,400
Operating lease rentals capitalised under construction in progress	**(3,625)**	(478)
Released to profit or loss during the year	**(3,896)**	(3,707)
At December 31	**379,355**	276,483

The balance represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 50 years.

At the end of the reporting period, there were land use rights with carrying value of RMB199,656,000 (2012: RMB110,836,000) in connection with the rights to the use of land in the PRC in which the relevant government authorities have not granted formal title. In the opinion of the directors, the lack of formal title for these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that the formal title to these land use rights will be granted to the Group in due course.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

18. INTANGIBLE ASSETS

	Product development costs RMB'000	Technical knowhow RMB'000	GMP* certifications RMB'000	Total RMB'000
CARRYING VALUE				
At January 1, 2012	6,443	40,399	2,940	49,782
Transferred from advance payments for acquisition of technical knowhow	2,300	37,500	–	39,800
Charged to profit or loss during the year	(2,005)	(11,010)	(1,680)	(14,695)
At December 31, 2012	6,738	66,889	1,260	74,887
Transferred from advance payments for acquisition of technical knowhow	–	11,000	–	11,000
Charged to profit or loss during the year	(1,901)	(13,434)	(1,260)	(16,595)
At December 31, 2013	4,837	64,455	–	69,292

* GMP represents Good Manufacturing Practices.

Product development costs represent the development costs in connection with certain products. Technical knowhow represents the acquired knowhow in connection with certain products. Both product development costs and technical knowhow are amortised on a straight line basis over their estimated useful life of 10 years. GMP certificates are amortised on straight line basis over their estimated useful life of 50 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

19. ADVANCE PAYMENTS FOR ACQUISITION OF TECHNICAL KNOWHOW

	2013 **RMB'000**	2012 RMB'000
At January 1	**162,059**	174,709
Additions	**5,096**	27,150
Transferred to intangible assets	**(11,000)**	(39,800)
At December 31	**156,155**	162,059

The balance represents the substantial payments made in connection with the acquisition of technical knowhow for certain products of which the completion is subject to the license expected to be granted by the relevant PRC government authorities by the end of 2014 and 2015.

20. DEFERRED TAXATION

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

	Product development costs RMB'000	**PRC withholding tax on undistributed earnings** RMB'000	**Total** RMB'000
At January 1, 2012	5,200	(11,123)	(5,923)
Charged to profit or loss during the year	(3,020)	(6,714)	(9,734)
PRC withholding tax paid	–	3,151	3,151
At December 31, 2012	2,180	(14,686)	(12,506)
Charged to profit or loss during the year	(1,930)	(6,619)	(8,549)
PRC withholding tax paid	–	4,146	4,146
At December 31, 2013	250	(17,159)	(16,909)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

20. DEFERRED TAXATION-CONTINUED

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

	2013 **RMB'000**	2012 RMB'000
Deferred tax assets	**250**	2,180
Deferred tax liabilities	**(17,159)**	(14,686)
	(16,909)	(12,506)

At the end of the reporting period, the Group has unrecognised deferred tax liability of RMB57,617,000 (2012: RMB54,528,000) in relation to PRC withholding tax on undistributed earnings of RMB1,152,335,000 (2012: RMB1,090,558,000) due to the retention of undistributed earnings by the subsidiaries in the PRC determined by the directors of the Company.

At the end of the reporting period, the Group had unused tax losses of RMB8,518,000 (2012: RMB8,518,000) available for offset against future profits. Deferred tax assets thereon have not been recognised because of the unpredictability of future profit streams. The unused tax losses will expire in 2018 (2012: 2017).

21. INVENTORIES

	2013 **RMB'000**	2012 RMB'000
Raw materials	**20,925**	28,296
Work in progress	**13,834**	9,127
Finished goods	**30,519**	12,556
Merchandise for resale	**416**	734
Packaging materials	**9,052**	16,117
	74,746	66,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

22. TRADE AND OTHER RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**550,116**	504,769
Bills receivables	**1,542**	2,121
	551,658	506,890
Deposits paid to suppliers	**10,968**	16,990
Property rental deposits	**18,555**	12,233
Prepayments for media airtime	**104,562**	69,673
Other receivables, prepayments and deposits	**52,451**	42,949
	738,194	648,735

Payment terms with customers are mainly on credit. Invoices are normally payable 90 days from date of issuance. The following is an aged analysis of trade and bills receivables based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2013 RMB'000	2012 RMB'000
Age		
0 – 90 days	**409,094**	395,545
91 – 180 days	**126,201**	109,535
181 to 365 days	**15,413**	1,810
Over 1 year	**950**	–
	551,658	506,890

The Group does not hold any collateral over these balances. The average age of these receivables at the end of the reporting period is 84 days (2012: 77 days).

