China Traditional Chinese Medicine Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

ANNUAL REPORT 2013

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. YANG Bin *(Managing Director)*
Mr. WANG Xiaochun

Non-executive Directors

Mr. SHE Lulin
Mr. LIU Cunzhou
Mr. DONG Zenghe
Mr. ZHAO Dongji

Independent Non-executive Directors

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. FANG Shuting
Mr. YU Tze Shan Hailson

COMPANY SECRETARY

Mr. HUEN Po Wah

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. ZHOU Bajun
Mr. FANG Shuting

REMUNERATION COMMITTEE

Mr. ZHOU Bajun *(Chairman)*
Mr. LIU Cunzhou
Mr. XIE Rong
Mr. FANG Shuting

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. YANG Bin
Mr. ZHOU Bajun
Mr. XIE Rong
Mr. FANG Shuting

STRATEGIC COMMITTEE
(Established in January 2014)

Mr. LIU Cunzhou *(Chairman)*
Mr. WU Xian
Mr. YANG Bin
Mr. WANG Xiaochun
Mr. ZHOU Bajun
Mr. YU Tze Shan Hailson

REGISTERED OFFICE

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STOCK CODE

The shares of China Traditional Chinese Medicine Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Limited Macau Branch
Industrial and Commercial Bank of China Limited (Foshan Branch)
China Merchants Bank Co.,Ltd. (Foshan Branch)
Guangdong Shunde Rural Commercial Bank Co., Ltd.

WEBSITE

http://www.winteamgroup.com

FIVE YEAR FINANCIAL SUMMARY

(Expressed in RMB)

	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**	2009-2013 Compound Annual Growth Rate
Results						
Turnover	590,619	817,743	841,075	1,031,766	**1,394,613**	23.96%
Gross profit	284,389	456,164	454,016	564,013	**825,779**	30.54%
Profit from operations	84,415	103,667	84,563	235,795	**272,757**	34.07%
Profit before taxation	79,726	100,331	78,198	216,406	**237,575**	31.39%
Profit attributable to the shareholders of the Company	38,824	53,047	59,667	168,526	**198,463**	50.36%
Profitability						
Gross profit margin	48.15%	55.78%	53.98%	54.66%	**59.21%**	
Operating profit margin	14.29%	12.68%	10.05%	22.85%	**19.56%**	
Net profit margin	10.18%	9.17%	7.26%	16.77%	**14.29%**	
Earnings per share						
Basic & Diluted	2.49 cents	3.07 cents	3.34 cents	9.45 cents	**9.68 cents**	40.42%
Financial position						
Total assets	1,059,200	1,196,542	1,315,566	1,554,220	**5,066,470**	
Total equity attributable to equity shareholders of the Company	603,070	710,940	768,945	828,454	**2,759,853**	
Total liabilities	291,512	473,955	533,795	708,449	**2,231,707**	
Cash and cash equivalents	186,195	102,120	34,336	46,258	**345,411**	
Debt asset ratio	27.52%	39.61%	40.58%	45.58%	**44.05%**	

FIVE YEAR FINANCIAL SUMMARY

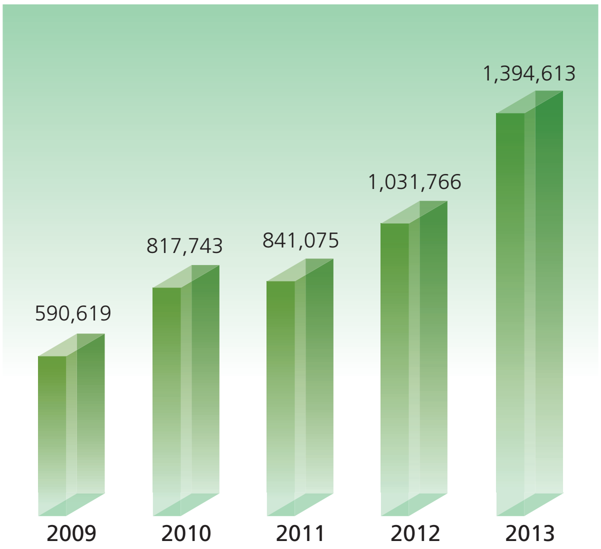
(Expressed in RMB)

TURNOVER

RMB'000

Annual Growth of 2012-2013

35.17%

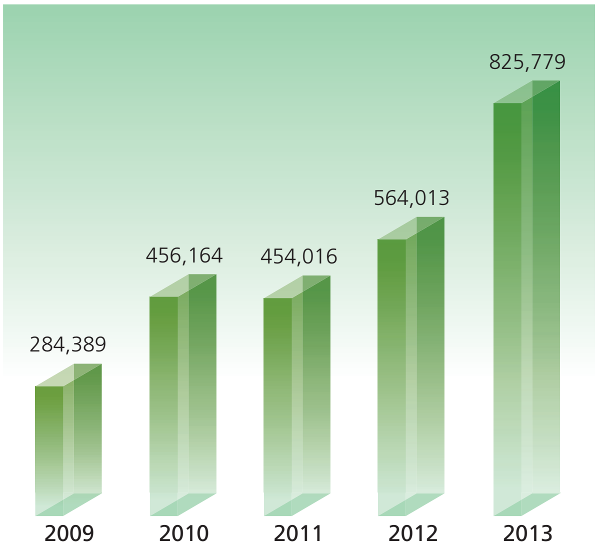


GROSS PROFIT

RMB'000

Annual Growth of 2012-2013

46.41%



PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

RMB'000

Annual Growth of 2012-2013

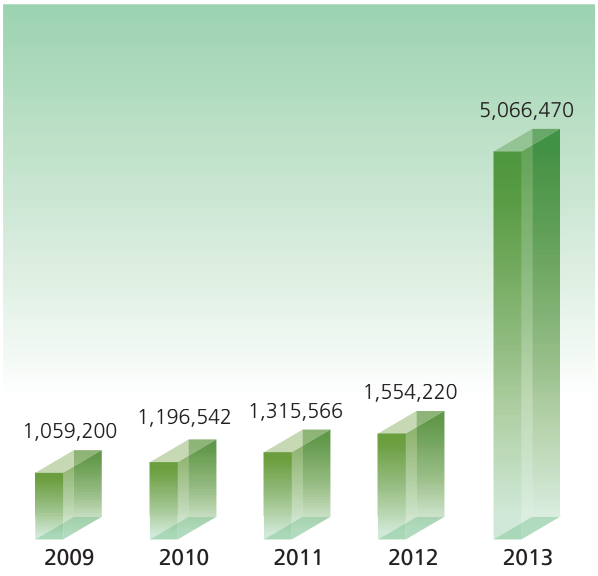
17.76%

TOTAL ASSETS

RMB'000

Annual Growth of 2012-2013

225.49%



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholder,

I would like to express my gratitude to our shareholders and other stakeholders for their continued attention and substantial support to us. On behalf of the board (the "Board") of directors (the "Directors") of China Traditional Chinese Medicine Co. Limited (the "Company"), I am pleased to present the audited Annual Report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013:

PERFORMANCE SIGNIFICANTLY IMPROVED

The year of 2013 is a milestone of the Group. At the beginning of the year, the Group was indirectly controlled by China National Pharmaceutical Group Corporation ("CNPGC"), the largest business group of healthcare industry in China. In October the same year, the Group completed the acquisition of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang"). Such deals have set a solid foundation for the business development of the Group in the future.

Pursuant to HKASs, the Group consolidated Tongjitang's financial statements starting November 2013, upon completion of the acquisition. In retrospect, the audited revenue of the Group was approximately RMB1,394,613,000, representing an increase of 35.2% compared to approximately RMB1,031,766,000 in the corresponding period of last year; the audited profit attributable to shareholders reached approximately RMB198,463,000, representing a growth of 17.8% compared with approximately RMB168,526,000 in the corresponding period of last year. Audited earnings per share for the year also slightly increased to RMB9.68 cents from RMB9.45 cents from last year, representing an increase of 2.4%.

TEAM UP STRONG HANDS TO ACHIEVE SYNERGY

In May 2013, the Group announced the acquisition of 100% issued share capital of Tongjitang at the consideration of RMB2.64 billion, and concluded the transaction in October in the same year. On the date of completion, the fair value of the consideration paid by the Group was assessed as RMB2.62 billion. To the best knowledge of the Group, the acquisition of Tongjitang was the largest M&A deal in pharmaceutical industry of China in 2013, and was successfully completed within 5 months, which set a classic case of M&A in China.

By the end of 2013, the Group has completed the restructuring of the sales and marketing force and has set up a centralized sales and marketing management team. Starting 2014, the re-organised sales and marketing force will be responsible for the promotion and selling of all products of the Group, covering both prescription and OTC market in over 20 provinces, autonomous regions and municipalities throughout mainland China.

The Group has also set up its finance center, R&D center, manufacturing center, purchasing center and human resource center, as well as issued unified rules and regulations for each of the management center, with the purpose of achieving synergy from all functions of the business. Currently, the Group owns 11 manufacturing facilities in Guangdong, Guizhou, Anhui, Shandong and Qinghai, with over 50 GMP certified production lines, which produce more than 20 dosage formats, including capsule, tablet, granule, etc. The Group will allocate its manufacturing resources based on factors of market demand, product characteristic, production capacity to reduce cost and to raise efficiency. The Group centralized its purchasing of bulk materials, using a tender system, to strengthen its bargaining power, reduce purchase price and save costs.

The Group expects completing the consolidation at the end of first quarter of 2014.

MERGE INTO CNPGC TO BUILD UP TCM FLAGSHIP

In February 2013, Sinopharm Group Hongkong Co., Limited ("Sinopharm Hong Kong"), an indirect wholly-owned subsidiary of CNPGC, acquired approximately 56.97% of the entire issued share capital of the Group, and CNPGC is the ultimate controlling shareholder. Consequently, the Group changed its name to China Traditional Chinese Medicine Co., Ltd. in November 2013, demonstrating its status in TCM industry.

Directly under the management of State-owned Assets Supervision and Administration Commission of the State Council, CNPGC is the largest state-owned business group in pharmaceutical industry in China and is one of the Fortune 500 companies in the world. The Group is the flagship company of CNPGC's TCM businesses, and will be the leader of TCM industry in China.

The Group owns the well-known brands of "Dezhong", "Fengliaoxing" and "Tongjitang", all with a long history, and is dedicated to the responsibility of inheriting and developing the essence of Chinese medicine. The Group has created and enhanced the brand of "China TCM" as the parent brand, with the purpose of building up and strengthening its advantageous position in the market.

Currently, the Group possesses production approvals of over 500 TCM and chemical drugs, including over 60 exclusive products. The Group has 26 exclusive products being listed on National Drugs List for Basic Medical Insurance, among which, Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊／片), Yu Ping Feng Granule (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Jingshu Granule (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Fengshi Gutong Capsule (風濕骨痛膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊) are exclusive products on National Essential Drug List. A diversified product portfolio will facilitate the Group in identifying demand opportunity, enlarging market share and increasing sales revenues.

CARRY ON WITH ORGANIC GROWTH AND M&A STRATEGY

Along with economic development in China, people invest more on their health. China has an expanding aging population, which results in increasing spending on healthcare. Both central and local government have raised the expenditure on improving the standard of health of Chinese people. All the above mentioned factors provide a growing market opportunity for the pharmaceutical industry. Chinese medicine has a long history. Its unique advantages in enhancing health, curing and relieving diseases have been proved by practitioners over centuries. The Group possesses a diversified product portfolio, with many of its exclusive products being listed on National Essential Drug List and National Drugs List for Basic Medical Insurance. The Group will benefit from the growth of healthcare market and the support to TCM from government. The Group has achieved a track record of rapid growth during the past years and is determined to maintain the momentum in the future.

There is a large number of pharmaceutical companies in China, resulting in fragmented market share. Many of the companies have the problems of limited resource, shortage of capital and no competitive advantage. As the government authorities are more rigorous on regulating the industry, there is a clear trend of consolidation among the pharmaceutical companies. While carrying on with organic growth, the Group is seeking for M&A targets to enhance its market power and reputation. The Group will focus on TCM, looking for M&A opportunity in all areas in the sector.

The Group will face both opportunities and challenges in the year of 2014. It is the first year for the Group to produce fully consolidated financial statements after acquiring Tongjitang. Following the completion of the consolidation, synergy from all aspects of the business will be revealed gradually. On the other hand, the ongoing change of government policy and the intense competition during the process of industry consolidation impose challenges toward the organic growth and M&A strategy of the Group.

With a solid business foundation, numerous market opportunities, efficient and flexible financing channels, and strong support from its shareholders, the Group will be the leader of TCM industry, achieving ongoing growth of revenues and profits and creating value for all shareholders.

WU Xian
Chairman

22 March 2014

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

The Group is a leading pharmaceutical company in China with excellent brands. It has a total of 332 products and 526 product specifications, 68 of which are national exclusive products. The Group has 58 products being listed on the new edition of National Essential Drugs List, 7 of which are exclusive products, namely Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊／片), Yu Ping Feng Granule (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Jingshu Granule (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Fengshi Gutong Capsule (風濕骨痛膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊). The Group has over 150 products being listed on National Drugs List for Basic Medical Insurance, 26 of which are exclusive products. Furthermore, the Group has been advocating for TCM manufacturing for over 400 years, and is in possession of a range of TCM formulas, many of them are national famous products, such as Po Chai Pills (保濟丸), Da Huo Luo Pills (大活絡丸), Shaolin Dieda Herbal Plaster (少林跌打止痛膏), Yuanjilin Herbal Tea (源吉林甘和茶), etc. The Group has accumulated extensive technical experience in extraction of Chinese medicinal herbs, preparation of modern Chinese medicine, sustained or controlled release preparation, manufacturing of traditional Big Candid Pills (大蜜丸) and enhancement of quality.

The Group has 11 manufacturing facilities in Foshan of Guangdong Province, Guiyang and Kaili of Guizhou Province, Xuancheng of Anhui Province, Jining of Shandong Province and Xining of Qinghai Province, with over 50 GMP certified production lines and annual production capacity of 800 million packs of granules, 5.5 billion tablets, 3 billion capsules, 14 million bottles of medicinal wine, and 100 million jabs of antibiotics and oncology powder for injection, as well as 22,000 tonnes of Chinese medicine preprocessing and extraction.

In retrospect, sales of TCM accounted for approximately 83.2% of the turnover of the Group, sales of chemical medicine made up approximately 14.0% of the turnover, and sales of bio-medicine was approximately 2.8% of the turnover. The Group's sustainable development in the future is closely related to the implementation of the National Essential Drugs system and the development Chinese medicine industry.

INDUSTRY OVERVIEW

New Edition of National Essential Drugs List

On 15 March 2013, central government launched the new edition of National Essential Drugs List, which contains 317 chemical and bio-medicines and 203 TCM. Following the issue of the new edition of National Essential Drugs List, more-detailed policies were released, such as further optimizing the tendering system of essential drugs, rules on the percentage of purchasing and using essential drugs for each category of healthcare institutions, etc.

With the tendering system of essential drugs, the government authorities focus on both quality and price. Passing the new GMP certification is a vital benchmark for quality assessment, while exclusive products have clear advantage at price negotiation. The Group has been making efforts to maintain and to improve quality standard of its products. 7 of the 11 facilities have passed the new GMP certification, and the remaining 4 are expected to pass it in 2014. Furthermore, most of the revenues of the Group are generated by its exclusive products on National Essential Drug List, which provides the Group with a favourable position.

In respect of rules on the percentage of purchasing and using essential drugs for each category of healthcare institutions, National Health and Family Planning Commission indicated that it is necessary to accelerate the formulation of administrative measures for the use of essential drugs by healthcare institutions in each level and category, revise and optimize the Guideline for the Clinical Application and Prescription Catalogue of National Essential Drugs and motivate healthcare institutions in each level and category to stock up and give priority in using essential drugs. It also stated that primary healthcare institutions run by local government should fully stock up and use essential drugs, while class 2 and class 3 hospitals shall prescribe essential drugs by a reasonable percentage of their total prescription. The healthcare institutions should enhance the promotion and training in using the Guideline for the Clinical Application and Prescription Catalogue of National Essential Drugs and promote the priority of using essential drugs at a reasonable degree. By implementing such policies, it is expected that the consumption volume of essential drugs in total and as a percentage of the entire consumption of drugs will increase, especially in class 2 and class 3 hospitals. Thus, the introduction of the new edition of National Essential Drugs List would provide tremendous market opportunities to the Group in the future.

Opportunity for Chinese Medicine Industry

Chinese medical diagnosis and treatment focus on curing illnesses fundamentally, recuperation and improving patient's living habit and physical functions. Chinese medicines are made from natural substance with minimal toxic side effect and drugs resistance, therefore particularly suitable for chronic diseases and specialty medicines with relatively low treatment costs. As aging population in China has created huge demand for healthcare services and products, it will lead Chinese medicine industry into its golden age and open opportunities for the Group for sustainable development in the future.

Government has always been granting support to the development of TCM industry. On 17 April 2013, the State Administration of Traditional Chinese Medicine issued "Notice Regarding the Key Aspects in Administration of Traditional Chinese Medicine for the Year 2013" (關於印發2013年中醫醫政工作要點的通知), which encouraged reform of public TCM hospital, promoted and regulated additional Chinese medicines supplemented to National Essential Drug List , amended the Guidelines for Clinical Application of Chinese medicines in National Essential Drug List , strengthened the training and examination for practitioners in respect of the use of Chinese medicines , continued optimizing TCM policy in medical insurance mechanism, continued supervising local governments to extend the coverage of Basic Medical Insurance to qualified TCM diagnosis, treatment and medicines (including Chinese herbal slice, Chinese medicines and preparations) , raised the reimbursement level of TCM under the New Rural Cooperative Medical System, enhanced the basic functions of TCM hospitals at county level and improved the medical service quality.

