# 利君國際醫藥
## (控股)有限公司
## Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2005

Annual Report

2013

# CONTENTS

# CORPORATE INFORMATION

**STOCK CODE**

2005

**EXECUTIVE DIRECTORS**

Mr. Wu Qin *(Chairman)*
Mr. Qu Jiguang
Mr. Xie Yunfeng
Mr. Wang Xianjun
Mr. Duan Wei

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

**COMPANY SECRETARY**

Mr. Chan Ka Kit

**REGISTERED OFFICE**

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

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Rooms 2101-02, 21st Floor
Harbour Centre, 25 Harbour Road
Wanchai, Hong Kong

**AUTHORISED REPRESENTATIVES**

Mr. Wang Xianjun
Mr. Xie Yunfeng

**AUDIT COMMITTEE**

Mr. Chow Kwok Wai *(Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

**REMUNERATION COMMITTEE**

Mr. Leung Chong Shun *(Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

**NOMINATION COMMITTEE**

Mr. Wang Yibing *(Chairman)*
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

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

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

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

**PRINCIPAL BANKERS**

Bank of China
Industrial and Commercial Bank of China
China Construction Bank
China Merchants Bank
China Minsheng Banking Corp., Ltd.
China CITIC Bank
Hang Seng Bank
China CITIC Bank International
Bank of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Bank of Hebei

**LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW**

DLA Piper Hong Kong

**AUDITOR**

PricewaterhouseCoopers

**WEBSITE**

http://www.lijun.com.hk

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I hereby present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013.

## 1. RESULTS AND DIVIDEND DISTRIBUTION

The operation of the overall pharmaceutical industry was fairly stable throughout the year. With the mandatory implementation of the new GMP and the improvement of the drug bidding policy, the competitive advantages of sizable pharmaceutical companies have gradually emerged. The Company has seized the policy and market opportunities to open up new markets and lower operating costs by accelerating infrastructural projects and expediting new product development. As a result, its market share and operating results have maintained strong growth momentum. During the year, revenue from principal businesses amounted to HK$2,745,316,000, representing a year-to-year increase of 12.9%, among which, HK$1,723,257,000 was sales revenue from Shijiazhuang No. 4 Pharma, representing a year-to-year increase of 21.5%, and HK$1,022,059,000 was sales revenue from Xi'an Lijun, representing a year-to-year increase of 0.9%. The Group achieved a new breakthrough in its development with a record high net profit of HK$411,814,000, representing a year-to-year increase of 46.6%.

The Board recommended the payment of a final dividend of HK$0.02 per share, amounting to a total of HK$58,599,000, and total dividend for the year was HK$117,198,000, representing an increase of 9.1% as compared to last year.

## 2. BUSINESS REVIEW

### (1) Product Operation

1. **Expansion of market share, and reinforcement and enhancement of operating advantages.** With new projects attaining design capacity and achieving volume stimulation, the economies of scale of its intravenous infusion solution business have been further realized. In 2013, the sales of the Company's intravenous infusion solutions amounted to 694 million bottles (bags), representing an increase of 23.2% as compared to last year, among which, the sales of 280 million soft bag products recorded an increase of 48.0% as compared to last year. Apart from reinforcing and enhancing our traditional market strengths, we have also timely adjusted and expanded the end coverage of advantageous infusion solution products. As a result, the sales of double-outlet soft bag infusion solutions and therapeutic infusion solutions achieved rapid growth, effectively ensuring continued growth in our operating results.

2. **Sustained growth of export and processing businesses.** In 2013, four new export destinations, namely Indonesia, Cameroon, Kazakhstan and Liberia, have been added. Currently, nearly 50 specifications of the Company have completed product registration in 20 countries. Export sales recorded a year-to-year increase of 37.8%, and we ranked among the top ten brands for preparation export in the PRC for the third time.

2. **BUSINESS REVIEW** *(continued)*

(1) **Product Operation** *(continued)*

3. **Stable operation of antibiotics and other finished products businesses.** After gradually adapting to the new market environment following the promulgation of the "price and quantity restrictions" policy, our sales channels have been further streamlined, and product prices have steadily increased. Of which, our key product Lijunsha recorded a year-to-year increase of 11.4% in sales, paralleled by a stable gross profit margin.

(2) **New Product Research and Development**

Both innovation capacity and strength have been enhanced during the period. The Company has accelerated its innovational development through incentives such as project and intelligence acquisition, and project responsibility system. In 2013, the Company acquired a batch of new products and technologies with good market development prospects, including Type 1 new drug, Compound Dexibuprofen Sustained-release Double Layer Tablet, raw materials and tablets of Chemical Type 3 new drug Blonanserin, and raw materials and tablets of Lacosamide that have received the clinical approval from SFDA and entered the phase of clinical trial of new drugs. Production permits for 500ml Compound Electrolyte Injection soft-packaging and domestic exclusive 250ml/7.5mg Ambroxol Glucose Injection soft-packaging products were also obtained. It has also received 9 notices of invention, practical new model and outlook design patents for Lacosamide Sustained-release Tablet and its method of preparation, high-osmolality preparation and its method of preparation, and plastic infusion bags interface connector, etc. The innovation results were fruitful.

(3) **Key Projects**

Our key projects have commenced production and achieved efficiency, promoting the stable and rapid development of the Company. All Phase I relocation and upgrade of Shijiazhuang No. 4 Pharma's headquarters have been completed or ready for use as scheduled. Of which, 6 new high standard infusion solution production lines have obtained the new GMP certifications, and currently have commenced production and operation. Accordingly, the production capacity of the Company's intravenous infusion solution has increased to 1.5 billion bottles (bags), achieving historical breakthrough in overall scale and structural optimization. Infusion solution soft bags accounted for over 60% of the Company's overall infusion solution production capacity.

To ensure the fulfilment with the requirements of the State's new GMP standards for solid preparations by the end of 2015, and in line with the overall regulation of Xi'an Municipal for industrial enterprises to "retreat from the city to the parks", Xi'an Lijun has started its overall relocation and reconstruction. Its objective-attaining capacity expansion and reconstruction project for solid preparations has commenced construction in the new area, and is expected to complete all relocation and commence official operation upon obtaining the new GMP certification of production lines by the end of 2015.

On the overall, the operating results of the Company in 2013 marked the best in history, under the immense effort contributed by the two subsidiaries and our staff. Particularly, the outstanding results of Shijiazhuang No. 4 Pharma provided major support for the profits of the listed company and significant contribution to the results of the Group. In face of considerable obstacles, Xi'an Lijun managed to achieve hard-won but respectable results after unremitting exertion.

**3. FUTURE PROSPECTS**

Looking forward into 2014, the operating environment of the pharmaceutical industry in China will not change much, and market players will be faced with development opportunities and challenges. Increasing concentration of pharmaceutical production and centralized commencement of drug bidding and procurement in various regions will provide the Company with new opportunities and room for development. Competition among large corporations arising from industrial concentration will also inevitably result in new interest pattern. Coupled with China's promotion of reasonable drug application and health education concepts and intensification of related measures, the Company is presented with new challenges to development.

**(1) Capitalizing on opportunities arising from new round of drug bidding to achieve new breakthroughs in production and sales structural adjustments.**

We will combine the opportunities arising from the new round of national drug bidding activities in 2014 with our own advantages to strengthen our study and judgment of bidding, industrial policy and industrial competition, implement differentiating marketing measures, coordinate domestic market, expand international market, and adapt to requirements of new market landscape and changes. We will endeavor to excel in the marketing of its strategic products such as vertical soft bag and double-outlet soft bag infusion solutions, and increase the market development of products such as soft bag rinsing solutions, dialysis solutions and therapeutic infusion solutions, with the aims of achieving the infusion solution sales target of 1.1 billion bottles (bags), maintaining our dominant position in the soft bag market, and further increasing the profitability of infusion solution products. Market development for new drugs that have obtained production document number such as Edaravone, Nalmefene Hydrochloride and Glipizide will be expedited to increase sales as soon as possible and create new growth points for the Group's results.

We will continue to unswervingly implement the strategy of "going overseas", intensify international certification application and professional establishment of foreign trade team, and expand international registration and certification of products, in order to ensure a growth rate of over 30% for the sales of foreign trades and processing products.

**(2) Step up implementation of strategic projects such as Shijiazhuang No. 4 Pharma's headquarters relocation to commence production and achieve efficiency, and expedition of transformation and upgrade.**

Completion and production commencement of the relocation and upgrade project of Shijiazhuang No. 4 Pharma's headquarters in the High-tech Development Zone are of strategic importance to our transformation, upgrade, breakthrough and catch-up. Production lines completed in Phase I have been put into use. We will base upon our long-term development by excelling in the double-hard tube infusion solution production lines in Phase II, modernization of Chinese medicine, and ampule small liquid injection preparation and related auxiliary facility projects, striving to achieve certification and commence production in the this year and further promote the optimization and transformation of the Company's industrial and product structures. Our leading position in the industry will be consolidated by new project construction, old production line upgrade, and enhancing infusion solution production capacity, quality and efficiency advantage.

**3. FUTURE PROSPECTS** *(continued)*

**(2)** *(continued)*

Through sound organization and coordination for the relocation and construction of the production base of Xi'an Lijun, assets and land of the existing production base will be properly disposed to ensure appreciation, while adhering to the schedule of the Phase I project.

**(3) Acceleration of innovation team and platform construction, and pushing forward product and technological innovation.**

High priority is attached to research, development and innovation. Innovation work is guided by our long-term and strategic vision. A strong atmosphere that concerns, values and supports research and development across the Company is created through talent acquisition and mechanism change. In 2014, our new product research and development will consider the principle of combining exclusive products and general products with little investment but quick result, and combining innovative drugs and generic drugs. We will also expedite application for approval, innovation and transformation of new products, and strengthen our core competitiveness to take advantage of the opportunities arising from acceleration of national generic drug registration and evaluation, and obtain production permits for 500ml Compound Sodium Chloride Injection and vertical Sodium Lactate Ringer's Injection soft bag as soon as possible. We will strive to obtain production permits for products with good market development prospects such as 100ml Pediatric Electrolyte Supplements Injection, 1000ml Compound Sodium Chloride Injection, 3000ml Mannitol Injection and 2000ml Glycine soft bag rinsing solution in this year. The Type 1.5 gastric mucosal protection new drug, Compound Alanine Glutamine Double-layer Chewing Tablet has been filed with the State Center for Drug Evaluation, and we will closely follow up with the progress. The Type 1.1 anti-dementia and vascular dementia new drug MeN061016-1 is currently in the phase of pre-clinical research, and we will strive to obtain the clinical approval as soon as possible. At the same time, we will coordinate and promote the screening, development and application for approval of over 250 categories under development and intended for development such as three-in-one PP ampule small liquid injection preparation, Roflumilast Tablet and Acofide Tablet, incessantly reinforce our core competitiveness, and ultimately build an innovative enterprise.

In general, the Company is optimistic about the operating position in 2014. The operating results will continue to grow and we will strive to bring satisfying returns to the investors. On behalf of the Board, I hereby express our gratitude to the investors and our staff for their support to the development of the Company.

**Wu Qin**
*Chairman*

Hong Kong, 28 March 2014

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

For the year ended 31 December 2013, the revenue of the Group amounted to approximately HK$2,745,316,000, representing an increase of 12.9% as compared to HK$2,430,684,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2013 is set out as follows:

| | **2013** | | 2012 | | |
|---|---|---|---|---|---|
| | **Sales** | **Percentage of sales** | Sales | Percentage of sales | Change |
| | ***HK$'000*** | **%** | *HK$'000* | % | % |
| Intravenous infusion solution and others | **1,723,257** | **62.8** | 1,418,174 | 58.3 | 21.5 |
| (Including: Non-PVC soft bag infusion solution | **831,543** | **30.3** | 577,846 | 23.8 | 43.9 |
| PP plastic bottle infusion solution) | **451,292** | **16.4** | 442,021 | 18.2 | 2.1 |
| Antibiotics | **501,049** | **18.3** | 523,602 | 21.5 | (4.3) |
| (Including: Lijunsha | **291,262** | **10.6** | 261,422 | 10.8 | 11.4 |
| Paiqi) | **85,504** | **3.1** | 121,645 | 5.0 | (29.7) |
| Non-antibiotics finished medicines | **431,462** | **15.7** | 384,446 | 15.8 | 12.2 |
| (Including: Dobesilate | **107,034** | **3.9** | 89,165 | 3.7 | 20.0 |
| Lixiding) | **39,660** | **1.4** | 36,920 | 1.5 | 7.4 |
| Sales of bulk pharmaceuticals | **89,460** | **3.2** | 103,421 | 4.3 | (13.5) |
| Others | **88** | **—** | 1,041 | 0.1 | (91.5) |
| Total | **2,745,316** | **100** | 2,430,684 | 100 | 12.9 |

## INTRAVENOUS INFUSION SOLUTION

The Group's intravenous infusion solution products were mainly manufactured and sold by Shijiazhuang No. 4 Pharma and there were 3 forms of packing in intravenous infusion products, namely Non-PVC Soft Bag, PP Plastic Bottle and Glass Bottle.

Revenue of Shijiazhuang No. 4 Pharma for the year ended 31 December 2013 was HK$1,723,257,000 (2012: HK$1,418,174,000), representing a growth of 21.5% on a year-to-year basis. Among which, sales of intravenous infusion solution products contributed HK$1,517,390,000 (2012: HK$1,238,645,000), representing a growth of 22.5% on a year-to-year basis. Among which, sales of Non-PVC Soft Bag infusion solution was HK$831,543,000, representing 54.8% of the total sales of intravenous infusion solution and an increase of 43.9% as compared with last year; sales of PP Plastic Bottle infusion solution was HK$451,292,000, representing 29.7% of the total sales of intravenous infusion solution and an increase of 2.1% as compared with last year; sales of Glass Bottle infusion solution was HK$234,555,000, representing 15.5% of the total sales of intravenous infusion solution and a increase of 7.2% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the Non-PVC Soft Bag infusion solution and PP Plastic Bottle infusion solution. It is believed that the intravenous infusion solution business will be one of the growth drivers of the Group in the coming years.

## ANTIBIOTICS

In 2013, sales of Lijunsha increased by 11.4% to HK$291,262,000 (2012: HK$261,422,000), sales of Paiqi decreased by 29.7% to HK$85,504,000 (2012: HK$121,645,000) and sales of others antibiotics finished products decreased by 11.6% to HK$124,283,000 (2012: HK$140,535,000). Overall sales of antibiotics finished products decreased by 4.3% to HK$501,049,000 (2012: HK$523,602,000) due to price control and volume control by the PRC government.

The reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 21.5% in 2012 to 18.3% in 2013 and sales proportion of Lijunsha accounted for only 10.6% of the total Group's sales in 2013, comparing to 10.8% in 2012.