Included in the Group's trade receivable balance are trade debtors with aggregate carrying amount of RMB142,564,000 (2012: RMB111,345,000) which are past due as at the reporting date for which the Group has not provided for impairment loss.

22. TRADE AND OTHER RECEIVABLES-CONTINUED

Aging of trade receivables which are past due but not impaired is as follows:

	2013 **RMB'000**	2012 RMB'000
Age		
91 – 180 days	**126,201**	109,535
181 to 365 days	**15,413**	1,810
Over 1 year	**950**	–
	142,564	111,345

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at the prevailing market interest rate ranging from 2.9% to 4.3% per annum at the end of the reporting period (2012: 2.9% to 4.3%).

Included in bank balances and cash is an amount of RMB27,624,000 (2012: RMB32,050,000) and RMB16,090,000 (2012: RMB27,000) denominated in Hong Kong dollars and USD other than the functional currency of the relevant group companies respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

24. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	RMB'000
Trade payables	**124,216**	35,141
Customers' deposits	**20,746**	16,034
Payroll and welfare payables	**12,927**	12,505
Other tax payables	**26,213**	35,422
Construction payables	**2,947**	4,293
Other payables	**14,899**	13,664
Advertising accruals	**6,294**	1,749
Other accruals	**3,114**	3,924
	211,356	122,732

The Group normally receives credit terms of 90 days from its suppliers. The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	2013	2012
	RMB'000	RMB'000
Age		
0 to 90 days	**95,209**	29,110
91 to 180 days	**24,056**	3,257
181 to 365 days	**3,436**	2,467
Over 1 year	**1,515**	307
	124,216	35,141

25. SHORT-TERM BANK LOANS

	2013 RMB'000	2012 RMB'000
Short-term bank loans		
— secured	**100,000**	45,000
— unsecured	**335,000**	150,000
	435,000	195,000
The Group's bank loans carry interest at		
— variable rate	**315,000**	73,000
— fixed rate	**120,000**	122,000
	435,000	195,000

All the variable rate bank loans carry interests at the prime rate offered by the People's Bank of China which were repriced monthly to every three months. At the end of the reporting period, the Group has variable rate bank loans carrying interest at 6.0% to 6.9% (2012: 6.0% to 6.9%) per annum and fixed rate bank loans carrying interest at 6.0% to 6.6% (2012: 6.0% to 6.6%) per annum.

As at December 31, 2013, the secured bank loans are secured by the Group's land use rights with an aggregate carrying value of approximately RMB97,803,000 (2012: RMB41,444,000).

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB185,000,000 (2012: RMB55,000,000).

All the short-term bank loans are denominated in RMB.

26. CONVERTIBLE LOAN NOTES

On May 28, 2013, an independent third party, Newport Consulting Ltd. (the "Subscriber") has entered into a subscription agreement with the Company, pursuant to which the subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue a first tranche convertible bond in the principal amount of HK$200,000,000 (equivalent to RMB157,246,000) on the first completion date, a second tranche convertible bond in the principal amount of HK$400,000,000 (equivalent to RMB314,492,000) together with warrants that can be convertible into 20,000,000 ordinary share of the Company on the second completion date subject to the terms and conditions of the subscription agreement. The Subscriber is a company incorporated in Seychelles and is a wholly-owned subsidiary of CITIC Merchant Co., Limited. The net proceeds from issuing the convertible bonds was utilised by the Group as its general working capital, as funds for future development of the existing business of the Group and as funds for the Group's future acquisition in healthcare sector in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

26. CONVERTIBLE LOAN NOTES-CONTINUED

The Company issued HK$200,000,000 (equivalent to RMB157,246,000), 6% first tranche convertible bonds to the Subscriber on July 22, 2013. The convertible bonds are secured by 40% of the registered capital of Ruinian Industry, a wholly-owned subsidiary of the Company established in the PRC.