On 9 July 2013, National Health and Family Planning Commission issued "Notice regarding Fully Exploiting Advantage of the Characteristics of TCM in the Pilot Schemes of Comprehensive Reforms of Public Hospitals at County Level" (關於在縣級公立醫院綜合改革試點工作中充分發揮中醫藥特色優勢的通知), which encouraged prescribing Chinese medicines to patients covered by medical insurance, extended the coverage of Basic Medical Insurance to qualified Chinese medical diagnosis and treatment and TCM products (including Chinese herbal slice, Chinese medicines and preparations) and raised the reimbursement level of TCM under the New Rural Cooperative Medical System. The Group generates the majority of its sales revenues from TCM products and will benefit from government policies of developing Chinese medicine industry.

Policies of Hospital Reform

On 14 October 2013, the State Council issued "Opinions on Promoting the Development of Health Service Industry" (關於促進健康服務業發展的若干意見), which suggested accelerating the opening of health service industry. It proposed that the industry should open for private investment to the extent as long as it is not prohibited by laws. Besides, it advocated introducing new financing channel and encouraging financial institutions to develop financial tools and products specifically designed for health service industry, and strongly supporting listing of and debt issue by qualified health service enterprise. In addition, it also suggested more support from fiscal and land planning policy, and proposed, for the first time, to include private health service enterprise for the purpose of government subsidy.

On 9 January 2014, National Health and Family Planning Commission issued "Opinions on Encouraging Establishment of Private Hospital" (關於加快發展社會辦醫的若干意見), which suggested that (1) the development scale of public hospital be strictly controlled and private funding be allowed to invest in public hospital; (2) provincial government be authorized for the approval of foreign-owned and sino-foreign joint-venture hospitals; (3) limitation for service providers from Hong Kong, Macau and Taiwan to set up wholly-owned hospital in the Mainland be extended. National Health and Family Planning Commission undertook that private hospital would enjoy equal status with public hospital in respect of medical insurance mechanism.

BUSINESS REVIEW

The Group changed its presentation currency from Hong Kong dollars to RMB on 25 November 2013, as RMB is the functional currency of the Group's major subsidiaries in the PRC. The consolidated financial statements for the year ended 31 December 2012 with an additional statement of financial position as at 31 December 2011 have been re-translated into RMB from HKD.

Sales of Products

During the year under review, the Group's turnover increased by 35.2% from approximately RMB1,031,766,000 for the corresponding period last year to approximately RMB1,394,613,000, which was mainly attributable to the sales and marketing strategy of key products, for instance, Yu Ping Feng Granule, to expand the coverage of primary healthcare institutions, and the price increase for certain products. Moreover, Tongjitang contributed satisfactory results in November and December of 2013.

Analysis by TCM, Chemical and Bio-medicine:

	For the year ended 31 December				
	2013 RMB'000	**Percentage to turnover**	2012 RMB'000	Percentage to turnover	Change
TCM	**1,160,708**	**83.2%**	854,727	82.8%	35.8%
Chemical medicine	**195,424**	**14.0%**	177,039	17.2%	10.4%
Bio-medicine	**38,481**	**2.8%**	–	–	Nil
Total	**1,394,613**	**100.0%**	1,031,766	100.0%	35.2%

Sales Analysis of Top Ten Products:

	For the year ended 31 December				
	2013 RMB'000	**Percentage to turnover**	2012 RMB'000 (Restated)	Percentage to turnover	Change
Yu Ping Feng Granule (玉屏風顆粒)	**218,459**	**15.7%**	167,316	16.2%	30.6%
Bi Yan Kang Tablet (鼻炎康片)	**215,338**	**15.4%**	221,482	21.5%	–2.8%
Xianling Gubao (仙靈骨葆)	**207,340**	**14.9%**	–	–	Nil
Sheng Tong Ping (聖通平)	**90,231**	**6.5%**	88,787	8.6%	1.6%
Feng Liao Xing Medicinal Wine (馮了性藥酒)	**85,102**	**6.1%**	86,793	8.4%	–1.9%
Gao De (高德)	**61,066**	**4.4%**	56,224	5.4%	8.6%
Jingshu Granule (頸舒顆粒)	**38,238**	**2.7%**	–	–	Nil
Moisturising & Anti-Itching Capsule (潤燥止癢膠囊)	**30,942**	**2.2%**	–	–	Nil
Albumin Prepared from Human Plasma (人血白蛋白)	**29,994**	**2.2%**	–	–	Nil
Shedan Chuanbei San (蛇膽川貝散)	**25,086**	**1.8%**	15,272	1.5%	64.3%
Other Products	**392,817**	**28.1%**	395,892	38.4%	–0.8%
Total	**1,394,613**	**100.0%**	1,031,766	100.0%	35.2%

Remark: the sales amount of Xianling Gubao, Jingshu Granule and Moisturising & Anti-Itching Capsule, which are products of Tongjitang, is the revenue achieved in November and December of 2013. The sales amount of Albumin Prepared from Human Plasma, which is a product of Guizhou Zhongtai Biological Technology Company Limited ("Guizhou Zhongtai") and its subsidiaries, is the revenue achieved in the year of 2013.

Research and Development

The Group applied the knowhow of controlling sustained-release by multi-layers of films in developing Nifedipine Sustained-release Tablet (30mg), and received the approval of production from China Food & Drug Administration in December 2013. The new product has clear cost advantage over the same product in the market from competitors, which will place the Group in a favourable position at tenders of essential drugs. The Group is formulating the sales and marketing plan of 2014 for the new product.

The Group also applied to China Food & Drug Administration for the approval of production for Fexofenadine/ Pseudophedrine Sustained-release capsule (非索偽麻緩釋膠囊), and expects receiving such approval in 2014.

In April 2013, the Group initiated the project of "Yu Ping Feng Granule (玉屏風顆粒) Re-evaluation". The project will have several phases, including collection of typical cases of targeted diseases, analysis of the efficacy mechanism, clinical trials with reasonable sample size, etc. The purpose is to provide more solid medicinal theoretical foundation for prescribing Yu Ping Feng Granule (玉屏風顆粒) to the appropriate patients, so that it would be helpful to our academic promotion of the product to different categories of healthcare institutions. The project is expected to last for several years and may attract financial subsidy from relevant government institutions.

At the end of 2013 and the beginning of 2014, the Group entered into several contracts with Shanghai Institute of Pharmaceutical Industry (上海醫藥工業研究院 or "SIPI") and other research institutes for R&D of new products and further study of existing products, including 3 new TCM products and first version of 5 generic drugs. Based on the assessment on the trend of demand, as well as the characteristics of the current product portfolio, the Group will focus on R&D projects related to diseases of aging population, such as cerebro-cardiovascular drugs.

Progress of Investment Projects

Guizhou Zhongtai and its subsidiaries

On 6 March 2014, the Group entered into a termination agreement with Foshan Shunde Hefeng Investment Co., Ltd. (佛山市順德區合峰投資有限公司)("Shunde Hefeng") to terminate the disposal agreement signed on 26 August 2013 between the two parties, ceasing the sale of 51% equity capital of Guizhou Zhongtai. The Group expects the performance of Guizhou Zhongtai being improved significantly in the foreseeable future. As compared to selling off the company, retaining Guizhou Zhongtai as a subsidiary will bring in more benefit for shareholders of the Group.

In 2013, Guizhou Zhongtai and its subsidiaries achieved turnover of approximately RMB38,481,000, and turned loss into profit of approximately RMB844,000.

Construction of Headquarter Building

On 14 August 2013, the Group acquired a land parcel at the south part of Kui Qi Road and the east part of Ling Nan Road, Chan Cheng Area, Foshan City of Guangdong Province. The Group will construct its headquarter, R&D center and annex buildings on the land parcel. The Group is working with an independent third party to develop the project. The allocation of the space of the buildings will be based on the amount of investment from each of the two parties. The construction plan is under review by government authorities. The Group expects the project to be completed in 2016.

Manufacturing Facilities at Guiyang Economic & Technology Development Zone

In 2013, the Group acquired a land parcel of 330 mus at Guiyang Economic & Technology Development Zone, Guizhou Province, for building up an orthopedic Chinese medicine manufacturing base (new factory of Guizhou Tongjitang Pharmaceutical Co., Ltd.). The project is under planning, and the construction work will be started in 2014. The facilities will be in full compliance with new GMP requirements and, upon putting in use, will significantly improve the production capacity of the Group. It is expected the project will be completed in the first half of 2016.

FINANCIAL REVIEW

Turnover

During the reporting period, the Group's turnover amounted to RMB1,394,613,000, or an increase of 35.2% from RMB1,031,766,000 of the same period last year. The growth of turnover was attributable to a combination of factors, including optimization of product mix and a new pricing policy being implemented to some products. The prices of the products concerned were increased, resulting in a growth of turnover. In addition, Tongjitang's business, which was acquired during the year, also raised the turnover of the Group.

Cost of sales and gross profit margin

During the reporting period, the Group's cost of sales was approximately RMB568,834,000, representing an increase of 21.6% as compared to approximately RMB467,753,000 for the corresponding period last year. Direct raw materials, direct labor and production overhead accounted for approximately 74.3%, 13.0% and 12.7% of the total cost of sales, respectively, as compared to 71.4%, 10.8% and 17.8% for the corresponding period last year. Gross profit for the period was approximately RMB825,779,000, or an increase of RMB261,766,000 from approximately RMB564,013,000 of the same period last year, Gross profit margin also rose to 59.2% from 54.7% of the same period last year.

Other revenue

During the year under review, the Group's other revenue was approximately RMB15,769,000, representing an decrease of approximately 37.2% compared to approximately RMB25,118,000 for the corresponding period last year.

	2013 **RMB'000**	2012 RMB'000 (Restated)	Change
Interest income	**7,748**	20,265	-61.8%
Government grants	**7,390**	4,035	83.1%
Rental income	**631**	818	-22.9%
Total	**15,769**	25,118	-37.2%

Interest income decreased, which was mainly because the major interest income in 2012 from the compensation for land premium of the land for headquarters and interest income from Guizhou Zhongtai were non-recurrent income, and were terminated respectively during the year under review. The increase in government grants was mainly due to the relevant income of approximately RMB3,978,000 from Tongjitang after the acquisition.

Other net income

During the year under review, the Group's other net income was approximately RMB8,146,000, representing an increase of 4,035.0% as compared to approximately RMB197,000 for the corresponding period last year. Other net income rose mainly because of the selling of stock investment in the market in order to optimise resource allocation, and to spin-off non-core business. The net income obtained was approximately RMB9,621,000.

Sales and distribution costs

During the year under review, the Group's sales and distribution costs amounted to approximately RMB404,629,000 (2012: RMB235,661,000).

	2013 **RMB'000**	2012 RMB'000 (Restated)	Change
Advertising, promotion and traveling expenses	**227,509**	132,790	71.3%
Salary expenses of sales and marketing staffs	**109,440**	68,972	58.7%
Distribution costs	**13,263**	11,547	14.9%
Other sales and distribution costs	**54,417**	22,352	143.4%
Total	**404,629**	235,661	71.7%

The increase of 71.7% of sales and distribution costs was due to the increase in staff and advertising expenses for market expansion during the year under review, as well as the related expenses incurred after the acquisition of Tongjitang.

Administrative Expenses

During the year under review, the Group's administrative expenses amounted to approximately RMB172,308,000 (2012: RMB117,872,000).

	2013 **RMB'000**	2012 RMB'000 (Restated)	Change
Staff salary	**52,099**	33,006	57.8%
Depreciation and amortisation	**15,412**	10,967	40.5%
Expenses for product research and development	**45,947**	34,873	31.8%
Office rental cost and other expenses	**58,850**	39,026	50.8%
Total	**172,308**	117,872	46.2%

The increase in administrative expenses was mainly due to the expenses incurred by the companies acquired during the year, of which approximately RMB22,433,000 was attributable to Guizhou Zhongtai and its subsidiaries and approximately RMB16,890,000 was attributable to Tongjitang.

Profit from Operations

During the year under review, the Group's profit from operations was approximately RMB272,757,000, representing an increase of 15.7% as compared to approximately RMB235,795,000 for the same period last year, while operating profit margin (defined as profit from operations divided by total turnover) decreased to 19.6% from 22.9% for the same period last year.

Finance Costs

During the year under review, the Group's finance costs amounted to approximately RMB35,182,000 (2012: RMB19,389,000), and the higher finance costs as compared with the corresponding period last year was attributable to the impact of the acquisition projects, resulting in all increase of the Group's bank and other borrowings to approximately RMB1,251,896,000 (31 December 2012: RMB414,420,000). Moreover, the interest expense of approximately RMB5,250,000 was capitalized in the corresponding period last year as work-in-progress. After the projects was completed during this period, no more capitalization treatment was carried out. The effective interest rate for the loans was 5.17% (31 December 2012: 6.75%).

Earnings per share

During the year under review, the basic earnings per share was RMB9.68 cents, representing an increase of 2.4% as compared to RMB9.45 cents for the corresponding period last year. During the year a total of 750,488,379 additional new shares were issued successively, so that the number of shares increased from 1,783,410,807 shares of the corresponding period last year to 2,533,899,186 shares, and the weighted average number of shares was increased to 2,050,558,456. However basic earnings per share increase because the good business acquired generated excellent results in the year which offset the impact. Profit attributable to equity shareholders for the year increased by 17.8% to approximately RMB198,463,000 (2012: RMB168,526,000).

Liquidity and Financial Resources

As at 31 December 2013, the Group's current assets amounted to approximately RMB1,778,150,000 (31 December 2012: RMB814,491,000), which included cash, cash equivalents and deposits with banks of approximately RMB349,650,000 (31 December 2012: RMB133,883,000), as well as trade and other receivable of approximately RMB1,016,832,000 (31 December 2012: RMB442,786,000). Current liabilities amounted to approximately RMB1,264,388,000 (31 December 2012: RMB649,252,000). Net current assets aggregated to approximately RMB513,762,000 (31 December 2012: RMB165,239,000). The Group's current ratio was 1.4 (31 December 2012: 1.3). The gearing ratio (defined as bank loans divided by total equity attributable to equity shareholders of the Company) decreased to 45.4% from 50.0% as at 31 December 2012. The gearing ratio decreased because the increase of equity through the issue of new shares for the acquisition projects exceeded the additional liabilities funded by bank loans.

Bank and other Loans and Pledge of Assets

As at 31 December 2013, the balance of the Group's bank and other loans was approximately RMB1,251,896,000 (31 December 2012: RMB414,420,000), of which approximately RMB338,928,000 (31 December 2012: RMB254,420,000) was secured by the Group's assets with book value of approximately RMB189,003,000 (31 December 2012: RMB189,366,000) and guaranted by a shareholder. The increase of bank loans was mainly due to paying the consideration of the acquisition of Tongjitang and the retention of the existing bank loans of Tongjitang.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2013 (31 December 2012: nil).

Employee and Remuneration Policies

As at 31 December 2013, the Group employed a total of 6,719 (31 December 2012: 3,167) staff members, (including directors of the Company), of which the number of sales staff, production staff and those engaged in R&D, administration and senior management were 3,714, 2,169and 836 respectively. Remuneration packages principally comprised salary and discretionary performance bonus based on individual merits. The Group's total remuneration for the period was approximately RMB226,272,000 (31 December 2012: RMB150,192,000).

FINAL DIVIDEND

The Board has not recommended and the payment of a final dividend for the year ended 31 December 2013 (2012: nil).

REPORT OF THE DIRECTORS

The Directors have the pleasure in presenting the annual report together with the audited financial statements of the Group for the year ended 31 December 2013.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

The name of the Company was changed from "WINTEAM PHARMACEUTICAL GROUP LIMITED盈天醫藥集團有限公司" to "CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED中國中藥有限公司" with effect from 12 November 2013.

The stock short name for trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was changed from "WINTEAM PHARMA" in English and "盈天醫藥" in Chinese to "TRAD CHI MED" in English "中國中藥" in Chinese with effect from 22 November 2013. Further details are set out in the announcement of the Company dated 22 November 2013.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the PRC.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 55 to 138 of this report.

No interim dividend was paid during the year (six months ended 30 June 2012: HK2.50 cents per share).

The Board has not recommended to declare a final dividend for the year ended 31 December 2013 (2012: Nil). The Company shall review its dividend policy from time to time and would distribute dividend to shareholders at appropriate time.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB198,463,000 (2012: RMB168,526,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 26(a) and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

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 pages 3 to 4 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2013 are set out in note 16 to the financial statements.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Board comprises the following Directors during the financial year and up to the date of this report:

Executive Directors

Mr. WU Xian	*Chairman (appointed as Executive Director on 5 February 2013 and Chairman on 28 February 2013)*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	*(appointed on 23 October 2013)*
Mr. XU Tiefeng	*(resigned as Executive Director and Chairman on 28 February 2013)*
Mr. SITU Min	*(resigned as Executive Director on 28 February 2013)*
Mr. LU Jun	*(appointed as Executive Director on 5 February 2013 and resigned as Executive Director on 6 March 2013)*

Non-executive Directors

Mr. SHE Lulin	*(appointed on 5 February 2013)*
Mr. LIU Cunzhou	*(appointed on 5 February 2013)*
Mr. DONG Zenghe	*(appointed on 6 March 2013)*
Mr. ZHAO Dongji	*(appointed on 5 February 2013)*
Mr. DU Richeng	*(resigned on 28 February 2013)*

Independent Non-executive Directors

Mr. ZHOU Bajun	*(appointed on 5 February 2013)*
Mr. XIE Rong	*(appointed on 5 February 2013, appointed as alternate director to Mr. ZHOU Bajun for 1 day on 25 November 2013 and appointed as alternate director to Mr. YU Tze Shan Hailson for 1 day on 4 February 2014)*
Mr. FANG Shuting	*(appointed on 5 February 2013)*
Mr. YU Tze Shan Hailson	*(appointed on 25 November 2013)*
Mr. LO Wing Yat	*(resigned on 28 February 2013)*
Mr. PANG Fu Keung	*(resigned on 28 February 2013)*
Mr. WANG Bo	*(resigned on 28 February 2013)*
Mr. ZHANG Jianhui	*(resigned on 28 February 2013)*

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and the Company considers all the independent non-executive Directors to be independent.