## NON-ANTIBIOTICS FINISHED PRODUCTS

Sales of the Group's non-antibiotics products increased by 12.2% to HK$431,462,000 (2012: HK$384,446,000). Among which, sales of Dobesilate increased by 20.0% to HK$107,034,000 (2012: HK$89,165,000) while sales of Lixiding increased by 7.4% to HK$39,660,000 (2012: HK$36,920,000).

## BULK PHARMACEUTICALS

Sales of bulk pharmaceuticals amounted to HK$89,460,000 in 2013 (2012: HK$103,421,000), representing an decrease of 13.5%.

## COST OF SALES

The Group's cost of sales increased by 8.3% from HK$1,397,590,000 for the year ended 31 December 2012 to HK$1,512,986,000 for the year ended 31 December 2013. The cost of direct materials, direct labour and other costs represented approximately 70.5%, 11.5% and 18.0% of the total cost of sales respectively for the year ended 31 December 2013 while their comparative percentages for 2012 were 66.8%, 11.3% and 21.9% respectively.

## GROSS PROFIT MARGIN

Gross profit of the Group in 2013 amounted to HK$1,232,330,000 (2012: HK$1,033,094,000), representing a gross profit margin of 44.9%, which increased by 2.4 percentage point comparing to that of last year (42.5%).

## SELLING AND MARKETING COSTS

For the year ended 31 December 2013, selling and marketing costs amounted to approximately HK$497,708,000 (2012: HK$410,798,000), which mainly consisted of advertising expenses of approximately HK$71,383,000 (2012: HK$64,327,000), sales commission of approximately HK$143,069,000 (2012: HK$114,298,000), salaries expenses of sales and marketing staff of approximately HK$48,807,000 (2012: HK$51,509,000) and transportation cost of approximately HK$153,087,000 (2012: HK$114,185,000).

The increase of 21.2% in selling and marketing costs in 2013 as compared with that of 2012 was mainly attributable to increased in sales of our products.

## GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to approximately HK$291,530,000 (2012: HK$290,201,000) for the year ended 31 December 2013 which mainly comprised salaries expenses for the administrative staff of approximately HK$132,676,000 (2012: HK$113,800,000), depreciation and amortisation of approximately HK$35,215,000 (2012: HK$55,048,000) and an expense for the grant of share options of approximately HK$15,530,000 in 2012.

The increase of 0.5% in general and administrative expenses from 2012 to that of 2013 was mainly attributable to expansion of the Group's operations, increase in salaries expenses for the administrative staff and an expense for the grant of share options in 2012.

## OPERATING PROFIT

The Group's operating profit in 2013, amounted to HK$538,830,000 (2012: HK$372,216,000) with its operating profit margin (defined as operating profit divided by total sales) increased to 19.6% (2012: 15.3%). The operating profit and operating profit margin in 2013 were increased as a result of the expansion of intravenous infusion solution business.

## FINANCE COSTS

The finance costs in 2013 increased by 26.9% to HK$46,910,000 (2012: HK$36,954,000). During the year, interest expense on bank borrowings amounted to HK$50,680,000 (2012: HK$32,890,000) and discount of bills receivables amounted to HK$2,941,000 (2012: HK$1,248,000). The increase in finance costs as compared to that of 2012 was mainly due to the increases in bank loan and loan interest rate.

## INCOME TAX EXPENSE

Both Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") and Shijiazhuang No. 4 Pharmaceutical Co., Ltd ("Shijiazhuang No. 4 Pharma") are qualified as new high technology enterprises and entitled to a 15% preferential Mainland China Enterprise Income Tax ("EIT") rate for the years from 2012 to 2014. For the year ended 31 December 2013, the income tax expense amounted to HK$81,659,000 (2012: HK$55,513,000).

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

Profit attributable to equity holders of the Company for the year amounted to HK$411,814,000 (2012: profit attributable to equity holders of the Company HK$281,003,000) with a net profit margin (profit attributable to equity holders of the Company for the year divided by total sales) of 15.0% (2012: 11.6%).

## LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2013, the cash and cash equivalents aggregated to HK$336,928,000 (2012: HK$411,783,000), comprising HK$247,913,000 (2012: HK$409,692,000) of cash and cash equivalents denominated in Renminbi ("RMB"), HK$86,060,000 (2012: HK$1,128,000) in Hong Kong dollars and HK$2,955,000 (2012: HK$963,000) in other currencies.

The carrying amounts of the borrowings amounting to HK$1,187,793,000 (2012: HK$828,508,000) as at 31 December 2013, comprising HK$896,494,000 (2012: HK$616,637,000) of borrowings denominated in RMB, HK$162,920,000 (2012: HK$88,142,000) in Hong Kong dollars and HK$128,379,000 (2012: HK$123,729,000) in other currencies.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital) increased from 14.4% as at 31 December 2012 to 22.9% as at 31 December 2013.

Current ratio (defined as current assets divided by current liabilities) decreased from 1.55 as at 31 December 2012 to 1.11 as at 31 December 2013.

## FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and Hong Kong dollars. The Group is of the opinion that its exposure to foreign exchange rate risk is limited. Hence, no financial instrument for hedging was employed. The Group is closely monitoring the financial market and would consider appropriate measures if required.

## PLEDGE OF ASSETS

As at 31 December 2013, the net book amount of the Group's land use right of HK$72,647,000 (2012: HK$48,724,000) and the net book amount of the Group's buildings, plant and machineries of HK$418,769,000 (2012: HK$249,166,000) were pledged as collateral for the Group's bank borrowings.

## CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities.

## EXCHANGE RATE

As at 2013 and 2012, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

| | |
|---|---|
| 1 January 2012 | 0.81070 |
| 31 December 2012 | 0.81085 |
| 31 December 2013 | 0.78623 |

## DIRECTORS

### Executive directors

**Mr. Wu Qin (吳秦)**, aged 61, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Wu was the chairman of Rejoy Group Limited Liability Company ("Rejoy Group") from October 1998 to August 2011. He has also been the chairman of Xi'an Lijun since November 1999. He is also a director of Prime United Industries Limited ("Prime United"), a controlling shareholder of the Company. Mr. Wu was the general manager of Xi'an Lijun. Mr. Wu has over 30 years of experience in the pharmaceutical industry. He is particularly experienced in the business planning, marketing and enterprise management for pharmaceutical brands. In addition to setting up a number of unique management models, he has also achieved great success in establishing the "Lijunsha" brand, which is one of the prominent "Well-known Trademark in China" in the pharmaceutical industry in the PRC. Mr. Wu graduated from the Open University of Hong Kong with a degree of Master in Business Administration in 2002. He was a deputy to the 10th Standing Committee of the National People's Congress, and was awarded the National Labour Model Award (全國勞動模範), National May First Labour Meda (全國五一勞動獎章), International Chinese Commercial Leaders Award (世界華商領袖功勛獎), Outstanding Chinese Entrepreneurs Award (中國傑出企業領袖) and 100 Most Innovative Chinese Characters Award (中國改革100新銳人物). He was also an executive director of Pharmaceutical Administration Association/China Pharmaceutical Association. He also enjoys special subsidy for the year 2002 granted by the State Council of the PRC. He is currently a vice president of Shaanxi Industrial and Economic Federation and Deputy Chairman of the Shaanxi Association of Commerce of the China International Association of Commerce. He is also a senior economist accredited by The Ministry of Personnel of China, the Deputy Chairman of Law and Social Order Committee of the Standing Committee of Shaanxi Province People's Congress and member of Strategies & Advisory Committee of Shaanxi Province.

**Mr. Qu Jiguang (曲繼廣)**, aged 59, an executive Director, the vice-chairman and the chief executive officer of the Company. Mr. Qu is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has nearly 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress (河北省人大代表), Vice-Chairman of China Pharmaceutical Industry Association (中國化學製藥協會副會長), Vice-Chairman of Hebei Provincial Federation of Industry and Commerce (河北省工商聯副主席), Vice-Chairman of Hebei Provincial Association of Enterprise (河北省企業聯合會副會長), Vice-Chairman of Hebei Pharmaceutical Industry Association (河北省醫藥行業協會副會長).

**DIRECTORS** *(Continued)*

**Executive directors** *(Continued)*

**Mr. Xie Yunfeng**（**謝雲峰**）, aged 59, an executive Director and is responsible for management in daily administration of Xi'an Lijun. Mr. Xie has been a director and the deputy general manager of Xi'an Lijun since November 1999. He was a director of Rejoy Group from August 1999 to May 2004. He has been the chairman of Rejoy Group Limited Liability Company since August 2011. Mr. Xie joined the Group since its establishment in November 1999 and has nearly 30 years of experience in pharmaceutical production. He is also a director of Prime United. Mr. Xie graduated from Party School of the CPC Central Committee majoring in law in 2001. Mr. Xie was awarded the Labour Model of Shaanxi Province and the second session of the honorary title of Outstanding Young Entrepreneurs of Xi'an City.

**Mr. Wang Xianjun**（**王憲軍**）, aged 51, an executive director. Mr. Wang has over 20 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang was also an independent non-executive director of Greater China Holding Limited from July 2002 to August 2005, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

**Mr. Duan Wei**（**段偉**）, aged 56, an executive Director and is responsible for sales and human resources functions of Shijiazhuang No. 4 Pharma. He joined No. 1 Pharma as a supervisor in March 1984 and was later promoted as the supervisor of Shijiazhuang Pharmaceutical Group. Mr. Duan has been an executive director and the vice general manager of Shijiazhuang No. 4 Pharma since March 1999 and he has also been an executive director of New Orient, CPCL and CMP. Mr. Duan graduated from Hebei Central Radio and TV University（河北廣播電視大學）and has ample experiences in sales management.

**DIRECTORS** *(Continued)*

**Independent non-executive directors**

**Mr. Wang Yibing (王亦兵)**, aged 51, an independent non-executive Director. He graduated from Shenyang Pharmaceutical University, majored in pharmacy (瀋陽藥科大學藥學). He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce (河北省醫藥行業協會). Mr. Wang joined Heibei Provincial Pharmaceutical Research Centre (河北省藥物研究所) in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine (河北省醫藥管理局綜合經濟處) as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration (河北省食品藥品監督管理局藥品註冊處，藥品安全監管處). Mr. Wang possesses about 25 years experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

**Mr. Leung Chong Shun (梁創順)**, aged 48, an independent non-executive Director. He is also an independent non-executive director of China National Materials Company Limited (Stock code: 1893) and China Communications Construction Company Limited (Stock code: 1800), companies listed on the Stock Exchange. He served as an independent non-executive director of China Metal Recycling (Holdings) Limited from May 2009 to August 2013. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

**Mr. Chow Kwok Wai (周國偉)**, aged 47, was appointed as an Independent Non-executive Director of the Company on 16 October 2005. Mr. Chow is currently a Deputy General Manager and the Company Secretary of Silver Grant International Industries Limited ("Silver Grant"). He has worked in Price Waterhouse, which is now known as PriceWaterhouseCooper, and has accumulated valuable audit experience there. Mr. Chow has over 20 years' of experience in accounting, financial management and corporate finance. Mr. Chow received his bachelor degree in Social Sciences from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. He is also a Certified Tax Adviser and a Fellow member of the Taxation Institute of Hong Kong. Mr. Chow is currently a non-executive director of Cinda International Holdings Limited ("Cinda") (stock code: 111) and an independent non-executive director of Youyuan International Holdings Limited ("Youyuan") (stock code: 2268). He was also an executive director of Silver Grant (stock code: 171) during the period from 20 April 2004 to 28 December 2012. The shares of Silver Grant, Cinda and Youyuan are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

**CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY**

**Mr. Chan Ka Kit (陳家傑)**, aged 39, is the chief financial officer and company secretary of the Company. He joined the Group in May 2013. Mr. Chan graduated from The City University of Hong Kong with Bachelor's of Art degree in Accountancy in 1997. He has worked in Deloitte Touche Tohmatsu for over 7 years and has accumulated valuable audit experience there. Mr. Chan has over 16 years of working experience in accounting, financial management and corporate finance. Prior to joining the Company, he has worked for a listed company as chief financial officer and company secretary whose shares are listed on the Main Board of the Stock Exchange for around 3 years. Mr. Chan is currently an independent non-executive director of Roma Group Limited (stock code: 8072) whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

The Board of Directors (the "Board") present their report together with the audited financial statements for the year ended 31 December 2013.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 9 to the financial statements.

**SEGMENT INFORMATION**

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2013 is set out in note 5 to the financial statements.

**RESULTS**

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 34.

**DIVIDENDS**

An interim dividend of HK$0.02 per share was declared on 28 August 2013 and paid on 31 October 2013.

The Directors recommend the payment of a final dividend of HK$0.02 per share which, together with the interim dividend of HK$0.02 per share, will result in total dividends of HK$0.04 per share for the year ended 31 December 2013 (2012: HK$0.037 per share adjusted for the Bonus Issue). The final dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

**FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 102.

**PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 7 to the financial statements.

**SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in the consolidated statement of changes in equity and in note 16 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and in note 17 to the financial statements respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company had distributable reserves of approximately HK$1,262,730,000 (2012: HK$1,262,730,000) calculated in accordance with the Companies Law of the Cayman Islands. This includes the Company's share premium account of approximately HK$1,262,730,000 (2012: HK$1,262,730,000) which is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2013.

## SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Old Share Option Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of the offer for grant of options, subject to the terms and conditions of Old Share Option Scheme and any conditions of grant as may be stipulated by the Board.

As at 7 August 2008, the Company granted 100,000,000 share options under the Old Share Option Scheme, representing about 4.93% of the issued share capital as at the date immediately before the options were granted to directors and senior management of the Group. The exercise price was HK$0.7. As at 4 October 2010, all of the 100,000,000 share options granted were exercised.

As at 3 May 2012, the Company granted 40,000,000 share options (being adjusted to 48,000,000 share options as a result of the Bonus Issue on 16 October 2012) under Old Share Option Scheme, representing about 1.64% of the issued share capital as at the date immediately before the options were granted to directors of the Group. The exercise price was HK$1.78 (being adjusted to HK$1.48 as a result of the Bonus Issue on 16 October 2012).

**SHARE OPTION SCHEME** *(Continued)*

As at 31 December 2013, all of the 48,000,000 share options granted under Old Share Option Scheme remained outstanding.

During the year 2012, the Board proposed the termination of Old Share Option Scheme and the adoption of the existing share option scheme ("Existing Share Option Scheme") which were approved by an ordinary resolution passed by the shareholders at the EGM held on 20 September 2012. The operation of Old Share Option Scheme was terminated such that no further share option could thereafter be offered under Old Share Option Scheme but in all other respects the provisions of Old Share Option Scheme shall remain in full force and effect.

Existing Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the "Scheme Period") unless terminated earlier by shareholders in general meeting. The purpose of Existing Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Existing Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Existing Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Pursuant to Existing Share Option Scheme, the offer for grant of options ("Offer") must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Existing Share Option Scheme and any conditions of grant as may be stipulated by the Board.