The convertible bonds entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the bonds and their settlement date on July 22, 2015 at a conversion price of HK$3 per convertible bonds. If the bonds have not been converted, they will be redeemed on July 22, 2015 at the principal amount outstanding plus accrued interest. The Company shall have the right at any time after the first anniversary of the date of issue of the first tranche convertible bonds but prior to the maturity date of July 22, 2015 to redeem the whole or any principal amount of the first tranche convertible bonds outstanding at face value thereof with the accrued interest.

The convertible bonds contain three components: liability component, conversion option derivative and early redemption derivative. The liability component of the convertible bond is carried at amortised cost using the effective interest method. The conversion option derivative and early redemption derivative are measured at fair value with changes in fair value recognised in profit or loss.

At the issuance date of July 22, 2013, the fair value of liability component and the derivative component including conversion option derivative and early redemption derivative amounted to HK$177,314,000 (equivalent to RMB139,410,000) and HK$22,686,000 (equivalent to RMB17,836,000) respectively.

At the end of the reporting period, December 31, 2013, the fair value of liability component and the derivative component including conversion option derivative and early redemption derivative amounted to HK$187,189,000 (equivalent to RMB147,174,000) and HK$16,908,000 (equivalent to RMB13,293,000). The change in fair value of the derivative component, amounted to HK$5,778,000 (equivalent to RMB4,614,000), is recognised in profit or loss.

The second tranche convertible bonds and warrants have not been issued up to the date of this report.

26. CONVERTIBLE LOAN NOTES-CONTINUED

First tranche convertible loan notes

The movements of the first tranche convertible loan notes during the year are set out below:

	Principal amount RMB'000	Liability component RMB'000	Embedded derivatives RMB'000	Total RMB'000
At January 1, 2012	–	–	–	–
Issued during the year	157,246	139,410	17,836	157,246
Interest charged (net of interest paid)	–	7,885	–	7,885
Change in fair value	–	–	(4,614)	(4,614)
Currency realignment	–	(121)	71	(50)
At December 31, 2013	157,246	147,174	13,293	160,467

The following assumptions were used to calculate the fair values of the embedded derivatives:

Valuation date	At December 31, 2013	At the issuance date July 22, 2013
Spot price	HK$2.00	HK$2.16
Conversion price	HK$3.00	HK$3.00
Dividend yield	2.00%	2.00%
Time to maturity	1.56 years	2 years
Risk-free rate	0.24%	0.31%
Volatility	60%	70%

The Binomial model has been used to estimate the fair value of the embedded derivatives. The variables and assumptions used in computing the fair value of the embedded derivatives are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the embedded derivatives.

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27. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.01 each				
— at January 1, 2012	2,000,000	20,000	1,124,122	11,241
— shares repurchased and cancelled	–	–	(1,086)	(11)
— at December 31, 2012 and December 31, 2013	2,000,000	20,000	1,123,036	11,230

	RMB'000
Shown in the consolidated statement of financial position	
— at December 31, 2012 and December 31, 2013 as	9,858

28. SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Schemes

According to an ordinary resolution passed on January 29, 2010, the Company adopted two share option schemes (the "Pre-IPO Share Option Schemes"), which expired on February 18, 2013. Options to subscribe for an aggregate of 20,000,000 shares of the Company, and options to purchase for an aggregate of 20,000,000 shares of the Company had been granted by Strong Ally. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Schemes may not exceed 4% of the issued number of share capital of the Company at the listing date.

On February 3, 2010, a total of 40,000,000 share options were granted to 104 qualified participants, including the directors of the Company, at an exercise price of HK$3 per share option under the terms of the Pre-IPO Share Option Schemes. Total consideration received from the participants for taking up the options granted by the Company was insignificant.

On February 18, 2013, the exercisable period of the abovementioned share option schemes expired. On March 5, 2013, Strong Ally extended the expiry date of the options to purchase shares of the Company to December 31, 2013.

The closing price of the Company's shares immediately before March 5, 2013, the date of extension, was HK$2.04.

The fair values of the options determined at the date of extension using the Binomial model and recognised immediately in profit or loss was HK$1,092,000 (equivalent to RMB870,000).