All the directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with Article 92 of the Company's Articles of Association, Mr. WANG Xiaochun and Mr. YU Tze Shan Hailson shall hold office until the forthcoming annual general meeting of the Company (the "AGM") and shall then be eligible for re-election. In accordance with Article 101 of the Company's Articles of Association, Mr. WU Xian, Mr. YANG Bin, Mr. LIU Cunzhou and Mr. XIE Rong shall retire by rotation at the AGM and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of the existing Directors as at the date of this annual report, including the particulars required under paragraph 12 of Appendix 16 the Listing Rules (if and as applicable and appropriate), are set out on pages 49 to 52 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013.

Mr. YANG Bin entered into a service agreement with the Company for an initial term of two years commencing from 21 June 2009 which shall automatically be renewed thereafter until terminated by either party to the service agreement by giving a six months' prior notice.

Mr. WANG Xiaochun entered into an appointment letter with the Company for a term of two years commencing from 23 October 2013.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Each of Mr. SHE Lulin, Mr. LIU Cunzhou and Mr. ZHAO Dongji entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013.

Mr. DONG Zenghe entered into an appointment letter with the Company for a term of two years commencing from 6 March 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Each of Mr. ZHOU Bajun, Mr. XIE Rong and Mr. FANG Shuting entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013.

Mr. YU Tze Shan Hailson entered into an appointment letter with the Company for a term of two years commencing from 25 November 2013.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration committee ("Remuneration Committee") and the emoluments of the non-executive Director and independent non-executive Directors are recommended by the Remuneration Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2013, the fee for the eligible Directors was fixed at HK$234,000 per annum.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULES 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company since the date of the 2013 Interim Report is as follows:

After recent review of the Directors' remuneration by the Remuneration Committee, the remuneration of the Directors for the year ending 31 December 2013 shall be revised:

- Mr. WANG Xiaochun, an executive Director will receive an annual remuneration (inclusive of director's fee) of RMB1,820,000; and

- The annual directors' fee of Mr. YANG Bin, Mr. WANG Xiaochun, Mr. LIU Cunzhou and all the independent non-executive Directors was changed from HK$200,000 to HK$234,000.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CHANGES OF CONTROLLING SHAREHOLDERS

On 31 August 2012, Sinopharm Hong Kong, an indirect wholly-owned subsidiary of CNPGC, entered into the conditional sale and purchase agreement ("S&P Agreement") with Mr. YANG Bin, Mr. XU Tiefeng, Extra Benefit Corp. ("Extra Benefit"), Profit Channel Development Limited ("Profit Channel") and Sureplan Limited ("Sureplan", together with Mr. YANG Bin, Mr. XU Tiefeng, Extra Benefit and Profit Channel, the "Vendors") as the vendors and Mr. YANG Bin and Mr. XU Tiefeng (the "Guarantors") as the guarantors, pursuant to which the Offeror has conditionally agreed to purchase and the Vendors have conditionally agreed to sell or procure the sale of 354,898,750 shares ("Sale Shares") for a minimum consideration of an aggregate of HK$496,858,250 (equivalent to HK$1.40 per Sale Share) and a maximum consideration of an aggregate of HK$603,327,875 (equivalent to HK$1.70 per Sale Share). The Sale Shares represent approximately 19.90% of the entire issued share capital of the Company. The sale and purchase of the Sale Shares contemplated under the S&P Agreement was completed on 29 January 2013 ("Completion").

Citigroup Global Markets Asia Limited, had, for and on behalf of the Offeror, made a voluntary conditional cash offer to acquire all of the issued shares of the Company (the "VGO"). The VGO became unconditional on 14 February 2013 and closed on 28 February 2013. After the Completion and the close of the VGO, the Offeror and parties acting in concert with it are interested in an aggregate of 1,016,023,044 shares, representing approximately 56.97% of the total issued share capital of the Company. The percentage level in relation to interest in shares is calculated based on 1,783,410,807 shares in issue as at the date of Completion.

CNPGC hopes to expand its presence in the manufacturing and selling of TCM products through the acquisition of the Company as a result of the S&P Agreement and the VGO. CNPGC also hopes to increase the Company's sales through its expertise in financial management, operation management, strategy and human resources and information management.

For details of the VGO, please refer to the Composite Offer and Response Document and the announcement of the Company dated 5 February 2013 and 28 February 2013, respectively.

MATERIAL ACQUISITION AND CONNECTED TRANSACTIONS

Acquisition of the entire issued share capital of Tongjitang

On 23 May 2013, the Company entered into a conditional agreement (the "Acquisition Agreement") with Mr. WANG Xiaochun, Hanmax Investment Limited ("Hanmax") and Fosun Industrial Co., Limited ("Fosun") pursuant to which the Company conditionally agreed to acquire, and Hanmax and Fosun conditionally agreed to sell the entire issued share capital of Tongjitang (the "Acquisition") at a consideration of RMB2,640 million. The consideration consists of by way of allotment and issue of 334,000,000 new shares ("Consideration Shares") in the Company to Hanmax (or any nominee(s) as it may direct), settlement of the debt of Unisources Enterprises Limited and cash. The cash portion of the consideration will be financed by the placing and subscription of new shares of the Company and a combination of the Company's internal resources and debt or equity financing transactions.

Tongjitang is a leading pharmaceutical enterprise in the PRC with an emphasis on orthopedics traditional Chinese medicines. The Group expects that the Acquisition will allow the Group to gain instant access to both the prescription and OTC markets for orthopedics traditional Chinese medicine and take advantage of the high growth of Tongjitang. Details of the Acquisition are set out in the announcement and circular of the Company dated 24 May 2013 and 19 September 2013 respectively. The Acquisition was completed on 23 October 2013. On the same day, 334,000,000 new shares were allotted and issued to Hanmax at a price of HK$2.8 each, The Completion announcement was also issued on 23 October 2013.

The Placing

On 23 May 2013, the Company entered into a placing agreement with three placing agents pursuant to which the placing agents agreed to procure not less than six independent placees to subscribe for an aggregate of 225,000,000 new shares in the Company (the "Placing"). The Placing was completed and 225,000,000 new shares were allotted and issued to the placees at a price of HK$3.1 each on 4 June 2013, raising gross proceeds of HK$697.5 million for the Group. Details of the Placing are set out in the announcement of the Company dated 4 June 2013.

The Sinopharm Subscription

On 23 May 2013, the Company entered into a subscription agreement (the "Sinopharm Subscription Agreement") with Shanghai Sinopharm Equity Investment Fund Partnership (Limited Partnership) (上海國藥股權投資基金合夥企業(有限合夥)) ("Sinopharm Fund") pursuant to which the Company conditionally agreed to allot and issue, and Hwabao Trust Co., Ltd. (華寶信託有限責任公司) ("Sinopharm Fund Trustee") conditionally agreed to subscribe for, 125,000,000 new shares ("Sinopharm Shares") in the Company at a price of HK$3.1 each (the "Sinopharm Subscription"). Sinopharm Fund Trustee acts as the trustee of Sinopharm Fund. Completion of the Sinopharm Subscription took place on 9 July 2013 and 125,000,000 new shares in the Company were allotted and issued to Sinopharm Fund Trustee. The gross proceeds raised from the Sinopharm Subscription amount to HK$387.5 million.

Sinopharm Fund is managed by its general partner which is owned as to 35% by CNPGC and 65% by an independent third party. As CNPGC is the controlling shareholder of the Company, the Sinopharm Subscription constituted a connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details of the Sinopharm Subscription are set out in the announcement of the Company dated 24 May 2013 and the circular of the Company dated 14 June 2013.

The Yang Subscription

On 23 May 2013, the Company entered into a subscription agreement (the "Yang Subscription Agreement") with Mr. YANG Bin pursuant to which the Company conditionally agreed to allot and issue, and Mr. YANG Bin conditionally agreed to subscribe for, 66,488,379 new shares ("Yang Shares") in the Company at a price of HK$3.10 each (the "Yang Subscription"). The gross proceeds raised from the Yang Subscription amount to approximately HK$206.1million. The Yang Subscription was completed and 66,488,379 new shares were allotted and issued to Mr. YANG Bin at a price of HK$3.10 each on 23 October 2013.

By virtue of Mr. Yang Bin's directorship and substantial shareholding interest in the Company, the Yang Subscription constituted a connected transaction of the Company under the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2013, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 31 December 2013:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital *(Note 4)*
YANG Bin	Interest of controlled corporations	267,511,621 (long position) *(Note 1)*	10.56%
	Interest of controlled corporations	71,037,863 (short position) *(Note 2)*	2.80%
	Beneficial owner	66,488,379 (long position)	2.62%
	Total	*334,000,000*	*13.18%*
WANG Xiaochun	Interest of controlled corporations	334,000,000 (long position) *(Note 3)*	13.18%

Notes:

1. The 267,511,621 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.
2. Profit Channel pledged 71,037,863 shares to CNPGC as security in connection to the Company's bank borrowing to finance the Company's acquisition of Tongjitang.
3. The 334,000,000 shares are held by Hanmax which is wholly owned by Mr. WANG Xiaochun. On 26 March 2014, 150,000,000 shares have been charged by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.
4. Based on 2,533,899,186 shares in issue as at 31 December 2013.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2013, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2013, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 31 December 2013:

Name of Substantial Shareholders	**Capacity**	**Number of Ordinary Shares**	**Approximate Percentage of Total Interests to Issued Share Capital** *(Note 4)*
Sinopharm Hong Kong	Beneficial owner	1,016,023,044 (long position) *(Note 1(b))*	40.09%
CNPGC	Interest of controlled corporations	1,139,879,044 (long position) *(Notes 1(a) and (b))*	44.99%
CNPGC	Security Interest	71,037,863 (long position) *(Note 2)*	2.80%
Profit Channel	Beneficial owner	267,511,621 (long position)	10.56%
	Interest of a controlled corporation	71,037,863 (short position) *(Note 2)*	2.80%
Hanmax	Beneficial Owner	334,000,000 (long position) *(Note 3)*	13.18%

Notes:

1. CNPGC is interested in 1,139,879,044 shares in the following manner:

   (a) 123,856,000 shares are held by Hwabao Trust Co., Ltd which acts as the trustee for the benefit of Sinopharm Fund. Sinopharm Fund is a limited partnership established under the PRC laws and is managed by its general partner owned as to 35% by CNPGC and 65% by an independent third party which is an entity deemed to be controlled by CNPGC under the SFO; and

   (b) 1,016,023,044 shares are held by Sinopharm Hong Kong, which is indirectly wholly owned by CNPGC.

2. Profit Channel (wholly owned by Mr. Yang) pledged 71,037,863 shares to CNPGC as security in connection with the Company's bank borrowing to finance the Company's acquisition of the Tongjitang.

3. The 334,000,000 shares are held by Hanmax which is wholly owned by Mr. WANG Xiaochun. On 26 March 2014, 150,000,000 shares have been charged by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.

4. Based on 2,533,899,186 shares in issue as at 31 December 2013.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2013.

CONNECTED TRANSACTIONS

Entered into Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Guangdong Medi-World Pharmaceutical Co., Ltd. (廣東環球制藥有限公司) ("Guangdong Medi-World"), an indirect wholly-owned subsidiary of the Company, entered into the research and development agreements (the "R&D Agreements") with SIPI and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd (上海現代藥物製劑工程研究中心有限公司 or "SPERC") respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC (as the case may be) for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements totally amounts to approximately RMB136.3 million (equivalent to approximately HK$174.3 million).

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry, which is a subsidiary of CNPGC. CNPGC is the ultimate holding company of Sinopharm Hong Kong which is in turn the controlling shareholder beneficially interested in 1,139,879,044 shares and 1,121,023,044 shares as at 23 December 2013 and 5 March 2014 respectively, representing approximately 44.99% and 44.24% of the total issued share capital of the Company respectively. Accordingly, each of SIPI and SPERC is a connected person of the Company and the R&D Agreements constitute connected transactions of the Company under the Listing Rules.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R & D Agreements, please refer to the announcement of the Company dated 23 December 2013 and 5 March 2014.

CONTINUING CONNECTED TRANSACTIONS

Entered into Master Purchase Agreement and Master Supply Agreement with CNPGC

On 5 February 2013, the Company entered into a Master Purchase Agreement with CNPGC, pursuant to which the Group agreed to purchase and CNPGC and its subsidiaries ("CNPGC Group") conditionally agreed to sell materials during the period from the effective date of the Master Purchase Agreement to 31 December 2013. The value of the purchases shall not exceed the annual cap of RMB50.0 million for the financial year ending 31 December 2013.

On 5 February 2013, the Company entered into a Master Supply Agreement with CNPGC, pursuant to which the Group agreed to supply and CNPGC Group conditionally agreed to purchase products during the period from the effective date of the Master Supply Agreement to 31 December 2013. The value of the sales shall not exceed the annual cap of RMB300.0 million for the financial year ending 31 December 2013.

Sinopharm Hong Kong and parties acting in concert with it were interested in an aggregate of 1,016,023,044 shares, representing approximately 56.97% of the total issued share capital of the Company after the VGO (closing the offer on 28 February 2013). Sinopharm Hong Kong is the controlling shareholder and a connected person of the Company under the Listing Rules. CNPGC, the ultimate holding company of Sinopharm Hong Kong, is therefore an associate of a connected person of the Company as defined in the Listing Rules. The sales and purchases of the products and the materials contemplated under the Master Supply Agreement and Master Purchase Agreement respectively, constituted continuing connected transactions of the Company under Listing Rules.

CNPGC is the largest state-owned Pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Members of CNPGC Group have been the suppliers of the materials and customers of the products of the Group since 1998. CNPGC hopes to expand its presence in the manufacturing and selling of TCM products through the acquisition of the shares of the Company by Sinopharm Hong Kong and increase the Company's sales through its expertise in financial management, operation management, strategy and human resources and information management. The Master Purchase and the Master Supply Agreement were entered into for the purpose of enabling the Group to continue the business relationship with CNPGC Group in compliance with the Listing Rules as well as to capture the opportunities that may be brought about by CNPGC Group to the Group.

For the details these continuing connected transactions, please refer to the announcement and the circular of the Company dated 5 February 2013 and 7 March 2013 respectively. The Master Purchase Agreement, Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 23 March 2013.

During the period from 1 March 2013 to 31 December 2013, the purchases of materials by CNPGC Group to the Group amounted to RMB15,336,000 (including value added tax) which was below the cap amount of RMB50.0 million for the year ended 31 December 2013.

During the period from 1 March 2013 to 31 December 2013, the sales of products by the Group to CNPGC Group amounted to RMB144,722,000 (including value added tax) which was below the cap amount of RMB300.0 million for the year ended 31 December 2013.

The independent non-executive directors have reviewed the above continuing connected transactions of the Group and have confirmed that the Transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from Independent third parties; and

(iii) 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.

Entered into New Master Purchase Agreement and New Master Supply Agreement with CNPGC

As terms of each of the Master Purchase Agreement and the Master Supply Agreement and the respective annual caps expired on 31 December 2013. On 11 December 2013, the Company entered into a New Master Purchase Agreement and a New Master Supply Agreement with CNPGC for the three financial years ending 31 December 2014, 2015 and 2016.

Pursuant to the New Master Purchase Agreement the Group agreed to purchase and CNPGC Group conditionally agreed to sell materials during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the Master Purchase Agreement, the value of the Purchase Transactions does not exceed the annual cap of RMB35 million, RMB39 million and RMB45 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

Pursuant to the New Master Supply Agreement the Group agreed to supply and CNPGC Group conditionally agreed to purchase products during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the Master Supply Agreement, the value of the Supply Transactions does not exceed the annual cap of RMB500 million, RMB610 million and RMB740 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

CNPGC is beneficially interested in 1,140,179,044 shares as at 11 December 2013, representing approximately 45.00% of the total issued share capital of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New` Master Purchase Agreement respectively, constituted continuing connected transactions of the Company under Listing Rules.

For details of these new continuing connected transactions, please refer to the announcement and the circular of the Company dated 12 December 2013 and 14 December 2013 respectively. The Master Purchase Agreement, the Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 3 January 2014.

Based on the background of CNPGC and the previous business relationship with CNPGC Group, CNPGC Group is a reliable business partner of the Group who has a strong supply capacity as well as a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality materials from CNPGC Group while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of CNPGC Group in the PRC. The role of CNPGC Group will be enhanced as a business partner of the Group to distribute the products to hospitals and retail pharmacies.

Distribution Agreements between Tongjitang and CNPGC Group

Prior to the completion of acquisition of Tongjitang, Tongjitang had, in its ordinary and usual course of business, entered into a number of distribution agreements (the "Distribution Agreements") with various members of CNPGC Group, pursuant to which Tongjitang supplies the products to CNPGC Group during the one-year period commencing on 1 January 2013. On 23 October 2013, Tongjitang became a subsidiary of the Company immediately after the completion of acquisition of Tongjitang. Accordingly, the sales of product under the Distribution Agreements constituted continuing connected transactions of the Company under the Listing Rules. Therefore the sales amount of products under the Distribution Agreements was included in the annual cap of the Master Supply Agreement.

This change of the Distribution Agreement was mentioned in the completion announcement of Acquisition of Tongjitang dated 23 October 2013.