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Existing Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Existing Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the "Scheme Mandate"). The Scheme Mandate may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10% of the issued share capital of the Company at the date of the shareholders' approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Existing Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders' approval is obtained under the terms of Existing Share Option Scheme.

As at 31 December 2013, no option has been granted under Existing Share Option Scheme since its adoption.

# REPORT OF THE DIRECTORS

## DIRECTORS

The Directors during the year were:

**Executive Directors**

Mr. Wu Qin
Mr. Qu Jiguang
Mr. Xie Yunfeng
Mr. Wang Xianjun
Mr. Duan Wei

**Independent Non-executive Directors**

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 87 of the Company's articles of association, at every annual general meeting one-third of the directors for the time being (or if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and every retiring director shall be eligible for re-election. Accordingly, Mr. Xie Yunfeng, Mr. Leung Chong Shun and Mr. Chow Kwok Wai will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 11 to 13.

## DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date renewable for successive terms of 3 years commencing from the day next after the expiry of the then current term of the appointment.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions", no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

Save as disclosed under the heading "Connected transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2013, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

### Long positions in the shares of the Company

| Name of Director | Capacity | Number of shares held | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Wu Qin | Beneficial owner *(Note 1)* | 42,504,000 | 1.45% |
| Mr. Qu Jiguang | Beneficial owner *(Note 2)* | 26,600,000 | 0.91% |
| | Interest in a controlled corporation *(Note 3)* | 720,560,000 | 24.59% |

*Notes:*

1. Among the 42,504,000 shares, 24,000,000 shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Wu Qin on 3 May 2012 under the Old Share Option Scheme.

2. These shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Qu Jiguang on 3 May 2012 under the Old Share Option Scheme.

3. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES** *(Continued)*

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES**

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES**

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 31 December 2013, the Company had been notified of the following interests, being 5% or more in the issued share capital of the Company.

**Long positions in the shares of the Company**

| Name of Shareholder | Capacity | Number of shares held | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Prime United Industries Limited *(Note 1)* | Beneficial owner | 769,986,000 | 26.28% |
| CPCL *(Note 2)* | Beneficial owner | 720,560,000 | 24.59% |
| Mr. Qu Jiguang | Beneficial owner *(Note 3)* | 26,600,000 | 0.91% |
| | Interest in a controlled corporation *(Note 2)* | 720,560,000 | 24.59% |

*Notes:*

1. Prime United Industries Limited ("Prime United") is held as to about 8.86% by Mr. Wu Qin, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 2.41% by Mr. Huang Chao, a director of Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") and as to about 84.73% by Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao who jointly hold such shares on trust for approximately 3,000 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao are also directors of Prime United Industries Limited. Xi'an Lijun is a subsidiary of the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by State-owned Assets Supervision and Administration Commission of the People's Government of Xi'an.

2. These shares were registered in the name of and beneficially owned by CPCL. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

3. These shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Qu Jiguang on 3 May 2012 under the Old Share Option Scheme.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the Group had approximately 4,700 employees, most of whom were based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The remuneration policy of executive Directors and senior management are reviewed and recommended for the Board's approval by the Remuneration Committee. The remuneration package is reviewed with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group.

The total remuneration cost incurred by the Group for year ended 31 December 2013 was approximately HK$355,872,000 (2012: HK$338,532,000). Details of the remuneration of the Directors for the year ended 31 December 2013 are set out in note 31 to the financial statements.

## RETIREMENT BENEFIT PLANS

Details of retirement benefit plans of the Group are set out in note 30 to the financial statements. Expenses incurred by the Group in connection with the retirement benefit plans were approximately HK$48,543,000 for the year ended 31 December 2013 (2012: HK$36,057,000).

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the Group purchased less than 30% of its total purchases from its 5 largest suppliers and sold less than 30% of its turnover to its 5 largest customers.

## CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements also fell under the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below in compliance with the requirements of Chapter 14A of the Listing Rules.

### Continuing connected transaction

***(1) Distribution of the Group's products by Rejoy Technology Group (Xi'an Rejoy Technology Investment Co., Ltd. and its subsidiaries, including but not limited to Xi'an Rejoy Packaging Materials Co., Ltd.)***

Xi'an Rejoy Technology Investment Co. Ltd., the issued share capital of which is held as to 100% by the beneficial shareholders of Prime United Industries Limited, the controlling shareholder of the Company, and is accordingly a connected person of the Company.

Pursuant to the Master Sale Agreement dated 18 December 2012, the Group agreed to sell and the Rejoy Technology Group agreed to purchase and distribute products of the Group for a term of three years commencing from 1 January 2013 and ending on 31 December 2015. The Rejoy Technology Group purchases products from the Group and distributes such products to other distributors and end customers. The prices and terms of the Master Sale Agreement are no less favourable to the Group than prices and terms available to independent third parties.

There was no sales of Group products to the Rejoy Technology Group for both years ended 31 December 2013 and 31 December 2012.

**CONNECTED TRANSACTIONS** *(Continued)*

**Continuing connected transaction** *(Continued)*

***(2) Purchasing of raw materials and packaging materials from Rejoy Technology Group***

Pursuant to the previous Master Purchase Agreement dated 18 December 2012, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group for a term of three years commencing from 1 January 2013 and ending on 31 December 2015. The prices and terms of the previous Master Purchase Agreement are no less favourable to the Group than prices and terms available from independent third parties.

For the year ended 31 December 2013, the total purchase of raw materials and packaging materials from the Rejoy Technology Group was RMB3,624,000 (2012: RMB4,830,000), which did not exceed the annual cap of RMB8,000,000 (2012: RMB5,000,000) prescribed for the year ended 31 December 2013 as disclosed in the announcement dated 18 December 2012.

The independent non-executive Directors have confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions to the Board of Directors. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

**SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date prior to the issue of this annual report, being 28 March 2014, and at all times during the year ended 31 December 2013.

**CORPORATE GOVERNANCE**

The Company's corporate governance practices is set out in the Corporate Governance Report on pages 23 to 28.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

## ANNUAL GENERAL MEETING

The 2014 Annual General Meeting of the Company will be held at 2:00 p.m. on 23 May 2014 at Rooms 2101-02, 21st Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 21 May 2014 to Friday, 23 May 2014, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office 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 by no later than 4:30 p.m., Tuesday, 20 May 2014.

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office 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 by no later than 4:30 p.m., Wednesday, 28 May 2014 which is the Record Date for the proposed final dividend.

On behalf of the Board

**Wu Qin**
*Chairman*

Hong Kong, 28 March 2014

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (formerly the "Code on Corporate Governance Practices") (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") including those revised code provisions which became effective on 1 April 2013. During the year, the Company has complied with all applicable provisions of CG Code for their respective applicable periods.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

As at 31 December 2013, the Board comprises five executive Directors, namely Mr. Wu Qin (Chairman), Mr. Qu Jiguang, Mr. Xie Yunfeng, Mr. Wang Xianjun and Mr. Duan Wei, and three independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility for the management of the Group to the management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown under the section headed "Biographical Details of Directors and Senior Management". There are sufficient numbers of independent non-executive Directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

During the year, training organised by qualified professionals has been attended by all Directors covering a range of topics including Directors' duties and updates on the Listing Rules. A record of the training are kept and updated by the Company Secretary of the Company.

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company.

There are no financial, business, family and other material or relevant relationships among members of the Board.

**BOARD OF DIRECTORS** *(Continued)*

During the year ended 31 December 2013, a total of four board meetings and one annual general meeting ("AGM") were held and the attendance of each Director was as follows:

| | Number of meetings attended/held | |
|---|---|---|
| **Name of Director** | **Board meetings** | **AGM** |
| *Executive Directors* | | |
| Mr. Wu Qin *(Chairman)* | 4/4 | 1/1 |
| Mr. Qu Jiguang | 4/4 | 0/1 |
| Mr. Xie Yunfeng | 4/4 | 0/1 |
| Mr. Wang Xianjun | 4/4 | 1/1 |
| Mr. Duan Wei | 4/4 | 0/1 |
| *Independent non-executive Directors* | | |
| Mr. Wang Yibing | 4/4 | 0/1 |
| Mr. Leung Chong Shun | 2/4 | 0/1 |
| Mr. Chow Kwok Wai | 4/4 | 1/1 |

Notice of at least 14 days was given of a regular board meeting. For all other board meetings, reasonable notice will be given. All Directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Agendas and accompanying board papers were sent to all Directors at reasonable time before the intended date of meetings.

Minutes of board meetings and meetings of board committee were kept by Company Secretary and such minutes are open for inspection at reasonable time and on reasonable notice by any Director. Such minutes were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of such minutes were sent to all directors for their comment and record respectively within a reasonable time after the board meeting was held.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. The Company has a procedure to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold. Independent non-executive Directors who have no material interest in the transaction shall be present at such Board meeting.

**CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The Board appointed Mr. Wu Qin as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that Directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information in a timely manner.

The Board appointed Mr. Qu Jiguang as the Chief Executive Officer, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Board also comprises independent non-executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all members of the Audit Committee, the Remuneration Committee and the Nomination Committee are independent non-executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

**APPOINTMENTS AND RE-ELECTION OF DIRECTORS**

All Directors including independent non-executive Directors are appointed for a specific term which may be extended as each Director and the Company may agree. The Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

**APPOINTMENTS AND RE-ELECTION OF DIRECTORS** *(Continued)*

Also, at each annual general meeting, one-third of the Directors including independent non-executive Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that each Director shall be subject to retirement at least once every three years.

**BOARD DIVERSITY POLICY**

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

**NOMINATION COMMITTEE**

The Board has established the Nomination Committee. The Nomination Committee is chaired by Mr. Wang Yibing and with committee members of Mr. Leung Chong Shun and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Nomination Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

The principal roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board, identifying candidates and/or making recommendations to the Board on candidates nominated for directorships taking into account the candidates' qualification, knowledge and experience in the relevant areas.

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31 December 2013. Issues including the structure, size and composition of the Board were discussed and no change or nomination was recommended to the Board. The attendance of each member was as follows:

| Name of committee members | Number of meetings attended/held |
|---|---|
| Mr. Wang Yibing | 1/1 |
| Mr. Leung Chong Shun | 1/1 |
| Mr. Chow Kwok Wai | 1/1 |

**REMUNERATION COMMITTEE**

The Board has established the Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Remuneration Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

Remuneration Committee is responsible for formulation, review and recommending to the Board of the remuneration policy of executive Directors and senior management. The overriding objective of the remuneration policy is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary.

**REMUNERATION COMMITTEE** *(Continued)*

Other roles and functions of the Remuneration Committee include consulting the Chairman and/or Chief Executive Officer about their remuneration proposals for other executive Directors and senior management, reviewing and approving remuneration proposals with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group, making recommendations to the Board on the remuneration packages with adoption of the approach under B.1.2(c)(ii) of CG code and approving the terms of executive Directors' service agreements.

Meeting of the Remuneration Committee shall be held at least once a year. One meeting had been held during the year ended 31 December 2013. During the meeting, remuneration paid to the Directors and review of remuneration policy have been discussed and recommended to the Board. The attendance of each member was as follows:

| Name of committee members | Number of meetings attended/held |
|---|---|
| Mr. Leung Chong Shun | 1/1 |
| Mr. Wang Yibing | 1/1 |
| Mr. Chow Kwok Wai | 1/1 |

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK$180,000 for each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. All the Directors are entitled to participate in the Share Option Scheme. The emolument payable to Directors depends on their respective contractual terms under the service agreement with the Company, and as recommended by the Remuneration Committee. Details of the remuneration of Directors for the year ended 31 December 2013 are set out in the page 94 of the Annual Report.

**AUDIT COMMITTEE**

The Board has established the Audit Committee and its terms of reference are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited. In compliance with Rule 3.21 of the Listing Rules, the Audit Committee comprises three independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun. No member of the Audit Committee is a member of the former or the existing auditor of the Company.

The major functions of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the external audit and internal control review processes, and to review the Company's policies and practices on corporate governance.

According to its terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings had been held during the year ended 31 December 2013. The attendance of each member was as follows:

| Name of committee members | Number of meetings attended/held |
|---|---|
| Mr. Chow Kwok Wai | 2/2 |
| Mr. Leung Chong Shun | 2/2 |
| Mr. Wang Yibing | 2/2 |

**AUDIT COMMITTEE** *(Continued)*

During the year, in performing its duties in accordance with its terms of reference and under the CG code, the work performed by the Audit Committee included:

(a) review the financial information of the Company and its subsidiaries, including those contained in the Annual Report and the Interim Report;

(b) discuss the audit approach and audit issues with the external auditor at least twice a year;

(c) recommend to the Board, for the approval by shareholders, of the re-appointment of the external auditor and approval of its remuneration; and

(d) oversee the Company's financial reporting system and internal control procedures.

**TRAINING FOR DIRECTORS**

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated 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. Continuing briefings and professional development to directors will be arranged whenever necessary.

All directors have complied with the code provision A.6.5 of the Code during the year through participating in continuous professional development in one or more of the following manners:

1. reading materials or attending seminars in relation to corporate governance and regulatory requirements;

2. attending seminars/courses/conferences to develop professional skills and knowledge; and

3. site visit.

**ACCOUNTABILITY AND AUDIT**

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects. The management provides such explanation and information to the Board and reports regularly to the Board and financial position of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in pages 29 to 30 of this Annual Report under the section headed "Independent Auditor's Report") for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report.

The Board is responsible for reviewing the effectiveness of the internal control system of the Group which covers all material controls, including financial, operational and compliance controls and risk management functions. The Board is committed to implementing an effective and sound internal control system to provide reasonable assurance against material misstatement or loss and to safeguard shareholders' interests and the Group's assets. During the year, a review of the effectiveness of the internal control system of the Group which covered all material controls was conducted. The report and findings of the review are taken into consideration by the Audit Committee in making its recommendation to the Board for approval of the audited consolidated financial statements of the Group for the year.

## AUDITOR'S REMUNERATION

The fees paid and payable to the Company's auditor, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2013 amounted to approximately HK$3,381,000 and HK$44,000 respectively.

## SHAREHOLDERS' RIGHTS

### (1) Procedures for shareholders to convene an EGM

In accordance with the Company's Article 58, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionists and deposit it to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at Rooms 2101-02, 21st Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionists concerned at the EGM varies according to the nature of the proposal, as follows:

– At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

– At least 21 clear days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company in the EGM.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

### (2) Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at the EGM. The requirements and procedures are set out above.

### (3) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong.

## INVESTOR RELATIONS

Shareholder communication policy was adopted by the Board on 23 March 2012. The Company uses a number of channels to communicate with its shareholders, investors and other stakeholders. These include the AGM, annual and interim reports and quarterly statements, announcements, circulars to shareholders and the Company's website www.lijun.com.hk.

During the year, there was no change in the Company's constitutional documents.