28. SHARE OPTION SCHEMES-CONTINUED

(a) Pre-IPO Share Option Schemes-continued

The following assumptions were used to calculate the fair values of share options:

	March 5, 2013
Grant date share price	HK$2.04
Exercise price	HK$3.00
Expected life	0.8 years
Expected volatility	57%
Dividend yield	2.2%
Risk-free interest rate	0.136%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

No options had been granted and remained outstanding under the Pre-IPO Share Option Schemes as at December 31, 2013. As at December 31, 2012, the number of shares in respect of which options has been granted and remained outstanding under the Pre-IPO Share Option Schemes was 34,961,359, representing approximately 3.1% of the shares of the Company in issue at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

28. SHARE OPTION SCHEMES-CONTINUED

(a) Pre-IPO Share Option Schemes-continued

A summary of the movements of the outstanding options during the year under the Pre-IPO Share Option Schemes is as follows:

Type of participants	Date of grant	Vesting period	Exercisable period*	Exercisable price per share HK$	Number of share options Outstanding at 1.1.2012	Exercised during the year	Outstanding at 12.31.2012	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2013
Directors	2.3.2010	2.3.2010–8.19.2010	8.20.2010–2.18.2013	3	836,667	(10,000)	826,667	(826,667)	–	–
	2.3.2010	2.3.2010–1.31.2013	3.1.2012–12.31.2013	3	4,473,333	–	4,473,333	(1,493,333)	(2,980,000)	–
Employees	2.3.2010	2.3.2010–8.19.2010	8.20.2010–2.18.2013	3	2,206,993	(1,000)	2,205,993	(2,205,993)	–	–
	2.3.2010	2.3.2010–1.31.2013	3.1.2012–12.31.2013	3	8,419,333	–	8,419,333	(2,042,691)	(6,376,642)	–
Others#	2.3.2010	2.3.2010–8.19.2010	8.20.2010–12.31.2013	3	5,262,033	–	5,262,033	(3,446,015)	(1,816,018)	–
	2.3.2010	2.3.2010–1.31.2013	3.1.2013–2.18.2013	3	13,774,000	–	13,774,000	–	(13,774,000)	–
					34,972,359	(11,000)	34,961,359	(10,014,699)	(24,946,660)	–

* One-third of the options granted are exercisable six months after the listing date and 1/36th of the options are exercisable at one year after the listing date in 24 tranches until the expiry date. The expiry date of the options are extended from February 18, 2013 to December 31, 2013.

The Company's share options granted to other participants are measured by reference to the fair value of options granted to directors/employees of the Group since the fair value of the services provided by such other participants to the Group cannot be estimated accurately.

	2013	2012
Number of share options exercisable at December 31	–	33,850,269

In respect of share options exercised during the year, the weighted average share price at the date of exercise is HK$2.45 (2012: HK$2.48).

The number of share options exercised during the year represent the options to purchase for shares that had been granted by Strong Ally.

28. SHARE OPTION SCHEMES-CONTINUED

(a) Pre-IPO Share Option Schemes-continued

The Group recognised the total expenses of RMB892,000 for the year ended December 31, 2013 (2012: RMB2,211,000) in relation to the Pre-IPO Share Option Schemes.

(b) Share Option Scheme

Pursuant to the written resolutions passed by the then sole shareholder on February 1, 2010, the Company adopted the share option scheme (the "Share Option Scheme") to provide incentive for qualified participants as defined in the Share Option Scheme to subscribe the shares in the Company. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued number of share capital of the Company. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Since February 1, 2010, no options have been granted or agreed to be granted under the Share Option Scheme.

29. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2013 **RMB'000**	2012 RMB'000
Within one year	**59,417**	36,130
In the second to fifth year inclusive	**67,293**	49,295
	126,710	85,425

Leases are negotiated and rentals are fixed for lease terms of three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

30. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of		
— property, plant and equipment	**166,255**	148,899
— technical knowhow	**56,154**	56,250
	222,409	205,149

31. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in the MPF in Hong Kong. The assets of the MPF are held separately from those of the Group in fund under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF Scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2013 RMB'000	2012 RMB'000
Salaries and other benefits	**9,422**	9,575
Equity-settled share-based payments	**304**	681
Retirement benefits scheme contributions	**141**	131
	9,867	10,387