ACQUISITION OF LAND

On 14 August 2013, Foshan Winteam Pharmaceutical Development Company Limited (佛山盈天醫藥發展有限公司), a wholly-owned subsidiary of the Group, acquired a land use right through auction at a consideration of RMB234.05 million (the "Land Acquisition"). The land has a net usable site area of 22,041.7 square metres and is located at Chancheng District, Foshan City, the PRC. The Group will construct its headquarter, R&D center and annex buildings on the land parcel. The Group is working with an independent third party to develop the project. The allocation of the space of the buildings will be based on the amount of investment from each of the two parties. The construction plan is under review by government authorities. The Group expects the project to be completed in 2016.

The Land Acquisition constituted a discloseable transaction for the Group and is therefore subject to the reporting and announcement requirements under the Listing Rules. For details of the Land Acquisition, please refer to the announcement of the Company dated 14 August 2013.

INVESTMENT IN GUIZHOU ZHONGTAI

On 26 August 2013, Guangdong Medi-World entered into a disposal agreement with Shunde Hefeng to dispose of its 51% interest in the registered capital of Guizhou Zhongtai at a cash consideration of approximately RMB100.9 million (the "Disposal").

During 2013, Guizhou Zhongtai and its subsidiaries achieved turnover of approximately RMB38,481,000, and turned loss into profit of approximately RMB844,000.

On 6 March 2014, Guangdong Medi-World entered into a termination agreement with Shunde Hefeng to terminate the Disposal. The Group expects the performance of Guizhou Zhongtai being improved significantly in the foreseeable future. As compared to selling off the company, retaining Guizhou Zhongtai as a subsidiary will bring in more benefit for shareholders of the Group.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in above section of "Material Acquisition and Connected Transactions" of this report, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in above section of "Material Acquisition and Connected Transactions" of this report, at no time during the period were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, Mr. YANG Bin and Mr. WANG Xiaochun, both executive Directors, have material interests directly or indirectly in the contracts which are listed above under the section headed "Changes of Controlling Shareholders" and "Material Acquisition and Connected Transactions" in this report.

Save as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the largest customer and the five largest customers of the Group accounted for around 9.9% and 25.3% of the Group's total turnover during the year. The turnover attributable to CNPGC Group accounted for around 9.9% of the Group's total turnover during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 5.9% and 22.3% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 4.2% of the Group's total purchases during the year.

Save as disclosed above, at no time during the year, none of the Directors, their associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 5(b) and 24 to the financial statements.

AUDITORS

There was not any change of auditors of the Company in the preceding three years. KPMG shall retire and, being eligible, offer themselves for re-appointment as auditors of the Company for the financial year ending 31 December 2013. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2013 have been reviewed by the audit committee ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 35 to 48 of this annual report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 35 to 48 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this annual report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

WU Xian
Chairman

Hong Kong, 22 March 2014

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules on the Stock Exchange for the year ended 31 December 2013.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There is no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. WU Xian	*Chairman (appointed as Executive Director on 5 February 2013 and Chairman on 28 February 2013)*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	*(appointed as Executive Director on 23 October 2013)*
Mr. XU Tiefeng	*(resigned as Executive Director and Chairman on 28 February 2013)*
Mr. SITU Min	*(resigned as Executive Director on 28 February 2013)*
Mr. LU Jun	*(appointed as Executive Director on 5 February 2013 and resigned as Executive Director on 6 March 2013)*

Non-executive Directors:

Mr. SHE Lulin	*(appointed on 5 February 2013)*
Mr. LIU Cunzhou	*(appointed on 5 February 2013)*
Mr. DONG Zenghe	*(appointed on 6 March 2013)*
Mr. ZHAO Dongji	*(appointed on 5 February 2013)*
Mr. DU Richeng	*(resigned on 28 February 2013)*

Independent Non-executive Directors:

Mr. ZHOU Bajun	*(appointed on 5 February 2013)*
Mr. XIE Rong	*(appointed on 5 February 2013, appointed as alternate director to Mr. ZHOU Bajun for 1 day on 25 November 2013 and appointed as alternate director to Mr. YU Tze Shan Hailson for 1 day on 4 February 2014)*
Mr. FANG Shuting	*(appointed on 5 February 2013)*
Mr. YU Tze Shan Hailson	(appointed on 25 November 2013)
Mr. LO Wing Yat	*(resigned on 28 February 2013)*
Mr. PANG Fu Keung	*(resigned on 28 February 2013)*
Mr. WANG Bo	*(resigned on 28 February 2013)*
Mr. ZHANG Jianhui	*(resigned on 28 February 2013)*

As of the date of this report, the Board comprises eleven Directors, including three executive Directors, four non-executive Directors and four independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, finance, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and the relevant committee works. In addition, Mr. XIE Rong, an independent non-executive Director, possesses appropriate professional accounting qualifications and financial management expertise. Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Pursuant to Rule 3.10A of the Listing Rules, the independent non-executive directors of a listed issuer must represent at least one-third of the board of directors. On 23 October 2013, due to the appointment of Mr. WANG Xiaochun as an executive Director, the number of independent non-executive Directors was fallen below one-third of the Board as required under Rule 3.10A of the Listing Rules. In compliance with the requirement of the Listing Rules, the Board appointed Mr. YU Tze Shan Hailson as an additional independent non-executive Director on 25 November 2013.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at approximately quarterly intervals. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the Directors within reasonable time before the meetings. Draft minutes of Board meetings are circulated to the Directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by Directors.

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results;

– declaration and recommendation of the payment of dividend;

– appointment of new directors.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board Committees.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 7 and 8 to the financial statements.

The remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

Remuneration Band (RMB'000)	**Number of persons**
0 to 500	3
500 to 1,000	1

For the year ended 31 December 2013, the Company had convened seven Board meetings, the 2013 annual general meeting (the "2013 AGM") and three extraordinary general meetings (collectively terms as the "General Meetings"). The following table shows the details of Directors' attendance:

	Attendance in person/Number of Meetings	**Attendance by Alternate Directors/ Number of Meetings** *(Note)*	**Attendance/ Number of Meetings**	
Directors	**Board Meetings**		**Annual General Meeting**	**Extraordinary General Meetings**
Executive Directors:				
Mr. WU Xian *(appointed on 5 February 2013)*	4/4	0/4	1/1	3/3
Mr. YANG Bin	7/7	0/7	1/1	3/3
Mr. WANG Xiaochun *(appointed on 23 October 2013)*	1/1	0/1	N/A	N/A
Mr. XU Tiefeng *(resigned on 28 February 2013)*	3/3	0/3	N/A	N/A
Mr. SITU Min *(resigned on 28 February 2013)*	3/3	0/3	N/A	N/A
Mr. LU Jun *(appointed on 5 February 2013 and resigned on 6 March 2013)*	N/A	N/A	N/A	N/A

Directors	Board Meetings: Attendance in person/Number of Meetings	Board Meetings: Attendance by Alternate Directors/ Number of Meetings *(Note)*	Annual General Meeting: Attendance/ Number of Meetings	Extraordinary General Meetings: Attendance/ Number of Meetings
Non-executive Directors:				
Mr. SHE Lulin *(appointed on 5 February 2013)*	2/4	0/4	0/1	0/3
Mr. LIU Cunzhou *(appointed on 5 February 2013)*	4/4	0/4	0/1	0/3
Mr. DONG Zenghe *(appointed on 6 March 2013)*	3/4	0/4	0/1	0/3
Mr. ZHAO Dongji *(appointed on 5 February 2013)*	4/4	0/4	1/1	3/3
Mr. DU Richeng *(resigned on 28 February 2013)*	3/3	0/3	N/A	N/A
Independent Non-executive Directors:				
Mr. ZHOU Bajun *(appointed on 5 February 2013)*	2/4	1/4	0/1	0/3
Mr. XIE Rong *(appointed on 5 February 2013)*	3/4	0/4	1/1	1/3
Mr. FANG Shuting *(appointed on 5 February 2013)*	3/4	0/4	0/1	1/3
Mr. YU Tze Shan Hailson *(appointed on 25 November 2013)*	0/1	1/1	N/A	N/A
Mr. LO Wing Yat *(resigned on 28 February 2013)*	3/3	0/3	N/A	N/A
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	3/3	0/3	N/A	N/A
Mr. WANG Bo *(resigned on 28 February 2013)*	3/3	0/3	N/A	N/A
Mr. ZHANG Jianhui *(resigned on 28 February 2013)*	3/3	0/3	N/A	N/A

Note: Pursuant to Article 93 of the Articles of Association of the Company, an alternate Director shall be entitled to attend and vote as a Director at any meeting of the Directors at which the Director appointing him is not personally present or any meeting of any committee of the Directors which his appointor is a member.

Chairman and Managing Director

Mr. XU Tiefeng, an executive Director was the Chairman of the Board until 28 February 2013 after the closing of the VGO. Mr. WU Xian was appointed as the new Chairman of the Board with effect from 28 February 2013. Mr. YANG Bin, an executive Director, is the Managing Director of the Company.

The Chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of the daily operations of the Group.

Appointment and Re-election of Directors

The nomination committee (the "Nomination Committee") is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company.

All the Directors are appointed for a specific term and subject to retirement by rotation once every three years and re-election in accordance with the Articles of Association of the Company.

According to the Articles of Association of the Company, newly appointed Directors are required to offer themselves for re-election at the next following general meeting (in the case of filling a causal vacancy) or at the next following AGM (in the case of an addition to the Board) following their appointment.

Continuous Professional Development of Directors

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will be arranged as necessary.

Pursuant to the requirements of the Code, all Directors should provide their training record to the Company. According to the training records provided by the Directors, the training attended by them during the reporting period is summarized as follows:

Directors	Corporate Governance, Regulatory Development and Trainings on other relevant topics
Executive Directors:	
Mr. WU Xian *(appointed on 5 February 2013)*	✓
Mr. YANG Bin	✓
Mr. WANG Xiaochun *(appointed on 23 October 2013)*	✓
Mr. XU Tiefeng *(resigned on 28 February2013)*	N/A
Mr. SITU Min *(resigned on 28 February 2013)*	N/A
Mr. LU Jun *(appointed on 5 February 2013 and resigned on 6 March 2013)*	N/A
Non-executive Directors:	
Mr. SHE Lulin *(appointed on 5 February 2013)*	✓
Mr. LIU Cunzhou *(appointed on 5 February 2013)*	✓
Mr. DONG Zenghe *(appointed on 6 March 2013)*	✓
Mr. ZHAO Dongji *(appointed on 5 February 2013)*	✓
Mr. DU Richeng *(resigned on 28 February 2013)*	N/A
Independent Non-executive Directors:	
Mr. ZHOU Bajun *(appointed on 5 February 2013)*	✓
Mr. XIE Rong *(appointed on 5 February 2013)*	✓
Mr. FANG Shuting *(appointed on 5 February 2013)*	✓
Mr. YU Tze Shan Hailson *(appointed on 25 November 2013)*	✓
Mr. LO Wing Yat *(resigned on 28 February 2013)*	N/A
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	N/A
Mr. WANG Bo *(resigned on 28 February 2013)*	N/A
Mr. ZHANG Jianhui *(resigned on 28 February 2013)*	N/A

Nomination Committee

The Board established the Nomination Committee in 2012. The Nomination Committee comprises of the two executive Directors and three independent non-executive Directors as at the date of report. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors. The written terms of reference which describe the authority and duty of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

During the year, three Nomination Committee meetings were held and considered the biographies and suitability of the Directors nominated by the new controlling shareholder as well as the new composition of the Board and make recommendations to the Board for the proposed appointment and the change to the Board.

The individual attendance of each member is set out below:

Members of the Nomination Committee	**Attendance in Person/Number of Meetings**	**Attendance by Alternate Director/ Number of Meetings**
Executive Directors:		
Mr. WU Xian *(Chairman, appointed on 5 February 2013)*	2/2	0/2
Mr. YANG Bin	3/3	0/3
Mr. XU Tiefeng *(resigned on 28 February 2013)*	1/1	0/1
Independent Non-executive Directors:		
Mr. ZHOU Bajun *(appointed on 5 February 2013)*	1/2	1/2
Mr. XIE Rong *(appointed on 5 February 2013)*	2/2	0/2
Mr. FANG Shuting *(appointed on 5 February 2013)*	1/2	0/2
Mr. LO Wing Yat *(resigned on 28 February 2013)*	1/1	0/1
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	1/1	0/1
Mr. WANG Bo *(resigned on 28 February 2013)*	1/1	0/1
Mr. ZHANG Jianhui *(resigned on 28 February 2013)*	1/1	0/1

Note: Pursuant to Article 93 of the Articles of Association of the Company, an alternate Director shall be entitled to attend and vote as a Director at any meeting of the Directors at which the Director appointing him is not personally present or any meeting of any committee of the Directors which his appointor is a member.

Board Diversity Policy

The Board adopted the board diversity policy in August 2013. The policy sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board developed measurable objectives to implement the board diversity policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit and contribution that the selected candidate will bring to the Board.

Audit Committee

The Audit Committee comprises of the three independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Board approved the adoption of the Audit Committee's revised terms of reference, with effect from 1 April 2012. The revised written terms of reference are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system and internal control procedures; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Members of the Audit Committee	**Attendance**
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman, appointed on 5 February 2013)*	2/2
Mr. ZHOU Bajun *(appointed on 5 February 2013)*	2/2
Mr. FANG Shuting *(appointed on 5 February 2013)*	2/2
Mr. LO Wing Yat *(resigned on 28 February 2013)*	N/A
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	N/A
Mr. WANG Bo *(resigned on 28 February 2013)*	N/A
Mr. ZHANG Jianhui *(resigned on 28 February 2013)*	N/A

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2012 and the interim results and the interim report of the Group for the year 2013, as well as the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

The Remuneration Committee was established in 2005.

The main roles and functions of the Remuneration Committee are as follows:

(a) making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) either: (i) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or (ii) making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

(d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

(e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(f) reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(g) making recommendations to the Board on the remuneration of non-executive Directors.

The Company has adopted the model whereby the Remuneration Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

The Board approved the adoption of the Remuneration Committee's revised terms of reference, with effect from 1 April 2012. The revised written terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

In determining the emolument payable to the Directors, the Remuneration Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing basic remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

During the year, five Remuneration Committee meetings were held and the individual attendance of each member is set out below:

Members of the Remuneration Committee	**Attendance in Person/Number of Meetings**	**Attendance by Alternate Director/ Number of Meetings**
Non-Executive Directors:		
Mr. LIU Cunzhou *(appointed on 5 February 2013)*	4/4	0/4
Mr. DU Richeng *(resigned on 28 February 2013)*	1/1	0/1
Independent Non-executive Directors:		
Mr. ZHOU Bajun *(Chairman, appointed on 5 February 2013)*	3/4	1/4
Mr. XIE Rong *(appointed on 5 February 2013)*	4/4	0/4
Mr. FANG Shuting *(appointed on 5 February 2013)*	3/4	0/4
Mr. LO Wing Yat *(resigned on 28 February 2013)*	1/1	0/1
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	1/1	0/1
Mr. WANG Bo *(resigned on 28 February 2013)*	1/1	0/1
MR. ZHANG Jianhui *(resigned on 28 February 2013)*	1/1	0/1

Note: Pursuant to Article 93 of the Articles of Association of the Company, an alternate Director shall be entitled and attend and vote as a Director at any meeting of the Directors at which the Director appointing him is not personally present or any meeting of any committee of the Directors which his appointor is a member.

During the year, the Remuneration Committee determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

Strategic Committee

The Board set up a strategic committee ("Strategic Committee") in January 2014, which comprises of the six Directors including Mr. WU Xian, Mr. YANG Bin, Mr. WANG Xiaochun, Mr. LIU Cunzhou, Mr. ZHOU Bajun and Mr. YU Tze Shan Hailson. Mr. LIU Cunzhou was appointed as the chairman.

Strategic Committee is a specific working body set up by the Board. Its main responsibilities are to conduct researches and submit proposals to the Board in respect of medium-to-long term development strategies and material investment decisions of the Group. The Board considers that the proposals submited by Strategic Committee will strengthen the core competitiveness of the Group, determine its development plans as well as improve its procedures of making investment decisions, so as to enhance the effectiveness and quality of material investment decisions and perfect its corporate governance structure.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the reporting year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. In addition, the Board has adopted the provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in securities of the Company. Such relevant employees who may possess or have access to inside information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at board meetings for approval.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2013, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 53 to 54 of this report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit and non-audit service are set out below:

Services rendered	Fee paid/payable in 2013 RMB'000
Audit service	3,817
Non-audit service	150
Total	3,967

COMPANY SECRETARY

The Company engages an external service provider, Mr. HUEN Po Wah, as its Company secretary, and the Company secretary may contact Mr. CHEN Yan, the Chief Financial Officer of the Company pursuant to code provision F.1.1 of the Code. Mr. HUEN confirmed that he had taken not less than 15 hours' relevant professional training during the year.

INTERNAL CONTROLS

The Board has an overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual review of the effectiveness of system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework. The annual review also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the Audit Committee to ensure appropriate remedial measures have been implemented.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.winteamgroup.com as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email:	publicrelation@winteamgroup.com.hk
Telephone:	(852) 2854 3393
Fax:	(852) 2544 1269
Address:	Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision D.3.1 of the Code. During the year under review, the Board met once to review the compliance of the Code and disclosure in this Corporate Governance Report.

ARTICLES OF ASSOCIATION

During the reporting year, there was no amendment made to the articles of association of the Company.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Pursuant to the Listing Rules, any resolution put forward at shareholders' meetings will be voted by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on a show of hands and the poll results will be posted on the websites of the Stock Exchange at "www.hkexnews.hk" and the Company at "www.winteamgroup.com" after the relevant shareholders' meetings.

Convening of General Meeting on Request

Shareholder(s) may request the Directors to convene an extraordinary general meeting pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) before 3 March 2014 and to call a general meeting pursuant to Section 566 to 568 of the New Companies Ordinance ("New CO") from 3 March 2014 and onwards.