羅兵咸永道

**To the shareholders of**
**Lijun International Pharmaceutical (Holding) Co., Ltd.**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 101, which comprise the consolidated and company balance sheets as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888,* www.pwchk.com

pwc 羅兵咸永道

## OPINION

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 28 March 2014

# CONSOLIDATED BALANCE SHEET

As at 31 December 2013

| | Note | As at 31 December 2013 HK$'000 | As at 31 December 2012 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | 6 | **386,295** | 239,241 |
| Property, plant and equipment | 7 | **2,438,408** | 1,630,224 |
| Intangible assets | 8 | **322,995** | 310,964 |
| Deferred income tax assets | 10 | **25,050** | 21,175 |
| Available-for-sale financial assets | 11 | **164** | 159 |
| | | **3,172,912** | 2,201,763 |
| **Current assets** | | | |
| Inventories | 12 | **404,911** | 398,758 |
| Trade and bills receivables | 13 | **934,193** | 826,943 |
| Prepayments, deposits and other receivables | 14 | **144,913** | 152,191 |
| Pledged bank deposits | 15 | **90,051** | — |
| Cash and cash equivalents | 15 | **336,928** | 411,783 |
| | | **1,910,996** | 1,789,675 |
| **Total assets** | | **5,083,908** | 3,991,438 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 16 | **65,405** | 65,405 |
| Reserves | 17 | | |
| — Proposed final dividend | 31 | **58,599** | 58,599 |
| — Others | | **2,742,265** | 2,364,488 |
| | | **2,866,269** | 2,488,492 |
| **Non-controlling interests** | | **627** | 604 |
| **Total equity** | | **2,866,896** | 2,489,096 |

# CONSOLIDATED BALANCE SHEET

As at 31 December 2013

| | Note | As at 31 December 2013 HK$'000 | As at 31 December 2012 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *18* | **455,019** | 306,034 |
| Deferred income tax liabilities | *10* | **26,905** | 23,783 |
| Deferred revenue | *19* | **10,863** | 7,795 |
| Post-employment benefit obligation | *20* | **9,289** | 10,925 |
| | | **502,076** | 348,537 |
| **Current liabilities** | | | |
| Borrowings | *18* | **732,774** | 522,474 |
| Trade and bills payables | *21* | **490,461** | 250,575 |
| Advanced receipts from customers | | **36,503** | 25,996 |
| Accruals and other payables | *22* | **415,371** | 330,660 |
| Income tax payable | | **39,827** | 24,100 |
| | | **1,714,936** | 1,153,805 |
| **Total liabilities** | | **2,217,012** | 1,502,342 |
| **Total equity and liabilities** | | **5,083,908** | 3,991,438 |
| **Net current assets** | | **196,060** | 635,870 |
| **Total assets less current liabilities** | | **3,368,972** | 2,837,633 |

The notes on pages 37 to 101 are an integral part of these consolidated financial statements.

The financial statements on page 31 to 101 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf.

**WU QIN**
*Director*

**QU JIGUANG**
*Director*

# BALANCE SHEET OF THE COMPANY

As at 31 December 2013

| | Note | As at 31 December 2013 HK$'000 | As at 31 December 2012 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **634** | 997 |
| Investments in subsidiaries and advance to a subsidiary | 9 | **1,264,848** | 1,264,848 |
| | | **1,265,482** | 1,265,845 |
| **Current assets** | | | |
| Dividends receivable | | **257,148** | 198,550 |
| Prepayments, deposits and other receivables | 14 | **536** | 1,443 |
| Amounts due from subsidiaries | 9 | **50,740** | 50,679 |
| Cash and cash equivalents | 15 | **1,583** | 851 |
| | | **310,007** | 251,523 |
| **Total assets** | | **1,575,489** | 1,517,368 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 16 | **65,405** | 65,405 |
| Reserves | 17 | | |
| — Proposed final dividend | 31 | **58,599** | 58,599 |
| — Others | | **1,450,012** | 1,393,364 |
| **Total equity** | | **1,574,016** | 1,517,368 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accruals and other payables | 22 | **1,473** | — |
| | | **1,473** | — |
| **Total liabilities** | | **1,473** | — |
| **Total equity and liabilities** | | **1,575,489** | 1,517,368 |
| **Net current assets** | | **308,534** | 251,523 |
| **Total assets less current liabilities** | | **1,574,016** | 1,517,368 |

The notes on pages 37 to 101 are an integral part of these financial statements.

The financial statements on page 31 to 101 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf.

**WU QIN**
*Director*

**QU JIGUANG**
*Director*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

| | Note | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| Revenue | 23 | **2,745,316** | 2,430,684 |
| Cost of sales | 25 | **(1,512,986)** | (1,397,590) |
| **Gross profit** | | **1,232,330** | 1,033,094 |
| Selling and marketing costs | 25 | **(497,708)** | (410,798) |
| General and administrative expenses | 25 | **(291,530)** | (290,201) |
| Other gains — net | 24 | **95,738** | 40,121 |
| **Operating profit** | | **538,830** | 372,216 |
| Finance income | 26 | **1,557** | 1,242 |
| Finance costs | 26 | **(46,910)** | (36,954) |
| Finance costs — net | | **(45,353)** | (35,712) |
| **Profit before income tax** | | **493,477** | 336,504 |
| Income tax expense | 27 | **(81,659)** | (55,513) |
| **Profit for the year** | | **411,818** | 280,991 |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Currency translation differences | | **83,180** | (499) |
| **Total comprehensive income for the year** | | **494,998** | 280,492 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **411,814** | 281,003 |
| Non-controlling interests | | **4** | (12) |
| | | **411,818** | 280,991 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **494,975** | 280,504 |
| Non-controlling interests | | **23** | (12) |
| | | **494,998** | 280,492 |

| | Note | 2013<br>HK$ | 2012<br>HK$ |
|---|---|---|---|
| **Earnings per share for profit attributable to the equity holders of the Company** | | | |
| — Basic | 30 | **0.1406** | 0.0959 |
| — Diluted | 30 | **0.1400** | 0.0958 |

The notes on pages 37 to 101 are an integral part of these consolidated financial statements.

| | Note | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| **Dividends** (paid and proposed) | 31 | **117,198** | 107,431 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital *HK$'000* | Reserves *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total equity *HK$'000* |
| **Balance at 1 January 2012** | 55,703 | 2,239,974 | 2,295,677 | 616 | 2,296,293 |
| **Comprehensive income** | | | | | |
| Profit for the year | — | 281,003 | 281,003 | (12) | 280,991 |
| **Other comprehensive income** | | | | | |
| Currency translation differences | — | (499) | (499) | — | (499) |
| **Total comprehensive income** | — | 280,504 | 280,504 | (12) | 280,492 |
| **Transactions with equity holders** | | | | | |
| Purchase of treasury shares | — | (5,522) | (5,522) | — | (5,522) |
| Cancellation of treasury shares | (64) | 64 | — | — | — |
| Dividends paid to equity holders of the Company | — | (97,697) | (97,697) | — | (97,697) |
| Issuance of bonus shares | 9,766 | (9,766) | — | — | — |
| Share option scheme — value of employee services | — | 15,530 | 15,530 | — | 15,530 |
| **Total transactions with equity holders** | 9,702 | (97,391) | (87,689) | — | (87,689) |
| **Balance at 31 December 2012** | 65,405 | 2,423,087 | 2,488,492 | 604 | 2,489,096 |
| **Balance at 1 January 2013** | 65,405 | 2,423,087 | 2,488,492 | 604 | 2,489,096 |
| **Comprehensive income** | | | | | |
| Profit for the year | — | 411,814 | 411,814 | 4 | 411,818 |
| **Other comprehensive income** | | | | | |
| Currency translation differences | — | 83,161 | 83,161 | 19 | 83,180 |
| **Total comprehensive income** | — | 494,975 | 494,975 | 23 | 494,998 |
| **Transactions with equity holders** | | | | | |
| Dividends paid to equity holders of the Company | — | (117,198) | (117,198) | — | (117,198) |
| **Total transactions with equity holders** | — | (117,198) | (117,198) | — | (117,198) |
| **Balance at 31 December 2013** | 65,405 | 2,800,864 | 2,866,269 | 627 | 2,866,896 |

The notes on pages 37 to 101 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

| | Note | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 32(a) | **716,342** | 316,063 |
| Interest paid | | **(50,680)** | (32,890) |
| Income tax paid | | **(67,740)** | (41,105) |
| Net cash generated from operating activities | | **597,922** | 242,068 |
| **Cash flows from investing activities** | | | |
| Purchase of land use rights | | **(144,748)** | (24,668) |
| Purchase of property, plant and equipment | | **(758,529)** | (382,772) |
| Purchase of intangible assets | | **(6,411)** | (3,165) |
| Proceeds from disposals of property, plant and equipment | 32(b) | **26,180** | 13,514 |
| Purchase of financial assets at fair value through profit or loss | | **(72,750)** | (97,688) |
| Proceeds from sale of financial assets at fair value through profit or loss | | **72,105** | 99,476 |
| Interest received | | **1,557** | 1,242 |
| Net cash used in investing activities | | **(882,596)** | (394,061) |
| **Cash flows from financing activities** | | | |
| Purchase of treasury shares | | **—** | (5,522) |
| Proceeds from bank borrowings | | **912,675** | 851,427 |
| Repayments of bank borrowings | | **(579,095)** | (440,765) |
| Dividends paid to equity shareholders of the Company | | **(117,198)** | (103,747) |
| (Increase)/Decrease of pledged bank deposits | | **(14,401)** | 4,443 |
| Net cash generated from financing activities | | **201,981** | 305,836 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(82,693)** | 153,843 |
| Cash and cash equivalents at beginning of the year | | **411,783** | 257,980 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | **7,838** | (40) |
| **Cash and cash equivalents at end of the year** | | **336,928** | 411,783 |

The notes on pages 37 to 101 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013
(All amounts in HK$ unless otherwise stated)

## 1. GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") are engaged in the research, development, manufacturing and selling of a wide range of finished medicines and bulk pharmaceutical products to hospitals and distributors. The Group has manufacturing plants in Hebei Province and Shaanxi Province, the People's Republic of China ("PRC" or the "Mainland China"), and sells to customers mainly in the Mainland China.

The Company is an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2005.

These consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 28 March 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(a) New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2013 and relevant to the Group:

- Amendment to HKAS 1 'Financial statement presentation' is effective for annual periods beginning on or after 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). It has no significant impact on the Group's consolidated financial statements.

- Amendment to HKFRSs 10, 11 and 12 on transition guidance are effective for annual periods beginning on or after 1 January 2013. These amendments provide additional transition relief to HKFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied. They have no significant impact on the Group's consolidated financial statements.

- HKFRS 10 'Consolidated financial statements' is effective for annual periods beginning on or after 1 January 2013. The objective of HKFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The Group assessed that adoption of HKFRS 10 did not result in any change in the consolidation status of its subsidiaries, and did not have any significant impact on the Group's consolidated financial statements.

- HKAS 27 (revised 2011) 'Separate financial statements' is effective for annual periods beginning on or after 1 January 2013. It includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. It has no significant impact on the Group's consolidated financial statements.

- Amendment to HKAS 19 'Employee benefits' is effective for annual periods beginning on or after 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. It has no significant impact on the Group's consolidated financial statements.

There are no other amended standards or interpretations that are effective for the first time for this year and have a material impact on the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

***(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted***

The Group's assessment of the impact of these new and amended standards is set out below.

| | | **Effective date** |
|---|---|---|
| Amendments to HKAS 32 | Financial instruments Presentation on asset and liability offsetting | 1 January 2014 |
| Amendments to HKFRS 10, 12 and HKAS 27 | Consolidation for investment entities | 1 January 2014 |
| Amendment to HKAS 36 | Impairment of assets on recoverable amount disclosures | 1 January 2014 |
| Amendment to HKAS 39 | Financial Instruments: Recognition and Measurement | 1 January 2014 |
| HK(IFRIC) 21 | Levies | 1 January 2014 |
| Amendment to HKAS19 | Defined benefit plans | 1 July 2014 |
| HKFRS 9 | Financial Instruments | left open pending finalisation |
| Annual Improvement 2012 | | 1 July 2014 |
| Annual Improvement 2013 | | 1 July 2014 |

None of these new and amended standards is expected to have a significant effect on the consolidated financial statements of the Group.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Subsidiaries

#### *2.2.1 Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

*(a) Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**2.2 Subsidiaries** *(continued)*

***2.2.1 Consolidation*** *(continued)*

*(a) Business combinations (continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transaction — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

***2.2.2 Separate financial statements***

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

### 2.4 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is HK dollars (HK$) and the functional currency of the majority of the Group's companies is Renminbi ("RMB"). The consolidated financial statements are presented in HK$.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within consolidated 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Foreign currency translation *(continued)*

#### *(c) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

### 2.5 Property, plant and equipment

Property, plant and equipments are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| – Buildings | 10-40 years |
| – Plant and machinery | 5-18 years |
| – Vehicles | 5-10 years |
| – Furniture, fixtures and office equipment | 5-10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net', in the consolidated income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.6 Land use rights

All land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights, which are amortised to the consolidated income statement on a straight-line basis over the periods of the leases, or when there is impairment, the impairment losses is changed in the consolidated income statement.

### 2.7 Intangible assets

#### *(a) Goodwill*

Goodwill arises on the acquisition of subsidiaries, and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### *(b) Trademarks and patents*

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

| | |
|---|---|
| – Trademarks | 50 years |
| – Patents | 5-10 years |

#### *(c) Customer relationships*

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 years.

#### *(d) Computer softwares*

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific softwares. These costs are amortised over their estimated useful lives (5-10 years).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Intangible assets *(continued)*

#### *(e) Research and development costs*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding ten years.

### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.9 Financial assets

#### *2.9.1 Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and bill receivables', other receivables in the 'Prepayments, deposits and other receivables', 'pledged bank deposits', and 'cash and cash equivalents' in the balance sheet (Notes 2.13 and 2.14 respectively).

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.9 Financial assets *(continued)*

#### *2.9.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale and carried at fair value are recognised in other comprehensive income.

When financial assets classified as available-for-sale carried at fair value are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from sales of financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of 'other gains – net'. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of 'other gains – net' when the Group's right to receive payments is established.

### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**2.11 Impairment of financial assets**

***(a) Assets carried at amortised cost***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

***(b) Assets classified as available-for-sale carried at fair value***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.11 Impairment of financial assets *(continued)*

#### *(c) Available-for-sale financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.14 Cash and cash equivalents

In the consolidated statement of cash flow, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**2.16 Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.17 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**2.18 Borrowing costs**

General and specific 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *(b) Deferred income tax*

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.19 Current and deferred income tax *(continued)*

#### ***(c) Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.20 Employee benefits

#### ***(a) Pension obligations***

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

*(i) Defined contribution plan*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,250 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in the Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Employee benefits *(continued)*

#### *(a) Pension obligations* *(continued)*

*(ii) Post-employment benefits*

Some group companies provide post-retirement benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of these benefits obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. These obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of these obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the consolidated income statement in the period in which they arise.