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

33. PRINCIPAL SUBSIDIARIES

Details of Company's principal subsidiaries, all of which are wholly-owned by the Company indirectly, at the end of the reporting period are as follows:

Name of subsidiary	Country of establishment/ operations	Registered capital	Principal activity
Ruinian Industry	PRC as a wholly foreign owned enterprise for a term until June 9, 2036 commencing August 22, 2006	RMB530,000,000	Manufacture and sales of health and nutritional supplements
Nanjing Ruinian	PRC as a sino-foreign equity joint venture for a term of 20 years commencing January 5, 2004	US$20,000,000	Manufacture and sales of pharmaceutical products
Ruinian Pharmaceutical	PRC	RMB8,000,000	Sales of pharmaceutical products
無錫正乾生物科技有限公司 (Wuxi Zhenqian Bio-technology Company Limited)	PRC as a wholly foreign owned enterprise for a term of 50 years commencing June 22, 2010	US$45,000,000	Manufacture and sales of health drinks
無錫銀乾生物科技有限公司 (Wuxi Yinqian Bioscience Company Limited)	PRC as a wholly foreign owned enterprise for a term of 50 years commencing October 27, 2010	US$38,000,000	Property holding for construction of production facilities
江蘇千聚實業有限公司 (Jiangsu Qianju Industry and Commerce Co. Limited)*	PRC as a wholly foreign owned enterprise for a term of 20 years commencing February 4, 2013	RMB50,000,000	Property holding for construction of production facilities

* This subsidiary was newly established in February 2013.

The above table lists the principal subsidiaries of Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the consolidated net assets. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

33. PRINCIPAL SUBSIDIARIES-CONTINUED

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in PRC and HK. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2013	2012
Trading of health and nutritional supplements	Hong Kong	1	1
Investment holding	British Virgin Islands	2	2
	Hong Kong	1	1
Property holding for construction of production facilities	PRC	2	2
Inactive	British Virgin Islands	2	2
	Hong Kong	1	1
	PRC	–#	1

This subsidiary was deregistered in April 2013.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2013 RMB'000	2012 RMB'000
Unlisted investment in subsidiary	**433,977**	433,977
Amounts due from subsidiaries	**1,369,750**	1,225,126
Other assets	**39,813**	29,415
Total assets	**1,843,540**	1,688,518
Total liabilities	**172,677**	12,211
Net assets	**1,670,863**	1,676,307
Share capital	**9,858**	9,858
Reserves	**1,661,005**	1,666,449
Total equity	**1,670,863**	1,676,307

MOVEMENT IN RESERVES

	Share premium RMB'000	Contribution surplus RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000	Retained profits RMB'000	Total RMB'000
At January 1, 2012	1,214,992	427,384	62	13,657	–	2,107	11,564	1,669,766
Profit for the year	–	–	–	–	–	–	43,839	43,839
Shares repurchased	(1,884)	–	9	–	–	–	(9)	(1,884)
Recognition of equity-settled share-based payments	–	–	–	1,107	–	1,104	–	2,211
Dividends	–	–	–	–	–	–	(47,483)	(47,483)
At December 31, 2012	1,213,108	427,384	71	14,764	–	3,211	7,911	1,666,449
Profit for the year	–	–	–	–	–	–	44,483	44,483
Recognition of equity component of convertible loan notes	–	–	–	–	50	–	–	50
Recognition of equity-settled share-based payments	–	–	–	17	–	875	–	892
Dividends	–	–	–	–	–	–	(50,869)	(50,869)
At December 31, 2013	**1,213,108**	**427,384**	**71**	**14,781**	**50**	**4,086**	**1,525**	**1,661,005**

FINANCIAL SUMMARY

	Year ended December 31,				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
RESULTS					
Turnover	850,622	1,357,246	1,789,894	1,755,201	**1,903,142**
Profit before taxation	313,112	528,067	774,559	676,445	**700,300**
Taxation	(103,410)	(175,802)	(222,921)	(210,517)	**(207,175)**
Profit for the year	209,702	352,265	551,638	465,928	**493,125**

	At December 31,				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,227,050	2,684,829	3,236,963	3,667,571	**4,610,373**
Total liabilities	(434,206)	(303,870)	(360,022)	(371,875)	**(870,390)**
Net assets	792,844	2,380,959	2,876,941	3,295,696	**3,739,983**