In accordance with Section 566 of the New CO, the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@winteamgroup.com.hk); and must be authenticated by the person or persons making it. In accordance with Section 567 of the New CO, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the New CO and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at Annual General Meeting

To put forward a resolution at an annual general meeting, shareholders are requested to follow the requirements and procedures set out in Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) before 3 March 2014 and Sections 615 and 616 of the New CO from 3 March 2014 and onwards.

Section 615 of the New CO provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@winteamgroup.com.hk); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the New CO provides that the Company that is required under Section 615 of the New CO to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to article 105 of the articles of association of the Company, no person, other than a retiring director, shall, unless recommended by the Directors for election, be eligible for election to the office of director at any general meeting, unless notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 53, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 28 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He has been the director, general manager and deputy secretary to the Party Committee of China National Corp. of Traditional & Herbal Medicine since August 2010.

Mr. YANG Bin, aged 46, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company since 11 February 2009. Mr. YANG graduated from 中央民族大學 (Minzu University of China*) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation*), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.*), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory*) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.*). Mr. YANG has over 20 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr. YANG is currently the Chairman and a director of Guangdong Medi-World and a director of 山東魯亞製藥有限公司 (Shandong Luya Pharmaceutical Co., Ltd.*).

Mr. WANG Xiaochun, aged 46, was appointed to the Board on 23 October 2013. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008, a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005 and the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. Mr. Wang received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989.

NON-EXECUTIVE DIRECTOR

Mr. SHE Lulin, aged 57, was appointed to the Board on 5 February 2013. Mr. SHE obtained a bachelor's degree in science, majoring in Pharmacy, from Nanjing Pharmaceutical Institution (currently known as China Pharmaceutical University) in July 1982 and a master's degree in business administration for executives from Tsinghua University in July 2005. Mr. SHE has over 28 years of working experience, over 26 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. SHE was the deputy office head, assistant to the general manager, deputy general manager and general manager of China National Pharmaceutical Group Guangzhou Corporation from August 1982 to August 1996. Mr. SHE was also the vice-chairman and general manager of CNPGC from December 1998 to October 2004. Mr. SHE has been a director, general manager and secretary of Party Committee of CNPGC from October 2004 to October 2009. He has been the vice-chairman, general manager and deputy secretary of Party Committee of CNPGC from October 2009 to present. Mr. SHE has been the chairman and legal representative of Sinopharm Industrial Investment Co. Ltd. since July 2008. Mr. SHE was appointed the chairman of China National Medicines Corporation Ltd. (a company listed on the Shanghai Stock Exchange ("SSE")) from December 1998 to January 2001, and has served as the chairman of Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange) from 30 August 2007 to 8 November 2013.

Mr. LIU Cunzhou, aged 69, was appointed to the Board on 5 February 2013. Mr. LIU completed a master's course in management engineering from Harbin University of Science and Technology in March 1997. Mr. LIU has over 35 years of management experience in pharmaceutical equipment, pharmaceutical and healthcare products industry. Mr. LIU is currently the chief expert of CNPGC. Mr. LIU was the head of equipment department and engineer of Harbin Pharmaceutical Factory from January 1976 to March 1983, and the deputy plant manager for production and plant manager of Harbin Pharmaceutical Factory from April 1984 to April 1989. From April 1989 to July 1997, Mr. LIU was the deputy general manager of Harbin Pharmaceutical Group Co., Ltd. and plant manager of Harbin Pharmaceutical Factory. He was the chairman and general manager of Harbin Pharmaceutical Group Co., Ltd. from August 1997 to October 2004. Mr. LIU was also a director of CNPGC from December 2005 to October 2011, and had served as the chairman from August 2007 to May 2009. Mr. LIU is also a director of Jihua Group Corporation Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., both of which are listed on the SSE.

Mr. DONG Zenghe, aged 48, was appointed to the Board on 6 March 2013. Mr. DONG graduated from East China Institute of Chemical Technology (華東化工學院) (currently known as East China University of Science and Technology (華東理工大學)) with a bachelor's degree in engineering in 1989 and obtained a master's degree of business administration in 2011 from the School of Economics and Management of Tsinghua University, majoring in Senior Business Administration. Mr. DONG is also a senior engineer. Mr. DONG has over 24 years of experience in the pharmaceutical production and management industry. Mr. DONG had been the chief of 東北製藥總廠 ("Northeast General Pharmaceutical Factory"), the chairman of the board of 東北製藥集團股份有限公司 ("Northeast Pharmaceutical Group Co., Ltd.") (a company listed on the Shenzhen Stock Exchange, stock code: 000597), as well as the chairman of the board and general manager of 東北製藥有限責任公司 (Northeast Pharmaceutical Group Co., Ltd.*) from February 2005 to January 2007. Mr. DONG had also been the deputy general engineer of CNPGC from January 2007 to September 2007 and has been the deputy general manager of CNPGC since September 2007 as well as the chairman of the board of 中國藥材公司 (China National Corp. of Traditional & Herbal Medicine*) since June 2012.

Mr. ZHAO Dongji, aged 45, was appointed to the Board on 5 February 2013. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 23 years of related working experience, including over 10 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the chief investment officer and manager of Investment Management Department of China National Corp. of Traditional & Herbal Medicine since 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHOU Bajun, aged 65, was appointed to the Board on 5 February 2013. Mr. ZHOU obtained a doctorate degree in economics from East China Normal University in October 1988. Mr. ZHOU has over 29 years of working experience, including over 12 years working experiences in China's securities market. Mr. ZHOU worked in Sun Hung Kai Financial Group as head of China Business and Director of China Studies from November 1990 to November 1998. Mr. ZHOU worked as deputy general manager of the China Business Department of Hong Kong Construction (Hong Kong) Limited from March 1999 to February 2000, and has been a director of China Everbright Research Limited since March 2000 to present. Since February 2002 to present, he has been senior research fellow of China Everbright Holdings Company Limited. Mr. ZHOU was a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region from November 2005 to June 2012. He was a visiting professor of School of Business, Hong Kong Baptist University from October 2007 to August 2009. He has been a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science since March 2007. Mr. ZHOU has served as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since August 2009.

Mr. XIE Rong, aged 62, was appointed to the Board on 5 February 2013. Mr. XIE has around 44 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the SSE) since April 2003 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the SSE), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the SSE) and China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the SSE) from May 2003 to May 2009, from June 2003 to May 2010 and from February 2007 to October 2012, respectively. Mr. XIE has been an independent non-executive director of each of Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the SSE), Shanghai Baosight Software Co. Ltd. (a company listed on the SSE), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) and China Everbright Bank Company Limited (a company listed on the SSE) since April 2008, April 2010, August 2007 and January 2013, respectively. Mr. XIE was the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012 and is currently a professor of the Shanghai National Accounting Institute, a member of the Master of Accounting Professional Education Guidance Committee of the State Department Degree Committee, a standing commissioner of the China Auditing Institute and a standing commissioner of the China Accounting Institute.

Mr. FANG Shuting, aged 66, was appointed to the Board on 5 February 2013. Mr. FANG graduated from Beijing Traditional Chinese Medication Institute majoring in traditional Chinese medicine in November 1974. He was a faculty member and deputy chief of academic affairs division of Beijing Traditional Chinese Medication Institute from November 1974 to January 1985. Mr. FANG worked in the Ministry of Health from January 1985 to February 1989 and was deputy head of the quality control department of State Administration of Traditional Chinese Medicine from February 1989 to June 1990. He worked at the Institute of Traditional Chinese Medicine Research from June 1990 to November 2000. From November 2000 to October 2008, Mr. FANG was the vice-president of State Administration of Traditional Chinese Medicine. He has been the chairman of the China Association of Traditional Chinese Medicine since September 2005.

Mr. YU Tze Shan Hailson, aged 57, was appointed to the Board on 25 November 2013. Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. In 1998, Mr. YU was a deputy managing director of Versitech Limited (港大科橋有限公司), a technology transfer and commercial company of the The University of Hong Kong which mainly commercializes and transfers achievements in scientific research to the business sectors.

Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a fellow of Hong Kong Institution of Engineers, Engineering Council in United Kingdom, Hong Kong Institute of Arbitrators and the Institute of Arbitrators of the United Kingdom.

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
China Traditional Chinese Medicine Co. Limited
(formerly known as Winteam Pharmaceutical Group Limited)
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Traditional Chinese Medicine Co. Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 55 to 138, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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 Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 RMB'000 *Restated**
Turnover	*3(a)*	**1,394,613**	1,031,766
Cost of sales		**(568,834)**	(467,753)
Gross profit		**825,779**	564,013
Other revenue	*4*	**15,769**	25,118
Other net income	*4*	**8,146**	197
Selling and distribution costs		**(404,629)**	(235,661)
Administrative expenses		**(172,308)**	(117,872)
Profit from operations		**272,757**	235,795
Finance costs	*5(a)*	**(35,182)**	(19,389)
Profit before taxation	*5*	**237,575**	216,406
Income tax	*6*	**(38,218)**	(43,389)
Profit for the year		**199,357**	173,017
Attributable to:			
Equity shareholders of the Company		**198,463**	168,526
Non-controlling interests		**894**	4,491
Profit for the year		**199,357**	173,017
Earnings per share			
Basic and diluted	*11*	**9.68 cent**	9.45 cent

* See Note 1(c)(i).

The notes on pages 63 to 138 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 Restated*
Profit for the year		**199,357**	173,017
Other comprehensive income for the year (after tax)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside the People's Republic of China (the "PRC")		**(1,149)**	(1,597)
Available-for-sale securities: net movement in fair value reserve	*10*	**–**	1,405
Other comprehensive income for the year		**(1,149)**	(192)
Total comprehensive income for the year		**198,208**	172,825
Attributable to:			
Equity shareholders of the Company		**197,314**	168,334
Non-controlling interests		**894**	4,491
Total comprehensive income for the year		**198,208**	172,825

* See Note 1(c)(i).

The notes on pages 63 to 138 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013
(Expressed in Renminbi)

	Note	**2013 RMB'000**	2012 RMB'000 *Restated**	2011 RMB'000 *Restated**
Non-current assets				
Fixed assets				
– Investment properties	*12*	**2,813**	2,752	2,777
– Other property, plant and equipment	*12*	**636,429**	333,801	205,183
– Interests in leasehold land held for own use under operating leases	*12*	**156,450**	82,805	161,748
Construction in progress	*13*	**89,245**	34,516	71,229
Other receivables	*19*	**161,464**	14,407	30,547
		1,046,401	468,281	471,484
Intangible assets	*14*	**997,351**	73,691	82,405
Goodwill	*15*	**1,191,052**	169,170	169,170
Other financial assets	*17*	**1,010**	8,627	6,973
Deferred tax assets	*25(b)*	**52,506**	19,960	10,334
		3,288,320	739,729	740,366
Current assets				
Other financial assets	*17*	**6,164**	76,779	66,000
Inventories	*18*	**405,504**	161,043	189,651
Trade and other receivables	*19*	**1,016,832**	442,786	281,225
Deposits with banks	*20*	**4,239**	87,625	3,988
Cash and cash equivalents	*20*	**345,411**	46,258	34,336
		1,778,150	814,491	575,200
Current liabilities				
Trade and other payables	*21*	**595,763**	205,812	195,215
Bank and other loans	*22*	**583,626**	414,420	276,101
Current taxation	*25(a)*	**50,469**	25,941	9,932
Current portion of deferred government grants	*23*	**34,530**	3,079	2,619
		1,264,388	649,252	483,867
Net current assets		**513,762**	165,239	91,333
Total assets less current liabilities		**3,802,082**	904,968	831,699

* See Note 1(c)(i).

At 31 December 2013
(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 RMB'000 *Restated**	2011 RMB'000 *Restated**
Non-current liabilities				
Deferred tax liabilities	*25(b)*	**269,600**	44,814	41,013
Deferred government grants	*23*	**29,449**	14,383	8,915
Bank loans	*22*	**668,270**	–	–
		967,319	59,197	49,928
NET ASSETS		**2,834,763**	845,771	781,771
CAPITAL AND RESERVES				
Share capital	*26(c)*	**235,087**	175,589	175,589
Reserves		**2,524,766**	652,865	593,356
Total equity attributable to equity shareholders of the Company		**2,759,853**	828,454	768,945
Non-controlling interests		**74,910**	17,317	12,826
TOTAL EQUITY		**2,834,763**	845,771	781,771

* See Note 1(c)(i).

Approved and authorised for issue by the board of directors on 22 March 2014.

Director *Director*

The notes on pages 63 to 138 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2013
(Expressed in Renminbi)

	Note	**2013 RMB'000**	2012 RMB'000 *Restated**	2011 RMB'000 *Restated**
Non-current assets				
Investments in subsidiaries	*16*	**3,167,243**	578,426	575,806
Other receivables	*19*	**3,243**	–	–
		3,170,486	578,426	575,806
Current assets				
Other receivables	*19*	**21,570**	8,071	85,715
Deposits with banks	*20*	**4,000**	–	–
Cash and cash equivalents	*20*	**41,801**	2,244	746
		67,371	10,315	86,461
Current liabilities				
Trade and other payables	*21*	**288,892**	13,368	14,101
		288,892	13,368	14,101
Net current (liabilities)/assets		**(221,521)**	(3,053)	72,360
Total assets less current liabilities		**2,948,965**	575,373	648,166
Non-current liabilities				
Bank loans	*22*	**668,270**	–	–
NET ASSETS		**2,280,695**	575,373	648,166
CAPITAL AND RESERVES				
Share capital	*26(c)*	**235,087**	175,589	175,589
Reserves		**2,045,608**	399,784	472,577
TOTAL EQUITY		**2,280,695**	575,373	648,166

* See Note 1(c)(i).

Approved and authorised for issue by the board of directors on 22 March 2014.

Director *Director*

The notes on pages 63 to 138 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Exchange reserve RMB'000	Reserve fund RMB'000	Fair value reserve RMB'000	Other reserve note 26(i) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Restated balance at 1 January 2012		175,589	625,875	319	(113,476)	66,534	4,973	(64,539)	73,670	768,945	12,826	781,771
Changes in equity for 2012:												
Profit for the year (restated)		–	–	–	–	–	–	–	168,526	168,526	4,491	173,017
Other comprehensive income (restated)		–	–	–	(1,597)	–	1,405	–	–	(192)	–	(192)
Total comprehensive income for the year (restated)		–	–	–	(1,597)	–	1,405	–	168,526	168,334	4,491	172,825
Dividend declared in respect of the previous year (restated)	*26(b)*	–	–	–	–	–	–	–	(108,825)	(108,825)	–	(108,825)
Transfer to reserve fund (restated)		–	–	–	–	23,085	–	–	(23,085)	–	–	–
Restated balance at 31 December 2012		175,589	625,875	319	(115,073)	89,619	6,378	(64,539)	110,286	828,454	17,317	845,771

The notes on pages 63 to 138 form part of these financial statements.

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Exchange reserve RMB'000	Reserve fund RMB'000	Fair value reserve RMB'000	Other reserve note 26(i) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company										
At 1 January 2013		175,589	625,875	319	(115,073)	89,619	6,378	(64,539)	110,286	828,454	17,317	845,771
Changes in equity for 2013:												
Profit for the year		–	–	–	–	–	–	–	198,463	198,463	894	199,357
Other comprehensive income		–	–	–	(1,149)	–	–	–	–	(1,149)	–	(1,149)
Total comprehensive income for the year		–	–	–	(1,149)	–	–	–	198,463	197,314	894	198,208
New shares issued during the year	*26(c)*	59,498	1,680,965	–	–	–	–	–	–	1,740,463	–	1,740,463
Acquisition of subsidiaries	*16(a)(i)*	–	–	–	–	–	–	–	–	–	56,699	56,699
Derecognition of available-for-sale equity securities		–	–	–	–	–	(6,378)	–	–	(6,378)	–	(6,378)
Transfer to reserve fund		–	–	–	–	20,617	–	–	(20,617)	–	–	–
At 31 December 2013		235,087	2,306,840	319	(116,222)	110,236	–	(64,539)	288,132	2,759,853	74,910	2,834,763

The notes on pages 63 to 138 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 *Restated**
Operating activities			
Cash generated from operations	*20(b)*	**135,611**	214,313
PRC enterprise income tax paid	*25(a)*	**(50,752)**	(33,400)
Net cash generated from operating activities		**84,859**	180,913
Investing activities			
Payment for the purchase of fixed assets		**(50,299)**	(24,056)
Payment for the purchase of intangible assets		**(588)**	–
Payment for the purchase of leasehold land held for own use under operating leases		**(25,959)**	–
Proceeds from disposal of fixed assets		**16**	(34)
Decrease/(increase) in deposits with banks		**83,386**	(83,637)
Payment for purchase of available-for-sale securities		**(5,000)**	–
Payment for construction in progress		**(17,227)**	(71,884)
Proceeds from disposal of available-for-sale securities		**9,733**	–
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired	*16(a)*	**(1,429,817)**	–
Interest received		**3,765**	1,911
Net cash used in investing activities		**(1,431,990)**	(177,700)
Financing activities			
Proceeds from new bank and other loans		**1,247,777**	563,180
Proceeds from shares issued	*26(c)*	**1,016,335**	–
Proceeds from a related party		**5,000**	–
Repayment of bank loans		**(577,301)**	(421,017)
Dividend paid		**–**	(108,825)
Interest paid		**(35,182)**	(24,639)
Other borrowing costs paid		**(7,683)**	–
Net cash generated from financing activities		**1,648,946**	8,699
Net increase in cash and cash equivalents		**301,815**	11,912
Cash and cash equivalents at 1 January		**46,258**	34,336
Effect of foreign exchange rate changes		**(2,662)**	10
Cash and cash equivalents at 31 December		**345,411**	46,258

* See Note 1(c)(i).