Past service cost is the change in the present value of these benefits obligations resulting from a plan amendment or curtailment. Past service cost is recognised as an expense at the earlier of the following dates: when the plan amendment or curtailment occurs; and when related restructuring costs or termination benefits is recognised. A plan amendment occurs when the Group introduces, or withdraws these post-employment benefits or changes the benefits payable under an existing benefit plan. A curtailment occurs when the Group significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

Past-service costs are recognised immediately in the consolidated income statement, unless the changes to the post-employment benefits are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Employee benefits *(continued)*

#### *(b) Share-based compensation*

*(i) Equity-settled share-based payment transactions*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**2.20 Employee benefits** *(continued)*

***(b) Share-based compensation*** *(continued)*

*(ii) Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

*(iii) Social security contributions on share options gains*

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

***(c) Employee leave entitlements***

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

***(d) Bonus plan***

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

**2.21 Provisions**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.22 Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to purchases of land use rights and property, plant and equipment are included in non-current liabilities and recognised in the income statement over the life of depreciable assets by way of a reduced depreciation or amortisation charge.

### 2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement:

(i) Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income is recognised on a straight-line basis over the terms of the leases.

(iii) Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

(iv) Dividend income is recognised when the right to receive payment is established.

### 2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

***(a) As a lessee***

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

***(b) As a lessor***

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. The revenue from operating lease is charge to the consolidated income statement on a straight-line basis over the period of the lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

### 2.26 Dividend distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.27 Earnings per share

***(a) Basic earnings per share***

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

***(b) Diluted earnings per share***

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### *(a) Market risk*

*(i) Foreign currency exchange risk*

The Group mainly operates in the Mainland China, with most of its transactions denominated and settled in RMB. The Group is exposed to foreign exchange risk primarily arising from Hong Kong Dollars since certain cash and cash equivalents and borrowings are denominated in Hong Kong Dollars. The Group is also exposed to foreign exchange risk through transactions that are denominated in a currency other than the functional currencies of the Company and its subsidiaries.

The Group manages its foreign currency exchange risks by performing regular review and monitoring its foreign currency exposures. It has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

At 31 December 2013, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's profit before tax for the year would have been HK$22,536,000 (31 December 2012: HK$14,481,000 higher/lower) lower/higher, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents and other receivables, accruals and other payables, and borrowings.

*(ii) Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as at fair value through profit or loss. The Group has not hedged its price risk arising from investments in financial assets at fair value through profit or loss.

*(iii) Cash flow and fair value interest rate risk*

Except for its pledged bank deposits and cash at banks totalled HK$426,830,000 as at 31 December 2013 (31 December 2012: HK$411,728,000), which carried a weighted average interest rate of 0.42% (31 December 2012: 0.37%) per annum, the Group has no significant interest-bearing assets.

The Group's interest bearing liabilities are bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At the balance sheet date, if interest rate had increased/decreased by 0.5 percentage-point and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2013 would have been decreased/increased by approximately HK$3,235,000 (31 December 2012: 0.5 percentage-point, HK$2,357,000). This relates primarily to interest expense on floating rate bank borrowings.

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(b) Credit risk*

The Group has no significant concentrations of credit risk. The carrying amounts of its pledged bank deposits, cash and cash equivalents, trade and bills receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

Debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

As at 31 December 2013, 82% (31 December 2012: 81%) of the Group's bank deposits are placed in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| State-owned banks | **88,822** | 128,785 |
| Listed banks | **187,238** | 204,727 |
| Other financial institutions | **60,719** | 78,121 |
| Total | **336,779** | 411,633 |

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. It performs periodic credit evaluations / reviews of its customers (Note 13). As at 31 December 2013, majority of trade receivables are with customers having an appropriate credit history.

As at 31 December 2013, 33% (31 December 2012: 40%) of the Group's total trade and bills receivables are bank acceptance notes, the credit risks of which rest with the acceptance banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the acceptance banks.

#### *(c) Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow. The Group aims to maintain flexibility in funding by keeping adequate banking facilities available.

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(c) Liquidity risk (continued)*

The table below analyses the Group's financial liabilities (including contractually committed interest payments) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balance due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | More than 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| Borrowings | **732,774** | **305,986** | **94,723** | **54,310** | **1,187,793** |
| Interests payables on borrowings | **49,600** | **14,588** | **17,480** | **5,166** | **86,834** |
| Trade and bills payables | **490,461** | **—** | **—** | **—** | **490,461** |
| Accruals and other payables | **419,466** | **—** | **—** | **—** | **419,466** |
| | **1,692,301** | **320,574** | **112,203** | **59,476** | **2,184,554** |
| **At 31 December 2012** | | | | | |
| Borrowings | 522,474 | 182,305 | 123,729 | — | 828,508 |
| Interests payables on borrowings | 31,125 | 19,082 | 8,505 | — | 58,712 |
| Trade and bills payables | 250,575 | — | — | — | 250,575 |
| Accruals and other payables | 330,660 | — | — | — | 330,660 |
| | 1,134,834 | 201,387 | 132,234 | — | 1,468,455 |

### 3.2 Capital risk management

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

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

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.2 Capital risk management *(continued)*

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total equity less non-controlling interests. Net borrowings are calculated as total borrowings (including current and non-current borrowings) less pledged bank deposits and cash and cash equivalents.

The gearing ratios at 31 December 2013 and 2012 were as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total borrowings *(Note 18)* | **1,187,793** | 828,508 |
| *Less:* Cash and cash equivalents *(Note 15)* | **(336,928)** | (411,783) |
| Net debt | **850,865** | 416,725 |
| Total equity less non-controlling interests | **2,866,269** | 2,488,492 |
| Total capital less non-controlling interests | **3,717,134** | 2,905,217 |
| Gearing ratio | **22.9%** | 14.4% |

### 3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of 31 December 2013, the Group did not have any financial instruments carried at fair value (31 December 2012: Nil).

The carrying values of receivables (net of impairment provision) and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (a) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in Note 2.7. The recoverable amount of CGUs has been determined based on the higher of value-in-use and fair value less costs to sell.

The Group measured the value in use and fair value less costs to sell by discounting the future estimated cash flow deriving from the CGUs. These calculations required the Group to estimate the expected future cash flows from the CGUs and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

### (b) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. These estimates are based on the credit history of its customers and other debtors and current market condition. The Group's management reassesses the provision at each balance sheet date.

### (c) Current tax and deferred tax

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

## 5. SEGMENT INFORMATION – GROUP

The chief operating decision-maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the business from a product perspective, which assesses the performance of two product segments, namely intravenous infusion solution and others, and antibiotics and others.

The executive directors assess the performance of the operating segments based on a measure of revenue and profit. This measurement is consistent with that in the annual consolidated financial statements.

Unallocated operating loss was mainly attributable to corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bill receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. Unallocated assets mainly comprise corporate cash.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated income statement.

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2013 is as follows:

| | **Intravenous infusion solution and others** *HK$'000* | **Antibiotics and others** *HK$'000* | **Unallocated** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| **Revenue** | **1,723,257** | **1,022,059** | **—** | **2,745,316** |
| **Operating profit segment results** | **494,937** | **64,853** | **(20,960)** | **538,830** |
| Finance income | **1,003** | **553** | **1** | **1,557** |
| Finance costs | **(32,690)** | **(14,220)** | **—** | **(46,910)** |
| **Profit before income tax** | **463,250** | **51,186** | **(20,959)** | **493,477** |
| Income tax expense | **(72,986)** | **(8,673)** | **—** | **(81,659)** |
| **Profit for the year** | **390,264** | **42,513** | **(20,959)** | **411,818** |

## 5. SEGMENT INFORMATION – GROUP *(continued)*

Other segment items included in the consolidated income statement for the year ended 31 December 2013 are as follows:

| | **Intravenous infusion solution and others** *HK$'000* | **Antibiotics and others** *HK$'000* | **Unallocated** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Amortisation of land use rights | **3,343** | **3,995** | **—** | **7,338** |
| Depreciation of property, plant and equipment | **109,543** | **23,952** | **364** | **133,859** |
| Amortisation of intangible assets | **2,485** | **1,622** | **—** | **4,107** |
| Provision for write-down of inventories | **—** | **2,310** | **—** | **2,310** |
| Provision/(write-back of provision) for impairment of receivables | **687** | **(2,561)** | **—** | **(1,874)** |

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2012 is as follows:

| | Intravenous infusion solution and others *HK$'000* | Antibiotics and others *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Revenue** | 1,418,174 | 1,012,510 | — | 2,430,684 |
| **Operating profit segment results** | 346,711 | 61,160 | (35,655) | 372,216 |
| Finance income | 692 | 296 | 254 | 1,242 |
| Finance costs | (24,388) | (11,251) | (1,315) | (36,954) |
| **Profit before income tax** | 323,015 | 50,205 | (36,716) | 336,504 |
| Income tax expense | (49,148) | (6,365) | — | (55,513) |
| **Profit for the year** | 273,867 | 43,840 | (36,716) | 280,991 |

## 5. SEGMENT INFORMATION – GROUP *(continued)*

Other segment items included in the consolidated income statement for the year ended 31 December 2012 are as follows:

| | Intravenous infusion solution and others *HK$'000* | Antibiotics and others *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Amortisation of land use rights | 1,886 | 3,931 | — | 5,817 |
| Depreciation of property, plant and equipment | 104,049 | 29,390 | 327 | 133,766 |
| Amortisation of intangible assets | 10,398 | 1,561 | — | 11,959 |
| Provision for write-down of inventories | — | 36 | — | 36 |
| Provision for impairment of receivables | 477 | 14,728 | — | 15,205 |

The segment assets and liabilities at 31 December 2013 are as follows:

| | **Intravenous infusion solution and others** ***HK$'000*** | **Antibiotics and others** ***HK$'000*** | **Unallocated** ***HK$'000*** | **Total** ***HK$'000*** |
|---|---|---|---|---|
| **Total assets** | **3,654,107** | **1,427,048** | **2,753** | **5,083,908** |
| **Total liabilities** | **1,740,963** | **474,576** | **1,473** | **2,217,012** |
| **Additions to non-current assets** | **848,287** | **205,263** | **—** | **1,053,550** |

## 5. SEGMENT INFORMATION – GROUP *(continued)*

The segment assets and liabilities at 31 December 2012 are as follows:

| | Intravenous infusion solution and others *HK$'000* | Antibiotics and others *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Total assets** | 2,606,370 | 1,381,777 | 3,291 | 3,991,438 |
| **Total liabilities** | 1,073,860 | 428,482 | — | 1,502,342 |
| **Additions to non-current assets** | 348,788 | 12,423 | 113 | 361,324 |

The total of non-current assets were as follows:

| | **2013** ***HK$'000*** | 2012 *HK$'000* |
|---|---|---|
| Total non-current assets other than deferred tax assets | | |
| — Mainland China | **3,147,228** | 2,179,591 |
| — Hong Kong | **634** | 997 |
| Deferred tax assets | **25,050** | 21,175 |
| Total non-current assets | **3,172,912** | 2,201,763 |

The executive directors have also determined that no geographical segment information is presented as over 95% of the Group's sales and operating profits are derived within the PRC and over 95% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

## 6. LAND USE RIGHTS – GROUP

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **At 1 January** | | |
| Cost | **265,037** | 240,416 |
| Accumulated amortisation | **(25,796)** | (19,983) |
| Net book amount | **239,241** | 220,433 |
| **Year ended 31 December** | | |
| Opening net book amount | **239,241** | 220,433 |
| Additions | **144,748** | 24,668 |
| Amortisation | **(7,338)** | (5,817) |
| Currency translation differences | **9,644** | (43) |
| Closing net book amount | **386,295** | 239,241 |
| **At 31 December** | | |
| Cost | **420,351** | 265,037 |
| Accumulated amortisation | **(34,056)** | (25,796) |
| Net book amount | **386,295** | 239,241 |

Land use rights are located in Hebei Province and Shaanxi Province, the Mainland China, and are held on leases of 37 to 50 years from the dates of acquisition.

As at 31 December 2013, the Group's land use rights with net book amount of HK$72,647,000 (31 December 2012: HK$48,724,000) were pledged as collateral for the Group's bank borrowings (Note 18).

Amortisation of land use rights has been included in general and administrative expenses.

As at 31 December 2013, the Group was in the process of applying for the certificates of ownership for the land use rights with a net book amount of approximately HK$75,299,000. As at the date of approval of these consolidated financial statements, the application process is still ongoing.

## 7. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings HK$'000 | Plant and machinery HK$'000 | Furniture, Fixtures and office equipment HK$'000 | Vehicles HK$'000 | Construction-in-progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2012** | | | | | | |
| Cost | 542,896 | 1,115,021 | 90,873 | 54,950 | 230,871 | 2,034,611 |
| Accumulated depreciation | (119,335) | (396,137) | (39,335) | (29,186) | — | (583,993) |
| Impairment losses | — | (5,799) | — | — | — | (5,799) |
| Net book amount | 423,561 | 713,085 | 51,538 | 25,764 | 230,871 | 1,444,819 |
| **Year ended 31 December 2012** | | | | | | |
| Opening net book amount | 423,561 | 713,085 | 51,538 | 25,764 | 230,871 | 1,444,819 |
| Additions | 48,921 | 99,452 | 18,666 | 5,777 | 160,675 | 333,491 |
| Transfers | 157,642 | (20,238) | (100) | — | (137,304) | — |
| Transfers to intangible assets | — | — | — | — | (2,876) | (2,876) |
| Disposals | (367) | (7,452) | (2,709) | (628) | — | (11,156) |
| Depreciation | (26,257) | (88,059) | (13,667) | (5,783) | — | (133,766) |
| Currency translation differences | (95) | (131) | (9) | (5) | (48) | (288) |
| Closing net book amount | 603,405 | 696,657 | 53,719 | 25,125 | 251,318 | 1,630,224 |
| **At 31 December 2012** | | | | | | |
| Cost | 741,002 | 1,148,446 | 102,960 | 56,245 | 251,318 | 2,299,971 |
| Accumulated depreciation | (137,597) | (445,990) | (49,241) | (31,120) | — | (663,948) |
| Impairment losses | — | (5,799) | — | — | — | (5,799) |
| Net book amount | 603,405 | 696,657 | 53,719 | 25,125 | 251,318 | 1,630,224 |
| **Year ended 31 December 2013** | | | | | | |
| Opening net book amount | 603,405 | 696,657 | 53,719 | 25,125 | 251,318 | 1,630,224 |
| Additions | 893 | 126,534 | 24,502 | 8,072 | 742,390 | 902,391 |
| Transfers | (16,595) | 11,228 | 35 | 230 | 5,102 | — |
| Disposals | — | (21,877) | (1,021) | (315) | — | (23,213) |
| Depreciation | (29,013) | (84,247) | (14,321) | (6,278) | — | (133,859) |
| Currency translation differences | 18,195 | 22,483 | 1,800 | 813 | 19,574 | 62,865 |
| Closing net book amount | 576,885 | 750,778 | 64,714 | 27,647 | 1,018,384 | 2,438,408 |
| **At 31 December 2013** | | | | | | |
| Cost | 747,668 | 1,272,167 | 128,945 | 65,004 | 1,018,384 | 3,232,168 |
| Accumulated depreciation | (170,783) | (515,634) | (64,231) | (37,357) | — | (788,005) |
| Impairment losses | — | (5,755) | — | — | — | (5,755) |
| Net book amount | 576,885 | 750,778 | 64,714 | 27,647 | 1,018,384 | 2,438,408 |

## 7. PROPERTY, PLANT AND EQUIPMENT *(continued)*

**Group** *(continued)*

The buildings are located in Hebei Province and Shaanxi Province, the Mainland China.