The notes on pages 63 to 138 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value as explained in accounting policy set out in note 1(f).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(x)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

(i) Changes in presentation currency

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, British Virgin Islands and Hong Kong have their functional currencies in United States dollars ("USD") or Hong Kong dollars ("HKD") and subsidiaries established in the People's Republic of China (the "PRC") have their functional currencies in Renminbi ("RMB"). Along with the successful acquisition of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang") on 23 October 2013, the Company determined to change its presentation currency from HKD to RMB, which is the functional currency of the Company's major subsidiaries in the PRC, on 25 November 2013. The consolidated financial statements for the year ended 31 December 2012 with an additional statement of financial position as at 31 December 2011 have been re-translated into RMB from HKD. All financial information presented in RMB has been rounded to the nearest thousand.

(ii) New standards and interpretations not yet adopted

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(ii) New standards and interpretations not yet adopted (continued)

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 16.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(ii) New standards and interpretations not yet adopted (continued)

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 27. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Since the Group considers that the restatement resulting from the change of presentation currency in note 1(c)(i) has a material impact on the opening financial position, an additional statement of financial position as at 1 January 2012 has been presented in these financial statements.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group measures any non-controlling interests at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

In the Company's statement of financial position, investment in subsidiaries are stated at cost less impairment losses (see note 1(l)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities and other financial instruments, other than investments in subsidiaries, are classified as available-for-sale securities, which are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently accounted for as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)).

Other investments in equity securities and other financial instruments are remeasured at fair value at the end of each reporting period with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(u)(iii). When these investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investment are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in equity securities (continued)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(u)(iii) and 1(u)(iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Investment property

Investment properties are property held either to earn rental income or for capital appreciation. Investment properties are measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Rental income from investment properties is accounted for as described in note 1(u)(ii).

(h) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other property, plant and equipment (continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Plant, machinery and equipment 10-15 years

– Motor vehicles 5-10 years

– Others 2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Construction in progress

Construction in progress represents buildings and, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(l)). Cost comprises direct costs of construction as well as borrowing cost, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to borrowing costs, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Intangible assets (other than goodwill)

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (other than goodwill) (continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Product protection rights	over their expected useful life
– Trademarks with finite useful life	10-50 years
– Distribution network	10 years
– Customer relationship	3-10 years
– Software	3-5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leased assets (continued)

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(g)).

(l) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

(i) Impairment of investments in equity securities and trade and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment properties;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– construction in progress;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 1(l)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group, under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group and the company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the noncurrent asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Non-current assets held for sale and discontinued operations (continued)

(ii) Discontinued operations (continued)

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(iii) Reclassification from discontinued operations to as continuing operations

If the Group ceases to classify a component of the Group as held for sale, the results of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented.

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Related parties (continued)

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

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Note 12(b), 15 and 27 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment

If circumstances indicate that the net book value of property, plant and equipment, goodwill, intangible assets and interests in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price, material costs and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, expected changes to selling prices and operating costs, and discount rate.

In addition, the Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Sales of pharmaceutical products		
– Pills and tablets	**800,851**	512,831
– Granules	**287,594**	177,405
– Injections	**118,896**	75,255
– Medicine wine	**85,102**	86,793
– Others	**102,170**	179,482
	1,394,613	1,031,766

Further details regarding the Group's principal activities are described below:

(b) Segment reporting

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following eleven reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Guizhou Tongjitang Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical")
- Anhui Jingfang Pharmaceutical Co., Ltd. ("Jingfang")
- Guizhou Longlife Pharmaceutical Co., Ltd. (" Guizhou LLF")
- Qinghai Pulante Pharmaceutical Co., Ltd. (" Pulante")
- Guizhou Zhongtai Biological Technology Company Limited ("Guizhou Zhongtai")

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payables, and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

Year ended 31 December 2013

	Dezhong RMB'000	Feng Liao Xing RMB'000	Guangdong Medi-World (note) RMB'000	Luya RMB'000	Feng Liao Xing Material & Slices RMB'000	Winteam Sales RMB'000	Tongjitang Pharmaceutical RMB'000	Jingfang RMB'000	Guizhou LLF RMB'000	Pulante RMB'000	Guizhou Zhongtai RMB'000	Total RMB'000
Revenue from external customers	10,303	11,226	15,432	46,614	24,281	930,859	254,872	48,946	7,492	6,107	38,481	1,394,613
Inter-segment revenue	302,569	216,479	314,691	22,230	114,388	4,803	-	-	-	-	-	975,160
Reportable segment revenue	312,872	227,705	330,123	68,844	138,669	935,662	254,872	48,946	7,492	6,107	38,481	2,369,773
Reportable segment profit (adjusted EBITDA)	95,765	44,377	99,539	21,822	5,039	10,975	74,718	12,079	2,174	2,103	12,226	380,817
Interest income	40	25	7,386	10	-	-	110	121	6	17	33	7,748
Interest expenses	11,286	5,229	9,447	-	124	1,470	7,107	-	-	-	519	35,182
Depreciation and amortisation for the year	19,542	6,310	14,225	6,473	262	339	8,918	390	24	201	11,597	68,281
Reportable segment assets	1,085,293	464,179	738,298	158,040	318,383	493,046	2,798,319	246,733	35,222	58,926	319,172	6,715,611
Additions to non-current assets during the year	19,608	2,484	146,245	3,364	37	1,615	1,126,012	105,160	2,013	32,117	129,088	1,567,743
Reportable segment liabilities	592,015	205,949	774,707	16,278	293,933	512,606	366,712	120,983	7,387	14,406	103,643	3,008,619

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Year ended 31 December 2012 (Restated)

	Dezhong RMB'000	Feng Liao Xing RMB'000	Guangdong Medi-World (note) RMB'000	Luya RMB'000	Feng Liao Xing Material & Slices RMB'000	Winteam Sales RMB'000	Total RMB'000
Revenue from external customers	143,750	70,552	125,429	54,628	20,555	616,852	1,031,766
Inter-segment revenue	172,739	135,836	183,999	9,355	105,541	–	607,470
Reportable segment revenue	316,489	206,388	309,428	63,983	126,096	616,852	1,639,236
Reportable segment profit (adjusted EBITDA)	96,998	34,358	117,453	20,237	5,192	(65)	274,173
Interest income	797	55	19,250	–	–	163	20,265
Interest expenses	5,056	4,047	7,885	–	2,331	70	19,389
Depreciation and amortisation for the year	11,713	5,636	12,168	5,658	246	308	35,729
Reportable segment assets	625,475	305,697	235,670	141,753	50,984	283,954	1,643,533
Additions to non-current assets during the year	70,835	5,446	16,730	7,732	393	53	101,189
Reportable segment liabilities	176,421	86,448	169,213	11,793	29,723	284,944	758,542

Note: The reportable segment assets of Guangdong Medi-World as at 31 December 2013 excluded RMB503,086,000 of investment in subsidiaries (2012: RMB350,586,000).

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2013 RMB'000	2012 RMB'000 *(Restated)*
Revenue		
Reportable segment revenue	**2,369,773**	1,639,236
Elimination of inter-segment revenue	**(975,160)**	(607,470)
Consolidated turnover	**1,394,613**	1,031,766
Profit		
Reportable segment profit	**380,817**	274,173
Elimination of inter-segment profits	**(28,960)**	(10,759)
Reportable segment profit derived from the Group's external customers	**351,857**	263,414
Other revenue and net income	**23,915**	25,315
Depreciation and amortisation	**(68,281)**	(35,729)
Finance costs	**(35,182)**	(19,389)
Unallocated head office and corporate expenses	**(34,734)**	(17,205)
Consolidated profit before taxation	**237,575**	216,406

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000 *(Restated)*
Assets		
Reportable segment assets	**6,715,611**	1,643,533
Elimination of inter-segment receivables	**(1,766,707)**	(195,263)
	4,948,904	1,448,270
Non-current financial assets	**1,010**	8,627
Current financial assets	**6,164**	76,779
Deferred tax assets	**52,506**	19,960
Unallocated head office and corporate assets	**57,886**	584
Consolidated total assets	**5,066,470**	1,554,220
Liabilities		
Reportable segment liabilities	**3,008,619**	758,542
Elimination of inter-segment payables	**(1,763,465)**	(195,263)
	1,245,154	563,279
Current tax liabilities	**50,469**	25,941
Deferred tax liabilities	**269,600**	44,814
Unallocated head office and corporate liabilities	**666,484**	74,415
Consolidated total liabilities	**2,231,707**	708,449

(iii) Geographic information

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

4 OTHER REVENUE AND NET INCOME

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
Other revenue		
Government grants (note 23)	**7,390**	4,035
Interest income^	**7,748**	20,265
Rental income	**631**	818
	15,769	25,118

^ The interest income mainly includes nil (2012: RMB6,779,000 as restated) from the loan to Guizhou Zhongtai (note 17) and RMB3,716,000 (2012: RMB11,574,000 as restated) receivables from the government as a result of the disposal of land use right located in Foshan. The government agreed to pay an interest on outstanding balance, calculated at the one year benchmark lending rate of People's Bank of China.

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
Other net income		
Net loss on disposal of fixed assets	**(892)**	(361)
Available-for-sale securities:		
– gain on disposal reclassified from equity	**9,621**	–
Exchange gain	**1,412**	812
Others	**(1,995)**	(254)
	8,146	197

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**35,182**	24,639
Less: interest expense capitalised into construction in progress*	**–**	(5,250)
	35,182	19,389

* The borrowing costs have been capitalised at a rate of 5.400%-7.870% per annum during the year ended 31 December 2012.

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
(b) Staff costs:		
Salaries, wages and other benefits	**208,982**	135,750
Contributions to defined contribution retirement plans	**17,290**	14,442
	226,272	150,192
(c) Other items:		
Auditors' remuneration	**3,967**	1,929
Depreciation		
– investment properties	**162**	25
– assets held for use under operating leases	**2,566**	1,870
– other property, plant and equipment	**47,149**	25,120
Amortisation		
– intangible assets	**18,404**	8,714
Impairment losses recognised		
– trade and other receivables	**1,521**	2,198
Operating lease charges: minimum lease payments	**4,563**	4,357
Research and development costs	**45,947**	34,873
Rentals receivable from investment properties	**(631)**	(818)
Cost of inventories# (note 18)	**568,834**	467,753

\# Cost of inventories includes RMB122,916,000 (2012: RMB74,126,000 as restated) relating to staff cost, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
Current tax		
PRC enterprise income tax for the year	**54,769**	46,536
Under-provision in respect of prior years	**269**	686
	55,038	47,222
Deferred tax		
Reversal of temporary differences	**(16,820)**	(3,833)
	38,218	43,389

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year (2012: nil).

Pursuant to the Corporate Income Tax Law of PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for: 1) Feng Liao Xing, Dezhong and Guangdong Medi-World, which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% in 2013 (2012: 15%) pursuant to documents issued jointly by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of the State Administration of Taxation and Guangdong Provincial Local Taxation Bureau; 2) Jingfang, a newly acquired subsidiary in 2013, which was recognised as an advanced and new technology enterprise to enjoy a preferential enterprise income tax rate of 15% in 2013 pursuant to documents issued jointly by Anhui Science and Technology Department, Anhui Provincial Finance Bureau, Anhui Provincial Office of the State Administration of Taxation and Anhui Provincial Local Taxation Bureau; and 3) Tongjitang Pharmaceutical, Guizhou LLF, Pulante and Guizhou Zhongtai, being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% effective retroactively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(a) Taxation in the consolidated statement of profit or loss represents: (continued)

Pursuant to the Corporate Income Tax Law of the PRC and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group's certain Hong Kong incorporated subsidiaries, which are the qualified Hong Kong tax residents, are subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that the undistributed profits of the Group's PRC subsidiaries on or after 1 January 2013 will not be distributed in the foreseeable future. As such, no further deferred tax liabilities in this regard have been recognised on the undistributed profits of RMB281,184,000 earned by the Group's PRC subsidiaries for the year ended 31 December 2013.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
Profit before taxation	**237,575**	216,406
Notional tax on profit before taxation, calculated at rates applicable to profit in the jurisdictions concerned	**58,505**	56,147
Tax effect on non-deductible expenses	**2,462**	1,656
Income tax concessions	**(27,020)**	(23,078)
Withholding tax on undistributed profits of PRC subsidiaries	**–**	7,978
Under-provision in respect of prior year	**269**	686
Tax effect of unused tax losses not recognised	**4,002**	–
Actual tax expense	**38,218**	43,389

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2013				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Yang Bin	184	1,626	–	70	1,880
Situ Min (i)	24	81	–	8	113
Xu Tiefeng (i)	24	97	–	5	126
Wu Xian (ii)	–	485	–	–	485
Wang Xiaochun (v)	36	183	–	8	227
Non-executive director					
Du Richeng (i)	24	–	–	–	24
She Lulin (ii)	–	–	–	–	–
Liu Cunzhou (ii)	94	–	–	–	94
Zhao Dongji (ii)	–	–	–	–	–
Dong Zenghe (iii)	–	–	–	–	–
Independent non-executive directors					
Pang Fu Keung (i)	24	–	–	–	24
Lo Wing Yat (i)	24	–	–	–	24
Wang Bo (i)	24	–	–	–	24
Zhang Jianhui (i)	24	–	–	–	24
Xie Rong (ii)	169	–	–	–	169
Zhou Bajun (ii)	169	–	–	–	169
Fang Shuting (ii)	169	–	–	–	169
YU Tze Shan Hailson (iv)	19	–	–	–	19
	1,008	2,472	–	91	3,571

7 DIRECTORS' REMUNERATION (CONTINUED)

	2012 *(Restated)*				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Yang Bin	146	1,041	543	41	1,771
Situ Min (i)	146	529	325	49	1,049
Li Songquan (vi)	35	128	–	7	170
Xu Tiefeng (i)	146	792	391	29	1,358
Non-executive director					
Du Richeng (i)	146	–	–	–	146
Independent non-executive directors					
Pang Fu Keung (i)	146	–	–	–	146
Lo Wing Yat (i)	146	–	–	–	146
Wang Bo (i)	146	–	–	–	146
Zhang Jianhui (i)	146	–	–	–	146
	1,203	2,490	1,259	126	5,078

(i) Resigned on 28 February 2013.

(ii) Appointed on 5 February 2013.

(iii) Appointed as a non-executive director on 6 March 2013.

(iv) Appointed as an independent non-executive director on 25 November 2013.

(v) Appointed as an executive director on 23 October 2013.

(vi) Resigned on 28 March 2012.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2012: three) are directors whose remuneration is disclosed in note 7. The aggregate of the emoluments in respect of the other three (2012: two) individual was as follows:

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
Salaries and other emoluments	**1,983**	530
Retirement scheme contributions	**100**	37
	2,083	567

The emoluments of the three (2012: two) individual with highest emoluments are within the following band:

	2013 **Number of individuals**	2012 Number of individuals
RMB		
Nil – 1,000,000	**2**	2
1,000,000 – 1,500,000	**1**	–

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB22,622,000 (2012: loss of RMB6,467,000 as restated) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(22,622)**	(6,467)
Final dividends from subsidiaries attributable to the profits of the previous financial years, approved and paid during the year	**19,549**	42,145
Company's (loss)/profit for the year (note 26(a))	**(3,073)**	35,678

Details of dividends paid and payable to equity shareholders of the Company are set out in note 26(b).

10 OTHER COMPREHENSIVE INCOME

	2013 **RMB'000**	2012 RMB'000 *(Restated)*
Available-for-sale securities	**–**	1,653
Income tax effect on the change in fair value recognised during the year	**–**	(248)
	–	1,405

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB198,463,000 (2012: RMB168,526,000 as restated) and the weighted average of 2,050,558,456 ordinary shares (2012: 1,783,410,807 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2013 **'000**	2012 '000
Issued ordinary shares at 1 January	**1,783,411**	1,783,411
Effect of shares issued (note 26(c))	**267,147**	–
Weighted average number of ordinary shares at 31 December	**2,050,558**	1,783,411

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years.

12 FIXED ASSETS

	The Group							
	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2012 (Restated)	119,743	176,745	10,071	53,733	360,292	6,134	171,623	538,049
Additions (Restated)	10,189	15,363	1,087	2,667	29,306	–	–	29,306
Transfer from construction in progress (note 13) (Restated)	109,112	15,404	–	242	124,758	–	–	124,758
Disposals (Restated)	(421)	(481)	(156)	(620)	(1,678)	–	(77,073)	(78,751)
Exchange adjustments (Restated)	–	–	–	2	2	–	–	2
At 31 December 2012 (Restated)	238,623	207,031	11,002	56,024	512,680	6,134	94,550	613,364
At 1 January 2013	238,623	207,031	11,002	56,024	512,680	6,134	94,550	613,364
Additions	3,184	36,232	4,336	9,909	53,661	–	91	53,752
Acquisition of subsidiaries	134,336	73,820	15,744	10,737	234,637	–	76,120	310,757
Transfer from construction in progress(note13)	44,505	16,244	–	1,878	62,627	–	–	62,627
Transfer from fixed assets to investment properties	(1,026)	–	–	–	(1,026)	1,026	–	–
Disposals	(637)	(416)	(1,867)	(423)	(3,343)	–	–	(3,343)
Exchange adjustments	–	–	–	(52)	(52)	–	–	(52)
At 31 December 2013	418,985	332,911	29,215	78,073	859,184	7,160	170,761	1,037,105
Accumulated depreciation and amortisation:								
At 1 January 2012 (Restated)	18,632	104,514	4,510	27,453	155,109	3,357	9,875	168,341
Charge for the year (Restated)	4,777	15,039	4,288	1,016	25,120	25	1,870	27,015
Written back on disposals (Restated)	(366)	(421)	(56)	(508)	(1,351)	–	–	(1,351)
Exchange adjustments (Restated)	–	–	–	1	1	–	–	1
At 31 December 2012 (Restated)	23,043	119,132	8,742	27,962	178,879	3,382	11,745	194,006
At 1 January 2013	23,043	119,132	8,742	27,962	178,879	3,382	11,745	194,006
Charge for the year	16,871	20,583	1,729	7,966	47,149	162	2,566	49,877
Transfer from fixed assets to investment properties	(803)	–	–	–	(803)	803	–	–
Written back on disposals	(637)	(56)	(1,333)	(409)	(2,435)	–	–	(2,435)
Exchange adjustments	–	–	–	(35)	(35)	–	–	(35)
At 31 December 2013	38,474	139,659	9,138	35,484	222,755	4,347	14,311	241,413
Net book value:								
At 31 December 2013	380,511	193,252	20,077	42,589	636,429	2,813	156,450	795,692
At 31 December 2012 (Restated)	215,580	87,899	2,260	28,062	333,801	2,752	82,805	419,358

12 FIXED ASSETS (CONTINUED)

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on medium-term leases of 50 years in the PRC. At 31 December 2013, the remaining period of the land use rights ranged from 24 years to 48 years.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date at which time all terms are renegotiated. One of the leases runs for twenty years with three months' notice for termination. Lease payments of this lease are gradually increased during the lease period to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Within 1 year	**674**	374
After 1 year but within 5 years	**–**	–
	674	374

All investment properties of the Group were stated in the consolidated statement of financial position at cost less amortization, which was calculated using straight line method over their estimated useful lives of 20-35 years. The fair value of the investment properties as at 31 December 2013 is RMB15,820,000 (2012: RMB17,180,000 as restated) by reference to net rental income allowing for reversionary income potential. The valuations of the investment properties as at 31 December 2013 and 31 December 2012 were carried out respectively by Asset Appraisal Limited and Roma Appraisals Limited, both of which are independent firms of professional valuers.

(c) Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of RMB148,825,000 were pledged as securities of bank loans of the Group as at 31 December 2013 (see note 22) (2012: RMB59,612,000 as restated).

13 CONSTRUCTION IN PROGRESS

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
At 1 January	**34,516**	71,229
Acquisition of subsidiaries (note 16)	**85,722**	–
Additions	**31,634**	88,045
Transfer to fixed assets (note 12)	**(62,627)**	(124,758)
At 31 December	**89,245**	34,516

Construction in progress mainly represents premises and equipments under construction as at 31 December 2013 and 2012.

14 INTANGIBLE ASSETS

	The Group					
	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2012 (Restated)	65,400	48,695	59,000	782	744	174,621
At 31 December 2012 (Restated)	65,400	48,695	59,000	782	744	174,621
At 1 January 2013	65,400	48,695	59,000	782	744	174,621
Additions	–	–	–	588	–	588
Acquisition of subsidiaries (note 16)	582,458	251,863	818	–	106,337	941,476
Disposals	–	–	–	(138)	–	(138)
At 31 December 2013	647,858	300,558	59,818	1,232	107,081	1,116,547
Accumulated amortisation and impairment loss:						
At 1 January 2012 (Restated)	65,400	9,306	17,208	302	–	92,216
Amortisation for the year (Restated)	–	2,459	5,900	194	161	8,714
At 31 December 2012 (Restated)	65,400	11,765	23,108	496	161	100,930
At 1 January 2013	65,400	11,765	23,108	496	161	100,930
Amortisation for the year	8,159	2,036	6,002	286	1,921	18,404
Written back on disposals	–	–	–	(138)	–	(138)
At 31 December 2013	73,559	13,801	29,110	644	2,082	119,196
Net book value:						
At 31 December 2013	574,299	286,757	30,708	588	104,999	997,351
At 31 December 2012 (Restated)	–	36,930	35,892	286	583	73,691

14 INTANGIBLE ASSETS (CONTINUED)

The amortisation charge for the year is mainly included in "cost of sales" in the consolidated statement of profit or loss.

Trademarks with the carrying amount of RMB251,863,000, newly acquired through the acquisition of Tongjitang, are assessed to have indefinite useful lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The recoverable amount of the trademark that has indefinite useful life is estimated annually whether or not there is any indication of impairment.

The recoverable amount of the trademark with indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of the relevant CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows for the sixth year to the eleventh year period are extrapolated using an estimated increased rate of 3% in selling prices and costs with no growth in sales volume. Cash flows beyond the eleven-year period are extrapolated using an estimated selling price and costs in the eleventh year with no growth in sales volume. The rates used to discount the forecast cash flows at 15.26%. No impairment loss was recognised during the year ended 31 December 2013.

Certain product protection rights with carrying value of RMB4,700,000 were pledged as securities of bank loans of the Group as at 31 December 2013 (see note 22) (2012: nil).

15 GOODWILL

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Cost and carrying amount:		
At 1 January	**169,170**	169,170
Addition acquired through business combination	**1,021,882**	–
At 31 December	**1,191,052**	169,170

15 GOODWILL (CONTINUED)

Goodwill acquired through business combination is allocated to the Group's cash-generating units ("CGU") identified as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Manufacture and sale of pharmaceutical products – Dezhong	**100,391**	100,391
Manufacture and sale of pharmaceutical products – Feng Liao Xing	**23,664**	23,664
Manufacture and sale of pharmaceutical products – Guangdong Medi-World	**26,055**	26,055
Manufacture and sale of pharmaceutical products – Luya	**11,221**	11,221
Sale of pharmaceutical products – Feng Liao Xing Material & Slices	**2,449**	2,449
Sale of pharmaceutical products – Winteam Sales	**5,390**	5,390
Manufacture and sale of pharmaceutical products – Tongjitang (note 16(a)(ii))	**927,895**	–
Manufacture and sale of pharmaceutical products – Guizhou Zhongtai and its subsidiaries (note 16(a)(i))	**93,987**	–
	1,191,052	169,170

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a four-year period. Cash flows beyond the fifth year to the sixth year period are extrapolated using an estimated increased rate of 3% (2012: 7%) in selling prices and costs with no growth in sales volume. Cash flows beyond the six-year period are extrapolated using an estimated selling prices and costs in the sixth year with no growth in sales volume. The rates used to discount the forecast cash flows range from 14.09% to 15.03% (2012: 12%).

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Unlisted shares, at cost	**3,022,715**	429,370
Amounts due from subsidiaries	**144,528**	149,056
	3,167,243	578,426

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be recoverable within twelve months from the Company's date of financial position and are therefore shown in the Company's statement of financial position as non-current assets.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2013.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Dezhong (note (i))	The PRC 1 November 1998	USD6,460,000	–	96.94%	Manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing (note (i))	The PRC 16 March 2000	USD7,526,100	–	98.00%	Manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World (note (ii))	The PRC 13 November 1992	USD25,744,000	–	100%	Manufacture and sale of pharmaceutical products and investment holding
Luya (note (iii))	The PRC 6 November 2000	RMB24,529,300	–	100%	Manufacture and sale of pharmaceutical products

(Expressed in Renminbi unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Feng Liao Xing Material & Slices (note (iv))	The PRC 6 March 1982	RMB5,500,000	–	100%	Trading of pharmaceutical products
Winteam Sales (note (iv))	The PRC 1 August 2002	RMB10,000,000	–	100%	Trading of pharmaceutical products
Tongjitang Pharmaceutical (note (vi))	The PRC 29 June 2005	RMB249,759,458	–	100%	Development, manufacturing, marketing and sales of medicine products
Jingfang (note (iv))	The PRC 7 March 2000	RMB39,000,000	–	100%	Development, manufacturing, marketing and sales of medicine products
Guizhou LLF (note (iv))	The PRC 23 October 2001	RMB50,000,000	–	100%	Development, manufacturing, marketing and sales of medicine products
Pulante (note (iv))	The PRC 1 June 2000	RMB27,520,000	–	100%	Development, manufacturing, marketing and sales of medicine products
Guizhou Zhongtai (note (v))	The PRC 28 June 2006	RMB16,330,000	–	51%	Development, manufacturing, marketing and sales of medicine products

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

(i) Dezhong and Feng Liao Xing are sino-foreign equity joint ventures established in the PRC pursuant to the law of the PRC on sino-foreign equity joint ventures. Dezhong and Feng Liao Xing have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

(ii) Guangdong Medi-World is a wholly foreign owned enterprise established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. Guangdong Medi-World's period of operation is 30 years expiring on 13 November 2022.

(iii) Luya is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Luya has joint venture periods of 15 years expiring on 6 November 2015.

(iv) Feng Liao Xing Material & Slices, Winteam Sales, Jingfang, Guizhou LLF and Pulante were established pursuant to the Company Law of the PRC.

(v) Guizhou Zhongtai is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Guizhou Zhongtai has joint venture periods of 30 years expiring on 17 January 2043.

(vi) Tongjitang Pharmaceutical is wholly foreign owned enterprise established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. The period of operation for Tongjitang Pharmaceutical is 30 years expiring on 28 June 2035.

(a) Acquisition of subsidiaries

(i) Guizhou Zhongtai and its subsidiaries

Pursuant to a conditional investment agreement dated 22 December 2011 entered into among a wholly-owned subsidiary of the Group, Guangdong Medi-World and Henan Xintai Pharmaceutical Company Limited ("Henan Xintai") and Guizhou Zhongtai, a wholly-owned subsidiary of Henan Xintai, Henan Xintai has agreed that Guizhou Zhongtai will increase its registered capital ("Increased Capital") and Guangdong Medi-World has agreed to invest in the Increased Capital of Guizhou Zhongtai for a cash consideration of RMB153 million. The Increased Capital represented 51% of the entire registered capital of Guizhou Zhongtai. On 12 January 2013, the Group acquired 51% of the equity interests in Guizhou Zhongtai and its subsidiaries.

The management considers this as the acquisition of a business. The principal activity of Guizhou Zhongtai and its subsidiaries is manufacturing and sales of plasma-based biopharmaceutical products. The following summaries the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Acquisition of subsidiaries (continued)

(i) Guizhou Zhongtai and its subsidiaries (continued)

Identified assets acquired and liabilities assumed of Guizhou Zhongtai and its subsidiaries at the acquisition date:

	Pre-acquisition carrying amount RMB'000	Fair value adjustments RMB'000	Recognised values on acquisition RMB'000
Fixed assets			
– Property, plant and equipment	77,323	(451)	76,872
– Interests in leasehold land for own use under operating leases	4,678	5,092	9,770
	82,001	4,641	86,642
Construction in progress	2,976	–	2,976
Intangible assets	1,572	29,254	30,826
Inventories	22,593	–	22,593
Trade and other receivables	158,433	–	158,433
Cash and cash equivalents	5,969	–	5,969
Trade and other payables	(168,254)	–	(168,254)
Bank loans	(15,000)	–	(15,000)
Deferred tax liabilities	–	(8,474)	(8,474)
Net identifiable assets	90,290	25,421	115,711
Share of net identifiable assets			51%
Total consideration			153,000
Goodwill			93,987

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Acquisition of subsidiaries (continued)

(i) Guizhou Zhongtai and its subsidiaries (continued)

On 16 May 2013, the board of directors of the Group approved to dispose of its entire interest in Guizhou Zhongtai and its subsidiaries. On 28 June 2013, the Group agreed with an independent third party that the Group shall conditionally sell its entire interest in Guizhou Zhongtai and its subsidiaries ("Disposal Plan"). The Directors expected that the transaction will be completed within next twelve months. However, on 25 November 2013 the Group agreed with the independent third party to cease the Disposal Plan and the operation results of Guizhou Zhongtai and its subsidiaries are still presented as continuing operations for all periods presented, which are under the accounting policy set out in note l(x).

(ii) Tongjitang

On 23 October 2013, the Group acquired 100% of the equity interests in Tongjitang for a consideration of RMB2,623,927,000.

The management considers this as the acquisition of a business. The principal activity of Tongjitang is manufacturing and sales of modernised traditional Chinese medicines and western medicines products. The following summaries the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Acquisition of subsidiaries (continued)

(ii) Tongjitang (continued)

Identified assets acquired and liabilities assumed of Tongjitang at the acquisition date:

	Pre-acquisition carrying amount RMB'000	Fair value adjustments RMB'000	Recognised values on acquisition RMB'000
Fixed assets			
– Property, plant and equipment	107,953	49,812	157,765
– Interests in leasehold land for own use under operating leases	42,971	23,379	66,350
	150,924	73,191	224,115
Construction in progress	82,746	–	82,746
Intangible assets	15,252	895,398	910,650
Other non-current assets	43,364	–	43,364
Deferred tax assets	22,769	–	22,769
Inventories	157,485	–	157,485
Trade and other receivables	694,623	–	694,623
Other financial assets	684	485	1,169
Cash and cash equivalents	189,640	–	189,640
Trade and other payables	(190,864)	–	(190,864)
Current taxation (note 25(a))	(19,737)	–	(19,737)
Bank loans	(152,000)	–	(152,000)
Deferred government grant	(43,083)	–	(43,083)
Deferred tax liabilities	(8,876)	(215,969)	(224,845)
Net identifiable assets	942,927	753,105	1,696,032
Share of net identifiable assets			100%
Total consideration (note)			2,623,927
Goodwill			927,895

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Acquisition of subsidiaries (continued)

(ii) Tongjitang (continued)

	Pre-acquisition carrying amount RMB'000	**Fair value adjustments** RMB'000	**Recognised values on acquisition** RMB'000
Analysis of the net cash outflow in respect of the acquisition of subsidiaries			
Total consideration			2,623,927
Less: shares issued (note)			(724,128)
assumption of the debt by the Company (note)			(274,373)
Cash paid for the year (note)			1,625,426
Cash and cash equivalent of the subsidiaries acquired			(189,640)
Net cash outflow			1,435,786

Note: The consideration was comprised of the following three components: 1) 334,000,000 consideration shares with par value of HKD0.1 per share are to be issued and allotted to the previous controlling shareholder of Tongjitang, which was completed on 23 October 2013 and the fair value of the consideration shares was RMB724,128,000; 2) the amount of RMB274,373,000 due from Guizhou Huixian Investment Management Co., Ltd. to a subsidiary of Tongjitang, which was recorded as other receivables in the consolidated statement of financial position of the Tongjitang as at 31 December 2012, would be assumed by the previous controlling shareholder of Tongjitang as a part of the consideration, which has been assumed by the Company; and 3) cash payment of RMB1,625,426,000.

17 OTHER FINANCIAL ASSETS

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Non-current		
Available-for-sale equity securities		
– Listed in the PRC, at fair value	**–**	7,617
– Unlisted equity securities, at cost	**1,010**	1,010
	1,010	8,627
Current		
Loan to a third party	**–**	76,779
Equity securities listed in HK (at fair value)	**1,164**	–
Available-for-sale securities – unlisted	**5,000**	–
	6,164	76,779
Market value of listed securities	**1,164**	7,617

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

Guangdong Medi-World and Guizhou Zhongtai entered into a Loan Agreement on 22 December 2011 pursuant to which Guangdong Medi-World agreed to advance a loan in the amount of RMB70,000,000 to Guizhou Zhongtai. The loan was interest 8.53% at annum, and shall be utilised by Guizhou Zhongtai for repayment of the loan owned by Guizhou Zhongtai to Henan Xintai, the prior controlling shareholder of Guizhou Zhongtai. The balance as at 31 December 2012 represented the principal amount of RMB70,000,000 and related interest receivable of RMB6,779,000.

Neither the available-for-sale equity securities nor the loan to a third party are past due or impaired.

18 INVENTORIES

(a) Inventories in the Group's statement of financial position comprise:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Raw materials	**168,795**	59,198
Work in progress	**124,294**	44,454
Finished goods	**89,390**	44,373
	382,479	148,025
Packaging materials	**17,465**	9,006
Low value consumables	**5,560**	4,012
	405,504	161,043

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Carrying amount of inventories sold	**564,364**	467,266
Write down of inventories	**4,470**	487
	568,834	467,753

19 TRADE AND OTHER RECEIVABLES

	The Group		**The Company**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		*(Restated)*
Current				
Trade receivables	**415,275**	171,160	**–**	–
Bills receivables	**508,327**	166,226	**–**	–
Less: allowance for doubtful debt (note 19(b))	**(16,431)**	(9,475)	**–**	–
	907,171	327,911	**–**	–
Other receivables	**109,661**	114,875	**21,570**	8,071
	1,016,832	442,786	**21,570**	8,071
Non-current				
Other receivables	**161,464**	14,407	**3,243**	–
	1,178,296	457,193	**24,813**	8,071

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

Non-current other receivables mainly represent the prepayments for construction works and equipment amounted to RMB40,003,000 (2012: RMB14,407,000 as restated), prepayments for leasehold land held for own use under operating leases amounted to RMB118,218,000 (2012: nil) and prepayment for arrangement fees relating to a long-term loan amounted to RMB3,243,000 (2012: nil).

Bills receivables with carrying value of RMB35,478,000 (2012: RMB42,825,000) were pledged as securities of bank loan of the Group as at 31 December 2013 (see note 22).

(a) Ageing analysis

As of the end of the financial year, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date, is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Within 3 months of invoice date	**320,585**	133,051
3 to 6 months after invoice date	**53,314**	14,945
More than 6 months less than 12 months after invoice date	**22,106**	13,689
More than 12 months after invoice date	**19,270**	9,475
	415,275	171,160

Trade receivables are due within 30 to 90 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(l)(i)).