Construction-in-progress represents buildings under construction and plant and machinery pending installation. The buildings under construction are located in Hebei Province and Shaanxi Province, the Mainland China.

Depreciation expense recognised in the consolidated income statement is analysed as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of sales | **94,817** | 94,420 |
| Selling and marketing costs | **3,827** | 1,702 |
| General and administrative expenses | **35,215** | 37,644 |
| | **133,859** | 133,766 |

As at 31 December 2013, buildings, plant and machinery with a net book amount of HK$418,769,000 (31 December 2012: HK$249,166,100) were pledged as collateral for the Group's bank borrowings (Note 18).

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

**Company**

| | Furniture, fixtures and office equipment *HK$'000* | Vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **At 1 January 2012** | | | |
| Cost | 2,849 | 2,227 | 5,076 |
| Accumulated depreciation | (1,663) | (2,202) | (3,865) |
| Net book amount | 1,186 | 25 | 1,211 |
| Opening net book amount | 1,186 | 25 | 1,211 |
| Addition | 113 | — | 113 |
| Depreciation | (302) | (25) | (327) |
| Closing net book amount | 997 | — | 997 |
| **At 31 December 2012** | | | |
| Cost | 2,962 | 2,227 | 5,189 |
| Accumulated depreciation | (1,965) | (2,227) | (4,192) |
| Net book amount | 997 | — | 997 |
| **Year ended 31 December 2013** | | | |
| Opening net book amount | 997 | — | 997 |
| Depreciation | (363) | — | (363) |
| Closing net book amount | 634 | — | 634 |
| **At 31 December 2013** | | | |
| Cost | 2,962 | 2,227 | 5,189 |
| Accumulated depreciation | (2,328) | (2,227) | (4,555) |
| Net book amount | 634 | — | 634 |

## 8. INTANGIBLE ASSETS – GROUP

| | Goodwill | Trademark and patents | Softwares | Customer relationships | Internally generated research and development costs | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1 January 2012** | | | | | | |
| Cost | 472,162 | 71,762 | 2,274 | 74,430 | — | 620,628 |
| Accumulated amortisation | — | (13,089) | (848) | (66,243) | — | (80,180) |
| Impairment losses | (223,552) | — | — | — | — | (223,552) |
| Net book amount | 248,610 | 58,673 | 1,426 | 8,187 | — | 316,896 |
| **Year ended 31 December 2012** | | | | | | |
| Opening net book amount | 248,610 | 58,673 | 1,426 | 8,187 | — | 316,896 |
| Addition | — | — | 2,010 | — | 1,155 | 3,165 |
| Transfer from construction-in-progress | — | — | 2,876 | — | — | 2,876 |
| Amortisation | — | (3,027) | (746) | (8,186) | — | (11,959) |
| Currency translation differences | — | (11) | (2) | (1) | — | (14) |
| Closing net book amount | 248,610 | 55,635 | 5,564 | — | 1,155 | 310,964 |
| **At 31 December 2012** | | | | | | |
| Cost | 472,162 | 71,748 | 7,026 | 74,416 | 1,155 | 626,507 |
| Accumulated amortisation | — | (16,113) | (1,462) | (74,416) | — | (91,991) |
| Impairment losses | (223,552) | — | — | — | — | (223,552) |
| Net book amount | 248,610 | 55,635 | 5,564 | — | 1,155 | 310,964 |
| **Year ended 31 December 2013** | | | | | | |
| Opening net book amount | 248,610 | 55,635 | 5,564 | — | 1,155 | 310,964 |
| Addition | — | 125 | 1,327 | — | 4,959 | 6,411 |
| Amortisation | — | (3,083) | (1,024) | — | — | (4,107) |
| Currency translation differences | 7,738 | 1,697 | 179 | — | 113 | 9,727 |
| Closing net book amount | 256,348 | 54,374 | 6,046 | — | 6,227 | 322,995 |
| **At 31 December 2013** | | | | | | |
| Cost | 511,017 | 74,122 | 8,593 | — | 6,227 | 599,959 |
| Accumulated amortisation | — | (19,748) | (2,547) | — | — | (22,295) |
| Impairment losses | (254,669) | — | — | — | — | (254,669) |
| Net book amount | 256,348 | 54,374 | 6,046 | — | 6,227 | 322,995 |

Amortisation of intangible assets of HK$4,107,000 (2012: HK$11,959,000) is included in general and administrative expenses.

## 8. INTANGIBLE ASSETS – GROUP *(continued)*

**Impairment test of goodwill:**

Goodwill is allocated to the intravenous infusion solution and others segment in the Mainland China, the CGU identified.

The CGU's annual impairment review resulted in no impairment charge for 2013 (2012: Nil). The recoverable amount of the CGU has been assessed by reference to fair value less costs to sell.

In arriving at fair value less costs to sell, a post-tax discount rate of 12.9 per cent has been applied to the post-tax cash flows expressed in real terms. Fair value less costs to sell was determined by using cash flows projection based on financial budgets covering a period of 5 years, taking into account of past experience, long term production plans, market condition and industry trend. These cash flows are then aggregated with a "terminal value". The terminal value represents the value of cash flows beyond the 5th year, incorporating an annual real-term growth rate of 3 per cent, with a corresponding increase in capital expenditure to support the real term growth rate. The operating cost levels included in the fair value assessment are calculated based on intravenous infusion solution and others segment's long term production plans.

The key assumptions used for fair value less costs to sell calculations are as follows:

| | **2013** | 2012 |
|---|---|---|
| Gross profit margin in the next five years | **40.3%-47.8%** | 40.2%-43.1% |
| Growth rate in the next five years | **8%-32%** | 11%-31% |
| Perpetual growth rate | **3%** | 3% |
| Post-tax discount rate | **12.9%** | 12.6% |

The growth rate used is consistent with the forecasts included in industry reports. The discount rate used is post-tax and reflect specific risks relating to the operating segment.

The recoverable amount of the CGU calculated based on fair value less costs to sell well exceeded its carrying value as at 31 December 2013.

## 9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Investments in unlisted shares, at cost | **1,248,788** | 1,248,788 |
| Advance to a subsidiary – non-current | **16,060** | 16,060 |
| | **1,264,848** | 1,264,848 |

Advance to a subsidiary represents equity funding provided by the Company and is measured in accordance with the Company's accounting policy for investments in subsidiaries. It is unsecured and non-interest bearing.

The details of the Company's principal subsidiaries at 31 December 2013, all of which are unlisted, are as follow:

| **Name** | **Place of incorporation and type of legal entity** | **Principal activities and place of operations** | **Particulars of issued and fully paid share capital** | **Interest held** **2013** | 2012 |
|---|---|---|---|---|---|
| New Orient Investments Pharmaceutical Holding (Hong Kong) Limited | Limited liability company incorporated in Samoa | Investment holding company in Hong Kong | USD1 | **100% (Directly held)** | 100% (Directly held) |
| Xi'an Lijun Pharmaceutical Co., Ltd. | Limited liability company incorporated in Mainland China | Manufacturing and sale of pharmaceutical products in Shaanxi Province, Mainland China | RMB330,000,000 | **100% (Directly held)** | 100% (Directly held) |
| Shijiazhuang No. 4 Pharmaceutical Co., Ltd. | Limited liability company incorporated in Mainland China | Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China | RMB260,000,000 | **100% (Indirectly held)** | 100% (Indirectly held) |

## 9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY *(continued)*

| Name | Place of incorporation and type of legal entity | Principal activities and place of operations | Particulars of issued and fully paid share capital | Interest held 2013 | Interest held 2012 |
|---|---|---|---|---|---|
| Hebei Guolong Pharmaceutical Co., Ltd. | Limited liability company incorporated in Mainland China | Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China | RMB50,000,000 | **100% (Indirectly held)** | 100% (Indirectly held) |
| Hebei Jinmen Pharmaceutical Import & Export Co., Ltd. | Limited liability company incorporated in Mainland China | Trading in Mainland China | RMB5,000,000 | **100% (Indirectly held)** | 100% (Indirectly held) |
| Hebei Guangxiang Pharmaceutical Technology Co., Ltd. | Limited liability company incorporated in Mainland China | Pharmaceutical technology research and development and consulting | RMB3,000,000 | **100% (Indirectly held)** | 100% (Indirectly held) |
| Hebei Guangxiang Logistics Co., Ltd. | Limited liability company incorporated in Mainland China | Logistics of pharmaceutical products in Mainland China | RMB3,000,000 | **83.33% (Indirectly held)** | 83.33% (Indirectly held) |

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2013 (31 December 2012: None).

**Amounts due from subsidiaries – current**

These balances are unsecured, non-interest bearing and without pre-determined repayment terms.

## 10. DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deferred tax assets: | | |
| – to be recovered after more than 12 months | **2,196** | 2,683 |
| – to be recovered within 12 months | **22,854** | 18,492 |
| | **25,050** | 21,175 |
| Deferred tax liabilities: | | |
| – to be settled after more than 12 months | **26,464** | 23,243 |
| – to be settled within 12 months | **441** | 540 |
| | **26,905** | 23,783 |
| Deferred tax liabilities – net | **1,855** | 2,608 |

The gross movements in the deferred income tax account are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Beginning of the year | **2,608** | 3,818 |
| Credited to the consolidated income statement *(Note 27)* | **(1,110)** | (1,212) |
| Currency translation differences | **357** | 2 |
| End of the year | **1,855** | 2,608 |

**10. DEFERRED INCOME TAX – GROUP** *(continued)*

The movements in deferred tax assets are as follows:

| | Accrued expenses *HK$'000* | Provision for asset impairment *HK$'000* | Post-employment benefits *HK$'000* | Deductible losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| At 1 January 2012 | 11,366 | 7,133 | 2,655 | 372 | 21,526 |
| (Charged)/credited to the consolidated income statement | (2,326) | 2,230 | 102 | (354) | (348) |
| Currency translation differences | (2) | (1) | — | — | (3) |
| At 31 December 2012 | 9,038 | 9,362 | 2,757 | 18 | 21,175 |
| Credited/(charged) to the consolidated income statement | 4,297 | (306) | (502) | 8 | 3,497 |
| Currency translation differences | 11 | 288 | 78 | 1 | 378 |
| At 31 December 2013 | 13,346 | 9,344 | 2,333 | 27 | 25,050 |

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group did not recognise cumulative deferred tax assets of HK$32,821,000 (31 December 2012: HK$27,376,000) in respect of losses amounted to HK$198,915,000 (31 December 2012: HK$165,913,000) that can be carried forward against future taxable income as at 31 December 2013.

The movements in deferred tax liabilities are as follows:

| | Revaluation of assets on acquisition *HK$'000* | Withholding tax *(Note 27)* *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| At 1 January 2012 | 24,743 | 601 | 25,344 |
| Credited to the consolidated income statement | (959) | (601) | (1,560) |
| Currency translation differences | (1) | — | (1) |
| At 31 December 2012 | 23,783 | — | 23,783 |
| (Credited)/charged to the consolidated income statement | (589) | 2,976 | 2,387 |
| Currency translation differences | 781 | (46) | 735 |
| At 31 December 2013 | 23,975 | 2,930 | 26,905 |

As at 31 December 2013, deferred income tax liabilities of HK$63,950,000 (31 December 2012: HK$53,641,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled HK$1,279,005,000 (31 December 2012: HK$1,072,827,000) at 31 December 2013.

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Beginning of the year | **159** | 159 |
| Currency translation differences | **5** | — |
| End of the year | **164** | 159 |

As at 31 December 2013, available-for-sale financial asset amounting to HK$164,000 (31 December 2012: HK$159,000) represents a 14.37% equity interest in Xi'an Lijun Transportation Co., Ltd., which is an unlisted company. Since the range of reasonable fair value estimate is significant and the probabilities of various estimates cannot be reasonably assessed, the available-for-sale financial asset is carried at cost less accumulated impairment losses.

## 12. INVENTORIES – GROUP

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **163,777** | 202,615 |
| Work in progress | **28,704** | 28,337 |
| Finished goods | **212,430** | 167,806 |
| | **404,911** | 398,758 |

The Group recorded an inventory write-down of HK$2,310,000 (2012: HK$36,000) during the year ended 31 December 2013. The provision has been included in cost of sales.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$1,541,116,000 (2012: HK$1,397,590,000).

## 13. TRADE AND BILLS RECEIVABLES – GROUP

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Trade receivables | **646,685** | 519,994 |
| Bills receivable | **320,107** | 341,991 |
| *Less:* Provision for impairment | **(32,599)** | (35,042) |
| | **934,193** | 826,943 |

The fair values of trade and bills receivables approximate their carrying amounts.

The Group generally requires its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables based on revenue recognition date is as follows:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Within 3 months | **776,761** | 706,580 |
| 4 to 6 months | **77,251** | 44,815 |
| 7 to 12 months | **51,176** | 26,274 |
| 1 to 2 years | **29,557** | 65,333 |
| 2 to 3 years | **22,477** | 9,474 |
| More than 3 years | **9,570** | 9,509 |
| | **966,792** | 861,985 |

As at 31 December 2013, trade receivables of HK$128,427,000 (2012: HK$71,089,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| 4 to 6 months | **77,251** | 44,815 |
| 7 to 12 months | **51,176** | 26,274 |
| | **128,427** | 71,089 |

As at 31 December 2013, impaired trade receivables amounting to approximately HK$61,604,000 (31 December 2012: HK$84,316,000) were assessed for impairment and a provision of HK$32,599,000 (31 December 2012: HK$35,042,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year.

## 13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The ageing of individually impaired receivables and an estimate of expected recovery are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 1 to 2 years | **29,557** | 65,333 |
| 2 to 3 years | **22,477** | 9,474 |
| More than 3 years | **9,570** | 9,509 |
| | **61,604** | 84,316 |
| *Less:* Expected recovery | **(29,005)** | (49,274) |
| Impairment provision made | **32,599** | 35,042 |

The expected recovery was assessed, based on the collateral or other credit enhancement held by the Group, repayment progress, and available information on subsequent repayment.

Movements of provision for impairment of trade receivables are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Beginning of the year | **35,042** | 20,345 |
| (Reverse of provision)/provision for impairment of trade receivables | **(3,486)** | 14,702 |
| Currency translation differences | **1,043** | (5) |
| End of the year | **32,599** | 35,042 |

The creation and release of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The Group's trade and bills receivables were denominated in the following currencies:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| RMB | **949,326** | 842,316 |
| USD | **17,466** | 19,669 |
| | **966,792** | 861,985 |

The maximum exposure to credit risk at the reporting date is the fair value of the receivables mentioned above. The Group does not hold any collateral as security.

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts due from agent companies *(Note 22)* | **87,452** | 84,219 | **—** | — |
| Prepayments for purchases of inventories | **13,682** | 12,378 | **—** | — |
| Prepaid advertising costs | **432** | 8,071 | **—** | — |
| Amounts due from related parties *(Note 33(c))* | **32** | 30 | **—** | — |
| Staff advances | **10,704** | 6,213 | **—** | — |
| Prepaid insurance costs | **1,764** | 1,001 | **—** | — |
| Deposits | **3,032** | 7,999 | **536** | 1,443 |
| Other receivables — net | **27,815** | 32,280 | **—** | — |
| | **144,913** | 152,191 | **536** | 1,443 |

According to the relevant PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from the disposal of their shares of the Company acquired through the option scheme (Note 17(b)). Settlement of such individual income tax is handled through certain agent companies. In this regard, HK$87,452,000 (31 December 2012: HK$84,219,000) (Note 22) receivables and the same amount of payables relating to PRC individual income taxes in total have been recorded in the consolidated financial statements.

## 15. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Pledged bank deposits | **90,051** | — | **—** | — |
| Cash at bank and in hand | **336,928** | 411,783 | **1,583** | 851 |
| | **426,979** | 411,783 | **1,583** | 851 |

Pledged bank deposits are pledged for:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Borrowings *(i)* | **14,627** | — | **—** | — |
| Bills payable *(ii)* | **73,079** | — | **—** | — |
| Letters of credit facilities | **2,345** | — | **—** | — |
| | **90,051** | — | **—** | — |

## 15. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS *(continued)*

(i) As at December 2013, the deposits were placed with commercial banks as pledge for borrowings amounted to HK$13,392,300 (Note 18). The weighted average effective interest rate on the deposits was 3.3% per annum. These deposits had maturity of six months.

(ii) Deposits pledged for bills payable had maturity of six months (31 December 2012: six months) at inception.

The interest-bearing bank deposits (included in pledged bank deposits and cash at bank) carried a weighted average interest rate of 0.42% (31 December 2012: 0.37%) per annum for the year ended 31 December 2013.

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash at bank.

The Group's pledged bank deposits and cash at bank denominated in RMB were deposited with banks in the Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

Pledged bank deposits and cash at bank and in hand were denominated in the following currencies:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| RMB | **337,964** | 409,692 | **25** | 25 |
| HK$ | **86,060** | 1,128 | **1,558** | 826 |
| USD | **2,955** | 963 | **—** | — |
| | **426,979** | 411,783 | **1,583** | 851 |

## 16. SHARE CAPITAL

| | Number of shares *'000* | Ordinary shares *HK$'000* |
|---|---|---|
| **Authorised** | | |
| At 31 December 2013 and 2012 (ordinary shares of HK$0.02 each) | 10,000,000 | 200,000 |
| **Issued and fully paid up** | | |
| At 1 January 2012 (ordinary shares of HK$0.02 each) | 2,444,814 | 55,703 |
| Cancellation of shares *(a)* | (3,210) | (64) |
| Issuance of bonus shares in 2012 *(b)* | 488,321 | 9,766 |
| At 31 December 2013 and 2012 (ordinary shares of HK$0.02 each) | 2,929,925 | 65,405 |

(a) During the period from 28 March 2012 to 4 June 2012, the Company repurchased 3,210,000 ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately HK$5,520,000, which had been deducted from retained earnings within shareholders' equity.

On 30 April 2012 and 29 June 2012, the Company cancelled 1,570,000 and 1,640,000 ordinary shares repurchased respectively. Directly attributable expenses of approximately HK$2,000 relating to the cancellation were charged against the retained earnings of the Company. After the cancellation, the Company's ordinary shares in issue were reduced from 2,444,814,000 to 2,441,604,000.

(b) The Issuance of bonus share is made on the basis of one bonus share for every five existing shares held on 28 September 2012 (the "Record Date") by the shareholders. The bonus shares were issued and credited as fully paid at par, by capitalisation of such amount standing to the credit of the share premium account of the Company. On the basis of 2,441,604,000 existing shares in issue as at the Record Date, 488,321,000 bonus shares were issued under the issuance of bonus share (representing 20% of the issued share capital as at the Record Date), and HK$9,766,000 standing to the credit of the share premium account of the Company was capitalised for paying up the 488,321,000 bonus shares in full at par.

## 17. RESERVES

### Group

| | Share premium HK$'000 | Capital reserve HK$'000 | Statutory reserve HK$'000 | Share-based payment reserve HK$'000 | Currency translation differences HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2012 | 1,351,525 | 176,819 | 202,447 | — | 86,596 | 422,587 | 2,239,974 |
| Purchase of treasury shares *(Note 16)* | — | — | — | — | — | (5,522) | (5,522) |
| Cancellation of shares *(Note 16)* | (5,458) | — | — | — | — | 5,522 | 64 |
| Profit for the year | — | — | — | — | — | 281,003 | 281,003 |
| Dividends paid to equity holders of the Company | (73,571) | — | — | — | — | (24,126) | (97,697) |
| Transfer to statutory reserve *(Note (a))* | — | — | 31,770 | — | — | (31,770) | — |
| Issuance of bonus shares *(Note 16)* | (9,766) | — | — | — | — | — | (9,766) |
| Share option scheme – value of employee services *(Note (b))* | — | — | — | 15,530 | — | — | 15,530 |
| Currency translation differences | — | — | 3 | — | (502) | — | (499) |
| At 31 December 2012 | 1,262,730 | 176,819 | 234,220 | 15,530 | 86,094 | 647,694 | 2,423,087 |
| Profit for the year | — | — | — | — | — | 411,814 | 411,814 |
| Dividends paid to equity holders of the Company | — | — | — | — | — | (117,198) | (117,198) |
| Transfer to statutory reserve *(Note (a))* | — | — | 31,791 | — | — | (31,791) | — |
| Currency translation differences | — | — | 7,848 | — | 75,313 | — | 83,161 |
| At 31 December 2013 | 1,262,730 | 176,819 | 273,859 | 15,530 | 161,407 | 910,519 | 2,800,864 |

#### (a) Statutory reserve

As stipulated by regulations in the Mainland China and the Articles of Association of the Company's subsidiaries established in the Mainland China, the subsidiaries established in the Mainland China are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to statutory surplus reserve fund before distributing their profit. When the balance of such reserve reaches 50% of each subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

**17. RESERVES** *(continued)*

**Company**

| | Share premium *HK$'000* | Capital reserve *HK$'000* | Share-based payment reserve *HK$'000* | Retained earnings *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| At 1 January 2012 | 1,351,525 | 173,703 | — | 7,462 | 1,532,690 |
| Purchase of shares | — | — | — | (5,522) | (5,522) |
| Cancellation of shares | (5,458) | — | — | 5,522 | 64 |
| Profit for the year | — | — | — | 16,664 | 16,664 |
| Dividends paid to equity holders of the Company | (73,571) | — | — | (24,126) | (97,697) |
| Issuance of bonus shares *(Note 16)* | (9,766) | — | — | — | (9,766) |
| Share option scheme – value of employee services *(Note (b))* | — | — | 15,530 | — | 15,530 |
| At 31 December 2012 | 1,262,730 | 173,703 | 15,530 | — | 1,451,963 |
| Profit for the year | — | — | — | 173,846 | 173,846 |
| Dividends paid to equity holders of the Company | — | — | — | (117,198) | (117,198) |
| At 31 December 2013 | 1,262,730 | 173,703 | 15,530 | 56,648 | 1,508,611 |

**(b) Share-based payments**

As approved by a resolution of the Board of Directors on 3 May 2012, 40,000,000 share options (subsequently adjusted to 48,000,000 share options as a result of the issuance of bonus shares on 16 October 2012) were granted to two directors at an exercise price of HK$1.78 per share (subsequently adjusted to HK$1.48 as a result of issuance of bonus share on 16 October 2012), which represents the higher of (i) the closing price of the share on the date of grant; and (ii) the average closing price of the share for 5 trading days immediately preceding the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | Average exercise Price *(HK$ per share)* | Number of Options *(thousands)* |
|---|---|---|
| **At 1 January 2012** | — | — |
| Granted | 1.48 | 48,000 |
| **At 31 December 2012** | 1.48 | 48,000 |

**17. RESERVES** *(continued)*

**(b) Share-based payments** *(continued)*

Details of share options outstanding at 31 December 2013 are as follows:

| Exercisable from | Expiry date | Average exercise Price *(HK$ per share)* | Number of Options *(thousands)* |
|---|---|---|---|
| 3 May 2012 | 2 May 2015 | 1.48 | 48,000 |

The weighted average fair value of options granted on 3 May 2012 determined by using the Binomial Model was HK$0.39 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 62.15%, expected dividend yield of 2.26% and risk-free interest rate of 0.32%. The share price at the grant date is the closing price of the Company's listed shares as of the grant date. The expected volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices of the Company over the last three years. The expected dividend yield is measured based on the dividend yield of the Company as projected by Bloomberg, which is consistent with the Directors' best estimation based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement for the year ended 31 December 2012 was approximately HK$15,530,000.

## 18. BORROWINGS – GROUP

| | 2013 *HK$'000* | 2012 *HK$'000* |
|---|---|---|
| **Non-current** | | |
| Non-current portion of long-term bank borrowings | **455,019** | 306,034 |
| **Current** | | |
| Current portion of long-term bank borrowings | **250,401** | 59,996 |
| Short-term bank borrowings | **482,373** | 462,478 |
| | **732,774** | 522,474 |
| **Total borrowings** | **1,187,793** | 828,508 |
| Representing: | | |
| Unsecured | **400,647** | 351,484 |
| Pledged *(i)* | **658,767** | 325,150 |
| Guaranteed *(ii)* | **128,379** | 151,874 |
| | **1,187,793** | 828,508 |

(i) As at 31 December 2013, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK$72,647,000 (31 December 2012: HK$48,724,000), the Group's buildings, plant and machinery with a net book amount of HK$418,769,000 (31 December 2012: HK$249,166,100), and the Group's pledged bank deposits of HK$14,627,000 (31 December 2012: Nil).

(ii) As at 31 December 2013 and 2012, certain of the Group's bank borrowings were guaranteed by the Company and Xi'an Lijun Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Company.

As at 31 December 2013, the Group's borrowings were repayable as follows:

| | 2013 *HK$'000* | 2012 *HK$'000* |
|---|---|---|
| Within 1 year | **732,774** | 522,474 |
| Between 1 and 2 years | **246,098** | 182,305 |
| Between 2 and 5 years | **154,611** | 123,729 |
| More than 5 years | **54,310** | — |
| | **1,187,793** | 828,508 |

## 18. BORROWINGS – GROUP *(continued)*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 6 months or less | **706,899** | 703,368 |
| 6 to 12 months | **480,894** | 125,140 |
| | **1,187,793** | 828,508 |

The borrowings were denominated in the following currencies:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| RMB | **896,494** | 616,637 |
| HK$ | **162,920** | 88,142 |
| USD | **128,379** | 123,729 |
| | **1,187,793** | 828,508 |

The effective interest rates (per annum) at the balance sheet date were as follows:

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | ***HK$*** | ***RMB*** | ***USD*** | *HK$* | *RMB* | *USD* |
| Bank borrowings | **3.70%** | **5.53%** | **3.90%** | 3.49% | 6.87% | 3.26% |

The fair values of short-term borrowings approximate their carrying amounts. The carrying amounts and fair values of non-current borrowings are as follows:

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Bank borrowings | **455,019** | 306,034 | **439,501** | 289,610 |

## 18. BORROWINGS – GROUP *(continued)*

As at 31 December 2013, the Group has the following undrawn borrowing facilities:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Fixed rates | | |
| — Expiring within one year | **171,642** | 160,326 |
| — Expiring beyond one year | **801,292** | — |
| Floating rates | | |
| — Expiring within one year | **619,970** | 357,649 |
| | **1,592,904** | 517,975 |

## 19. DEFERRED REVENUE – GROUP

Government grant received from municipal governments represented subsidies for construction of its laboratories and plants and will be recognised in consolidated income statement when the depreciation expense of the laboratories and plants are recognised in the consolidated income statement.

Movements of deferred revenue are as follows:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Beginning of the year | **7,795** | 10,608 |
| Current year additions | **3,757** | — |
| Recognised in the consolidated income statement | **(976)** | (2,812) |
| Currency translation differences | **287** | (1) |
| End of the year | **10,863** | 7,795 |

## 20. POST-EMPLOYMENT BENEFIT OBLIGATION – GROUP

The maturity profile of the post-employment benefit obligation is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **341** | 577 |
| Between 1 to 2 years | **337** | 547 |
| Between 2 to 5 years | **1,039** | 1,473 |
| More than 5 years | **7,913** | 8,905 |
| | **9,630** | 11,502 |
| *Less:* Current portion included in current liabilities *(Note 22)* | **(341)** | (577) |
| | **9,289** | 10,925 |

The movements of post-employment benefits recognised in the balance sheet is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Beginning of the year | **11,502** | 11,221 |
| Total expense, included in staff cost | | |
| — Current service cost | **114** | 62 |
| — Interest cost | **468** | 384 |
| — Actuarial (gain)/loss | **(1,694)** | 2,472 |
| Contribution paid | **(948)** | (2,473) |
| Currency translation differences | **188** | (164) |
| End of the year | **9,630** | 11,502 |

The above obligations were determined by the Group's management using the projected unit credit method. Discount rate and resignation rate adopted are as follows:

| | **2013** | 2012 |
|---|---|---|
| Discount rate | **5.0%** | 4.3% |
| Annual resignation rate | **2.7%** | 2.7% |

## 21. TRADE AND BILLS PAYABLES – GROUP

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **354,114** | 250,575 |
| Bills payable | **136,347** | — |
| | **490,461** | 250,575 |

Credit terms for trade and bills payables range from 90 to 180 days. The ageing analysis of the trade and bills payables is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **384,934** | 190,380 |
| 4 to 6 months | **72,974** | 31,166 |
| 7 to 12 months | **25,464** | 19,163 |
| 1 to 3 years | **4,996** | 8,440 |
| More than 3 years | **2,093** | 1,426 |
| | **490,461** | 250,575 |

The Group's trade and bills payables were all denominated in RMB.

## 22. ACCRUALS AND OTHER PAYABLES

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Withholding individual income tax payables *(Note 14)* | **87,452** | 84,219 | **—** | — |
| Payables for purchase of property, plant and equipment | **166,902** | 129,214 | **—** | — |
| Accrued sales commission | **58,861** | 40,118 | **—** | — |
| Payables for advertising expense | **7,549** | 6,087 | **—** | — |
| Value added tax payable | **9,283** | 10,274 | **—** | — |
| Other taxes payables | **4,447** | 15,662 | **—** | — |
| Welfare payables | **9,257** | 9,314 | **—** | — |
| Accrued salaries and wages | **23,075** | 11,453 | **1,473** | — |
| Professional fee payables | **2,417** | 1,906 | **—** | — |
| Deposits from constructors | **8,748** | 185 | **—** | — |
| Current portion of long-term payables *(Note 20)* | **341** | 577 | **—** | — |
| Amounts due to related parties *(Note 33(c))* | **453** | — | | |
| Others | **36,586** | 21,651 | **—** | — |
| | **415,371** | 330,660 | **1,473** | — |

## 23. REVENUE — GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products.

Revenue recognised is as follows:

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Revenue: | | |
| — Sales of pharmaceutical products | **2,734,953** | 2,410,631 |
| — Sales of raw materials and by products | **2,523** | 5,847 |
| — Processing income | **5,353** | 9,334 |
| — Rental income | **2,487** | 4,872 |
| | **2,745,316** | 2,430,684 |

## 24. OTHER GAINS – NET – GROUP

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Loss on disposal of financial assets at fair value through profit or loss | **(645)** | (824) |
| Government grants | **93,416** | 38,052 |
| Change in fair value of financial assets at fair value through profit or loss | **—** | 535 |
| Gain on disposals of property, plant and equipment | **2,967** | 2,358 |
| | **95,738** | 40,121 |

Government grants mainly represent subsidy income received from various government organisations to compensate the Group's research and development expenditures and interest expenses incurred, and other incentives to support the operations of the Group.

## 25. EXPENSE BY NATURE – GROUP

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials and consumables used | **1,127,256** | 974,836 |
| Changes in inventories of finished goods and work in progress | **(60,226)** | (31,428) |
| Staff costs | | |
| — Wages and salaries | **258,057** | 245,118 |
| — Pension costs | **48,543** | 36,057 |
| — Welfare expenses | **49,279** | 41,827 |
| — Share-based compensation *(Note 17)* | **—** | 15,530 |
| Sales commission | **143,069** | 114,298 |
| Utility expenses | **140,465** | 158,218 |
| Advertising expenses | **71,383** | 64,327 |
| Travelling, meeting and entertainment expenses | **60,411** | 53,228 |
| Operating leases rental expenses | **13,303** | 9,393 |
| Depreciation of property, plant and equipment | **133,859** | 133,766 |
| Write-down of inventories to net realisable value | **2,310** | 36 |
| (Write-back of provision)/Provision for impairment of trade receivables | **(3,486)** | 14,702 |
| Provision for impairment of other receivables | **1,612** | 503 |
| Amortisation of land use rights | **7,338** | 5,817 |
| Amortisation of intangible assets | **4,107** | 11,959 |
| Auditors' remuneration | | |
| — Audit services | **3,381** | 3,600 |
| — Non-audit services | **44** | 22 |
| Transportation expenses | **160,302** | 118,825 |
| Business taxes, surcharges and other tax expenses | **44,634** | 30,644 |
| Others | **96,583** | 97,311 |
| Total cost of sales, selling and marketing costs and general and administrative expenses | **2,302,224** | 2,098,589 |

## 26. FINANCE INCOME AND COSTS – GROUP

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Finance income — Interest income on bank deposits | **1,557** | 1,242 |
| Finance costs | | |
| — Interest expense of bank borrowings wholly repayable within five years | **50,680** | 32,890 |
| — Discount of bills receivable | **2,941** | 1,248 |
| — Net exchange (gain)/loss | **(6,711)** | 2,816 |
| | **46,910** | 36,954 |

## 27. INCOME TAX EXPENSE – GROUP

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

The Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

All subsidiaries of the Company established and operate in PRC are subject to the Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No. 4 Pharmaceutical Co., Ltd. have been recognised as High and New Technology Enterprises in 2012. According to the tax incentives rules of the CIT Law of the People's Republic of China (the "CIT Law") for High and New Technology Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years.

According to the PRC CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

The amounts of taxation charged to the consolidated income statement:

| | **2013**<br>***HK$'000*** | 2012<br>*HK$'000* |
|---|---|---|
| Current income taxation — Mainland China CIT | **82,769** | 56,725 |
| Deferred taxation *(Note 10)* | **(1,110)** | (1,212) |
| | **81,659** | 55,513 |

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rates as follows:

| | **2013**<br>***HK$'000*** | 2012<br>*HK$'000* |
|---|---|---|
| Profit before income tax | **493,477** | 336,504 |
| Tax calculated at the tax rates applicable to the group companies | **74,462** | 50,476 |
| Tax losses for which no deferred tax assets were recognised | **5,445** | 6,058 |
| Tax exemption and reduction | **(2,735)** | (1,481) |
| Expenses not deductible | **1,557** | 460 |
| Withholding tax charge related to dividends | **2,930** | — |
| Tax expense | **81,659** | 55,513 |
| Effective tax rate | **16.5%** | 16.5% |

## 28. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$173,846,000 (2012: HK$16,664,000).

## 29. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP

### (a) Directors' emoluments

The remuneration of each director of the Company is set out below:

**2013**

| Name | Fees *HK$'000* | Salaries *HK$'000* | Other benefits *HK$'000* | Pension *HK$'000* | Bonus *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mr. Wu Qin | — | 3,000 | 63 | 44 | — | 3,107 |
| Mr. Qu Jiguang | — | 3,430 | 387 | 45 | 3,975 | 7,837 |
| Mr. Xie Yunfeng | — | 600 | 63 | 29 | — | 692 |
| Mr. Wang Xianjun | — | 1,020 | 480 | 15 | 200 | 1,715 |
| Mr. Duan Wei | — | 600 | 61 | 30 | 1,263 | 1,954 |
| | — | 8,650 | 1,054 | 163 | 5,438 | 15,305 |
| **Independent non-executive directors** | | | | | | |
| Mr. Wang Yibing | 180 | — | — | — | — | 180 |
| Mr. Leung Chong Shun | 180 | — | — | — | — | 180 |
| Mr. Chow Kwok Wai | 180 | — | — | — | — | 180 |
| | 540 | — | — | — | — | 540 |
| | 540 | 8,650 | 1,054 | 163 | 5,438 | 15,845 |

## 29. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(continued)*

### (a) Directors' emoluments *(continued)*

2012

| Name | Fees | Salaries | Other benefits | Pension | Bonus | Share option | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | | | |
| Mr. Wu Qin | — | 3,000 | 28 | 43 | 800 | 7,765 | 11,636 |
| Mr. Qu Jiguang | — | 3,000 | 52 | 41 | 800 | 7,765 | 11,658 |
| Mr. Xie Yunfeng | — | 600 | 28 | 29 | — | — | 657 |
| Mr. Huang Chao | — | 1,108 | 28 | 29 | — | — | 1,165 |
| Mr. Wang Xianjun | — | 1,020 | 480 | 14 | 300 | — | 1,814 |
| Mr. Duan Wei | — | 600 | 38 | 27 | — | — | 665 |
| Ms. Zhang Guifu | — | 587 | 28 | 27 | — | — | 642 |
| Mr. Bao Leyuan | — | 407 | 28 | 29 | — | — | 464 |
| Ms. Gao Shuping | — | 1,070 | 35 | 27 | — | — | 1,132 |
| | — | 11,392 | 745 | 266 | 1,900 | 15,530 | 29,833 |
| **Independent non-executive directors** | | | | | | | |
| Mr. Wang Yibing | 180 | — | — | — | — | — | 180 |
| Mr. Leung Chong Shun | 180 | — | — | — | — | — | 180 |
| Mr. Chow Kwok Wai | 180 | — | — | — | — | — | 180 |
| | 540 | — | — | — | — | — | 540 |
| | 540 | 11,392 | 745 | 266 | 1,900 | 15,530 | 30,373 |

No directors waived any emoluments during the year ended 31 December 2013 (2012: Nil).

### (b) Five highest paid individuals

The five Individuals whose emoluments were the highest in the Group for the year include five (2012: five) directors whose emoluments are reflected in the analysis presented above.

## 30. EARNINGS PER SHARE – GROUP

### (a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company | **411,814** | 281,003 |
| Weighted average number of ordinary shares in issue (thousands) | **2,929,925** | 2,931,521 |
| Basic earnings per share (HK$ per share) | **0.1406** | 0.0959 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company | **411,814** | 281,003 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **2,929,925** | 2,931,521 |
| Adjustment for share options (thousands) | **11,739** | 1,749 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **2,941,664** | 2,933,270 |
| Diluted earnings per share (HK$ per share) | **0.1400** | 0.0958 |

## 31. DIVIDENDS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend of HK$0.02 (2012: HK$0.02) per ordinary share | **58,599** | 48,832 |
| Proposed final dividend of HK$0.02 (2012: HK$0.02) per ordinary share | **58,599** | 58,599 |
| | **117,198** | 107,431 |

The proposed final dividend in respect of the year ended 31 December 2013 of HK$0.02 (2012: HK$0.02) per ordinary share, amounting to a total dividend of HK$58,599,000 calculated based on the 2,929,925,000 outstanding ordinary shares (2012: 2,929,925,000 ordinary shares), is subject to the approval in the forthcoming Annual General Meeting of the Company. The proposed dividend has not been reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

## 32. CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of cash generated from operations

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax | **493,477** | 336,504 |
| (Write-back of provision)/provision for impairment of receivables | **(3,486)** | 14,702 |
| Provision for impairment of other receivables | **1,612** | 503 |
| Write-down of inventories to their net realisable value | **2,310** | 36 |
| Depreciation of property, plant and equipment | **133,859** | 133,766 |
| Gain on disposal of property, plant and equipment | **(2,967)** | (2,358) |
| Amortisation of land use rights | **7,338** | 5,817 |
| Amortisation of intangible assets | **4,107** | 11,959 |
| Loss on disposal of financial assets at fair value through profit | **645** | 824 |
| Change in fair value of financial assets at fair value through profit or loss | **—** | (535) |
| Interest income | **(1,557)** | (1,242) |
| Interest expenses | **46,910** | 36,954 |
| Share-based compensation *(Note 17)* | **—** | 15,530 |
| Operating profit before working capital changes | **682,248** | 552,460 |
| Changes in working capital: | | |
| Increase in inventories | **(1,825)** | (62,238) |
| Increase in trade and bills receivables | **(178,866)** | (134,505) |
| Decrease/(Increase) in prepayments, deposits and other receivables | **15,231** | (21,868) |
| Increase/(Decrease) in trade and bills payables | **154,201** | (9,367) |
| Increase in advance receipts from customers | **9,544** | 8,728 |
| Increase/(Decrease) in accruals and other payables | **35,809** | (17,147) |
| Net cash inflow generated from operations | **716,342** | 316,063 |

### (b) Proceeds from disposals of property, plant and equipment

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net book amount disposed *(Note 7)* | **23,213** | 11,156 |
| Gain on disposal of property, plant and equipment | **2,967** | 2,358 |
| Proceeds from disposals of property, plant and equipment, net of transaction costs | **26,180** | 13,514 |

## 33. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP

**(a)** The directors are of the view that the following companies are related parties of the Group:

| **Name** | **Relationship** |
|---|---|
| Rejoy Group Limited Liability Company ("Rejoy Group") | An entity significantly influenced by certain key management personnel of the Group |
| Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology") | Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 26.28% interest in the Company |
| Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging") | Subsidiary of Rejoy Technology |
| Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine") | Subsidiary of Rejoy Group |

**(b)** Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

| **Nature of transactions** | **Nature of transactions** | **2013** *HK$'000* | 2012 *HK$'000* |
|---|---|---|---|
| Purchasing of raw materials and packaging materials from | Rejoy Packaging | **4,539** | 5,954 |
| Sales of finished goods to | Rejoy Medicine | **462** | 2,960 |
| Lease of office premises to | Rejoy Group | **446** | — |

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

## 33. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

**(c)** The Group had the following significant balances with related parties:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due from related parties, included in trade receivables | | |
| – Rejoy Medicine | **2,496** | 2,621 |

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due from related parties, included in other receivables | | |
| – Rejoy Packaging | **32** | 30 |

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due to related parties, included in trade payables | | |
| – Rejoy Packaging | **146** | 333 |

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due from related parties, included in other payables | | |
| – Rejoy Group | **453** | — |

The related party balances are unsecured, interest-free and have no pre-determined terms of repayment.

**(d) Key management compensation**

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, bonus and allowances | **15,682** | 14,577 |
| Pension | **163** | 266 |
| Share option scheme | **—** | 15,530 |
| | **15,845** | 30,373 |

## 34. COMMITMENTS – GROUP

### (a) Capital commitments

Capital expenditure at the balance sheet dates contracted but not yet provided for is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| – Plant and machineries | **230,831** | 65,255 |

### (b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of office premises in Mainland China and Hong Kong under non-cancellable operating leases are payable as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not later than one year | **4,059** | 1,669 |
| Later than one year and not later than five years | **1,573** | 1,525 |
| More than five years | **6,905** | 7,559 |
| | **12,537** | 10,753 |

## 35. OPERATING LEASE – GROUP

The future aggregate minimum lease rental receipts in respect of office premises and warehouses in Mainland China under non-cancellable operating leases are receivable as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not later than one year | **488** | 835 |
| Later than one year and not later than five years | **1,781** | 1,727 |
| More than five years | **1,113** | 1,511 |
| | **3,382** | 4,073 |

# FIVE YEARS FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | **2013** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | (Audited) | (Audited) | (Audited) | (Audited) | **(Audited)** |
| **RESULTS** | | | | | |
| Turnover | 1,739,628 | 1,971,657 | 2,155,215 | 2,430,684 | **2,745,316** |
| Profit/(loss) before income tax | 240,997 | 305,681 | (2,194) | 336,504 | **493,477** |
| Income tax expense | (24,803) | (44,992) | (39,183) | (55,513) | **(81,659)** |
| Profit/(loss) for the year | 216,194 | 260,689 | (41,377) | 280,991 | **411,818** |
| Attribute to: | | | | | |
| Equity holders of the Company | 216,095 | 260,592 | (41,401) | 281,003 | **411,814** |
| Minority interest | 99 | 97 | 24 | (12) | **4** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | **2013** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | (Audited) | (Audited) | (Audited) | (Audited) | **(Audited)** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 2,500,259 | 3,372,711 | 3,444,540 | 3,991,438 | **5,083,908** |
| Total liabilities | (874,439) | (1,016,414) | (1,148,247) | (1,502,342) | **(2,217,012)** |
| Minority interest | (1,044) | (1,178) | (616) | (604) | **(627)** |
| Shareholder's equity | 1,624,776 | 2,355,119 | 2,295,677 | 2,488,492 | **2,866,269** |