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade and bills receivables (continued)

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
At 1 January	**9,475**	9,224
Acquisition of subsidiaries	**5,848**	–
Impairment loss recognised	**1,108**	251
At 31 December	**16,431**	9,475

At 31 December 2013, the Group's gross trade receivables of RMB16,431,000 (2012: RMB9,475,000 as restated) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of RMB16,431,000 were recognised (2012: RMB9,475,000 as restated). The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

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

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Within 3 months of invoice date	**320,585**	133,051
3 to 6 months after invoice date	**53,314**	14,945
More than 6 months less than 12 months after invoice date	**22,106**	13,689
More than 12 months after invoice date	**2,839**	–
	398,844	161,685

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		*(Restated)*
Deposits with banks and other financial institutions	**4,239**	87,625	**4,000**	–
Cash at bank and in hand	**345,411**	46,258	**41,801**	2,244
Cash and cash equivalents in the statement of financial position	**349,650**	133,883	**45,801**	2,244
Less: Bank deposits with maturity beyond three months (note (i))	**(4,239)**	(87,625)	**(4,000)**	–
Cash and cash equivalents	**345,411**	46,258	**41,801**	2,244

(i) No bank deposits were pledged as securities for banking facilities (2012: RMB86,929,000 as restated) (see note 22).

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

		2013	2012
		RMB'000	RMB'000
			(Restated)
Operating activities			
Profit before taxation		**237,575**	216,406
Adjustments for:			
Depreciation and amortisation		**68,281**	35,729
Impairment loss recognised on trade and other receivables	*5(c)*	**1,521**	2,198
Finance costs	*5(a)*	**35,182**	19,389
Interest income	*4*	**(7,748)**	(20,265)
Loss on disposal of fixed assets	*4*	**892**	361
Gain from sale of available-for-sale securities	*4*	**(9,621)**	–
Foreign exchange gain		**(1,412)**	(812)
(Increase)/decrease in inventories		**(64,383)**	28,608
Increase in trade and other receivables		**(230,729)**	(79,104)
Increase in trade and other payables		**106,053**	11,803
Cash generated from operations		**135,611**	214,313

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		*(Restated)*
Trade creditors	**152,364**	82,200	**–**	–
Other creditors and accrued charges	**426,258**	112,085	**288,892**	13,368
Advances received from customers	**17,141**	11,527	**–**	–
	595,763	205,812	**288,892**	13,368

As of the end of the financial year, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		*(Restated)*
Due within 1 month or on demand	**152,364**	82,200	**–**	–

Other creditors and accrued charges mainly include accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

All of the trade and other payables are expected to be settled within one year or payable on demand.

22 BANK AND OTHER LOANS

At 31 December 2013, the Group's and the Company's bank and other loans were repayable as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		*(Restated)*
Within 1 year or on demand	**583,626**	414,420	**–**	–
After 1 year but within 3 years	**668,270**	–	**668,270**	–
	1,251,896	414,420	**668,270**	–

At 31 December 2013, the Group's bank and other loans were secured as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		*(Restated)*
Bank loans				
Secured	**335,928**	254,420	**–**	–
Unsecured	**912,968**	160,000	**668,270**	–
	1,248,896	414,420	**668,270**	–
Other secured loan*	**3,000**	–	**–**	–
	1,251,896	414,420	**668,270**	–

* Other secured loan was borrowed from Foshan Shunde Industry Service Innovation Center. The loan is interest free and repayable on 18 December 2014.

22 BANK AND OTHER LOANS (CONTINUED)

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000 *(Restated)*
Interests in leasehold land and buildings (note 12(c))	**148,825**	59,612
Product protection rights (note 14)	**4,700**	–
Deposits with banks (note 20)	**–**	86,929
Bills receivables (note 19)	**35,478**	42,825
	189,003	189,366

As at 31 December 2012, apart from the above secured assets, interest in leasehold land held by Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), a company in which Mr. Yang Bin and Mr. Xu Tiefeng (note 30(b)) jointly hold 72.7% equity interest, was pledged as security for bank loans. During the year ended 31 December 2013, such pledged security was released.

(ii) As at 31 December 2013, bank loan of RMB22,000,000 and other loan of RMB3,000,000 were guaranteed by Mr. Yang Bin (31 December 2012: bank loan of RMB32,000,000 as restated).

(iii) Banking facilities of RMB1,256,825,000 (31 December 2012: RMB454,420,000 as restated) were utilised to the extent of RMB1,248,896,000 (31 December 2012: RMB414,420,000 as restated). The bank loans drawn were secured by assets as set out in note 22(i).

Parts of the Group's banking facilities, amounted to RMB892,726,000 (2012: RMB134,260,000 as restated) are subject to the fulfilment of covenants which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). As at 31 December 2013, none of the covenants relating to drawn down facilities had been breached (2012: nil).

23 DEFERRED GOVERNMENT GRANTS

The Group has been awarded various government grants for technological improvements and for research and development on new and existing pharmaceutical products. Deferred government grants represent the portion of government grants that compensate the Group for expenses to be incurred in future periods. The portion of deferred government grants that will be recognised as income in the next year amounted to RMB34,530,000 (2012: RMB3,079,000 as restated) has been classified as current and the remaining portion of RMB29,449,000 (2012: RMB14,383,000 as restated) has been classified as non-current.

24 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the contributions from employees and employers are subject to a cap of monthly relevant income of HKD20,000 for the period from 1 January 2012 to 31 May 2012. With effective from 1 June 2012, the maximum amount of monthly relevant income under the MPF scheme was changed from HKD20,000 to HKD25,000.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Provision for corporate income tax for the year	**55,401**	49,463
Corporate income tax paid	**(50,752)**	(33,400)
	4,649	16,063
Acquisition of subsidiaries (note 16(a))	**19,737**	–
Exchange adjustment	**142**	(54)
Balance of PRC corporate income tax relating to prior year	**25,941**	9,932
	50,469	25,941

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Intangible assets RMB'000	Depreciation allowances in excess of related depreciation RMB'000	Allowance for impairment of doubtful debts RMB'000	Available-for-sale securities RMB'000	Withholding tax on undistributed profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012 (Restated)	(18,918)	(12,893)	5,004	(878)	(8,324)	1,385	3,945	(30,679)
Credited/(charged) to profit or loss	1,243	942	451	–	(7,978)	3,932	5,243	3,833
Charged to reserves	–	–	–	(249)	–	–	–	(249)
Transferred to current tax	–	–	–	–	2,241	–	–	2,241
At 31 December 2012 (Restated)	(17,675)	(11,951)	5,455	(1,127)	(14,061)	5,317	9,188	(24,854)
At 1 January 2013	**(17,675)**	**(11,951)**	**5,455**	**(1,127)**	**(14,061)**	**5,317**	**9,188**	**(24,854)**
Addition through acquisition (note 16(a))	**(208,195)**	**(16,248)**	**1,946**	**–**	**(8,876)**	**–**	**20,823**	**(210,550)**
Credited/(charged) to profit or loss	**6,373**	**670**	**(265)**	**–**	**–**	**6,582**	**3,460**	**16,820**
Charged to reserves	**–**	**–**	**–**	**1,127**	**–**	**–**	**–**	**1,127**
Transferred to current tax	**–**	**–**	**–**	**–**	**363**	**–**	**–**	**363**
At 31 December 2013	**(219,497)**	**(27,529)**	**7,136**	**–**	**(22,574)**	**11,899**	**33,471**	**(217,094)**

Reconciliation to the consolidated statement of financial position:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	**52,506**	19,960
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(269,600)**	(44,814)
	(217,094)	(24,854)

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of the Company and certain PRC subsidiaries newly acquired in 2013 of RMB20,195,000 as at 31 December 2013 (2012: nil). The Group determined that it was not probable that future taxable income against which the losses could be utilised in the foreseeable future.

26 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	**Share premium**	**Capital redemption reserve**	**Exchange Reserve**	**Retained profits/ (accumulated losses)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012 *(Restated)*	175,589	625,875	319	(173,572)	19,955	648,166
Profit and other comprehensive income for the year	–	–	–	354	35,678	36,032
Dividends declared in respect of previous year	–	–	–	–	(108,825)	(108,825)
At 31 December 2012 *(Restated)*	175,589	625,875	319	(173,218)	(53,192)	575,373
At 1 January 2013	175,589	625,875	319	(173,218)	(53,192)	575,373
New shares issued during the period	59,498	1,680,965	–	–	–	1,740,463
Loss and other comprehensive loss for the year	–	–	–	(32,068)	(3,073)	(35,141)
At 31 December 2013	235,087	2,306,840	319	(205,286)	(56,265)	2,280,695

26 CAPITAL AND RESERVES (CONTINUED)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2013 RMB'000	2012 RMB'000 *(Restated)*
Interim dividend declared and paid of nil cents per ordinary share (2012: HKD 2.5 cents per ordinary Share)	–	36,275

No final dividend has been proposed by the Company after the end of the reporting period attributable to the year ended 31 December 2013 (2012: nil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2013 RMB'000	2012 RMB'000 *(Restated)*
Final dividend proposed in respect of the pervious financial year, approved and paid during the year of nil cents per ordinary share (2012: HKD 5 cents per ordinary share)	–	72,550

(c) Share capital

	2013		2012 *(Restated)*	
	Number of shares '000	**Nominal value RMB'000**	Number of shares '000	Nominal value RMB'000
Authorised:				
Ordinary shares of HKD0.10 (approximately RMB0.08) each	**3,000,000**	**271,732**	3,000,000	274,234
Ordinary shares, issued and fully paid:				
At 1 January	**1,783,411**	**175,589**	1,783,411	175,589
Share issued *(note)*	**750,488**	**59,498**	–	–
At 31 December	**2,533,899**	**235,087**	1,783,411	175,589

26 CAPITAL AND RESERVES (CONTINUED)

(c) Share capital (continued)

Note:

The Company allotted and issued 225,000,000, 125,000,000 and 66,488,379 ordinary shares of HKD0.10 (approximately RMB0.08) each at the issue price of HKD3.1 (approximately RMB2.5) per share on 4 June 2013, 9 July 2013 and 23 October 2013 respectively. The total net proceeds of RMB1,017,608,000 were used to settle the consideration for the acquisition of the 100% equity interest in Tongjitang. Details of the acquisition are set out in note 16(a)(ii).

On 23 October 2013, 334,000,000 consideration shares with par value of HKD0.10 (approximately RMB0.08) per share were to be issued and allotted to the previous controlling shareholder of Tongjitang as a part of the acquisition consideration, the fair value of which was RMB724,128,000 with transaction cost of RMB1,273,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H, respectively of the Hong Kong Companies Ordinance.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with operations outside the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(f) Reserve fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the equity holders of the subsidiary. Reserve fund can only be used to make good losses, if any, and for increasing paid-in capital.

26 CAPITAL AND RESERVES (CONTINUED)

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held and other financial instruments at the end of the financial year, and is dealt with in accordance with the accounting policy set out in note 1(f).

(h) Distributability of reserves

At 31 December 2013, the aggregate amount of reserve available for distribution to equity shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was nil (2012: nil as restated).

(i) Other reserve

Other reserve represents premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves.

(j) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2013, the Group's strategy, which was unchanged from 2012, was to maintain the capital in order to cover any debt position.

26 CAPITAL AND RESERVES (CONTINUED)

(j) Capital management (continued)

The adjusted debt-to-equity ratios at 31 December 2013 and 2012 are as follows:

	2013 RMB'000	2012 RMB'000 *(Restated)*
Current liabilities:		
Trade and other payables	**595,763**	205,812
Bank and other loans	**583,626**	414,420
	1,179,389	620,232
Non-current liabilities:		
Bank loans	**668,270**	–
Total debt	**1,847,659**	620,232
Add: Proposed dividends	**–**	–
Less: Cash and cash equivalents	**(345,411)**	(46,258)
Adjusted net debt	**1,502,248**	573,974
Total equity	**2,834,763**	845,771
Less: Proposed dividends	**–**	–
Adjusted equity	**2,834,763**	845,771
Adjusted net debt-to-equity ratio	**53%**	68%

Except for covenants relating to certain of the banking facilities of the subsidiaries of the Group as disclosed in note 22, neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2013, the Group has no concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the consolidated statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by the Company as set out in note 29, the Group does not provide any guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 29.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

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

The Group

	2013					2012 *(Restated)*				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000
Trade and other payables	595,763	595,763	595,763	–	–	205,812	205,812	205,812	–	–
Bank and other loans	1,251,896	1,329,786	614,237	26,191	689,358	414,420	427,633	427,633	–	–
	1,847,659	1,925,549	1,210,000	26,191	689,358	620,232	633,445	633,445	–	–

The Company

	2013					2012 *(Restated)*				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000
Trade and other payables	288,892	288,891	288,891	–	–	13,368	13,368	13,368	–	–
Bank loans	668,270	741,743	26,194	26,191	689,358	–	–	–	–	–
	957,162	1,030,634	315,085	26,191	689,358	13,368	13,368	13,368	–	–

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's total borrowings at the end of the reporting period.

	The Group				The Company			
	2013		2012 *(Restated)*		**2013**		2012 *(Restated)*	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000	**Effective interest rate %**	**RMB'000**	Effective interest rate %	RMB'000
Net fixed rate borrowings:								
Bank loans	**6.23%**	**580,626**	–	–	**–**	**–**	–	–
Other loan	**0%**	**3,000**	–	–	**–**	**–**	–	–
Variable rate borrowings:								
Bank loans	**4.25%**	**668,270**	6.75%	414,420	**4.25%**	**668,270**	–	–
Total net borrowings		**1,251,896**		414,420		**668,270**	–	–
Net fixed rate borrowings as a percentage of total net borrowings		**46.60%**		–		**–**		–

(ii) Sensitivity analysis

As at 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB6,683,000 (2012: RMB2,084,000 as restated). Other components of equity would not be affected by the changes in interest rates.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest risk for financial investments in existence at those dates.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the Company and other investment holding subsidiaries incorporated in the Cayman Islands, British Virgin Islands and Hong Kong have their functional currencies in USD or HKD, therefore any appreciation or depreciation of RMB against USD or HKD will affect the Group's financial position and be reflected in the exchange reserve.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 17), which are listed on the Stock Exchange of Shenzhen, the PRC. The available-for-sale investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in share price	**2013 Effect on equity RMB'000**	2012 Effect on equity RMB'000 *(Restated)*
Change in market price of equity investments:			
– increase	20%	**233**	1,523
– decrease	(20%)	**(233)**	(1,523)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual date of financial position. The analysis is performed on the same basis for 2012.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values

(i) Financial instruments and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2013 categorised into				Fair value measurements as at 31 December 2012 categorised into *(Restated)*		
	Fair value at 31 December 2013 RMB'000	level 1 RMB'000	level 2 RMB'000	level 3 RMB'000	Fair value at 31 December 2012 RMB'000	level 1 RMB'000	level 2 RMB'000	level 3 RMB'000
Assets								
Available-for-sale equity securities:								
– Listed in the PRC	–	–	–	–	7,617	7,617	–	–
– Listed in HK	1,164	1,164	–	–	–	–	–	–
Available-for-sale securities – unlisted	5,000	5,000	–	–	–	–	–	–
	6,164	6,164	–	–	7,617	7,617	–	–

During the years ended 31 December 2012 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values (continued)

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2013.

28 COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Contracted for	**216,165**	182,048
Authorised but not contracted for	**7,591**	–
	223,756	182,048

(b) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Within 1 year	**3,878**	3,210
After 1 year but within 5 years	**1,797**	4,438
	5,675	7,648

Operating lease payments represent rentals payable by the Group for its office premises. The lease was negotiated for an average term of two years with fixed rental. The lease did not include any contingent rentals.

29 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2013 (2012: nil).

At the end of the reporting period, contingent liabilities of the Company were as follows:

	The Company	
	2013	2012
	RMB'000	RMB'000
Guarantees given to a bank by the Company in respect of banking facilities utilised by certain subsidiaries	**82,824**	–

As at 31 December 2013, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 7, is as follows:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Short-term employee benefits	**5,463**	5,482
Post-employments benefits	**191**	163
	5,654	5,645

Total remuneration is included in "staff costs" (see note 5(b)).

(Expressed in Renminbi unless otherwise indicated)

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions

During the year ended 31 December 2013, the following parties were considered as related party transaction of the Group as they are under the control of key management personnel of the Group:

Name of related party	Relationship as at 31 December 2012	Relationship as at 31 December 2013
Mr. Yang Bin	Executive director and controlling shareholder of the Company	Executive director and a shareholder of the Company
Mr. Wu Xian	Nil	Executive director of the Company with effect from 5 February 2013
Mr. Xu Tiefeng	Executive director and controlling shareholder of the Company	Executive director and controlling shareholder of the Company till 28 February 2013
Mr. Wang Xiaochun	Nil	Executive director of the Company with effect from 23 October 2013
Hanyu Pharmaceutical	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng
Zhejiang Dongying Pharmaceutical Co., Ltd. ("Zhejiang Dongying")	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng	Nil
Sino Famous Trading Limited ("Sino")	Effectively 50% owned by Mr. Xu Tiefeng	Nil
Kimlong Technology Limited ("Kimlong")	Effectively 100% owned by Mr. Yang Bin	Effectively 100% owned by Mr. Yang Bin

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions (continued)

Name of related party	Relationship as at 31 December 2012	Relationship as at 31 December 2013
China National Pharmaceutical Group Corporation ("CNPGC")	Nil	Ultimate controlling shareholder with effect from 28 February 2013
CNPGC's subsidiaries	Nil	Fellow subsidiaries of the Group with effect from 28 February 2013
Hanmax Investment Limited	Nil	Effectively owned by Wang Xiaochun

Particulars of significant transactions between the Group and the related parties are as follows:

(i) Sales of finished goods to:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
		(Restated)
CNPGC's subsidiaries	**123,695**	–

(ii) Purchase of raw materials from:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
		(Restated)
CNPGC's subsidiaries	**13,107**	–

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions (continued)

(iii) Loan from related party:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Hanyu Pharmaceutical *	**5,000**	–

* The loan from related party is unsecured, interest free and has no fixed repayment terms.

(iv) Settlement from related parties:

	Year ended 31 December	
	2013	2012
	$'000	$'000
Sino	**–**	(1,968)
Kimlong	**–**	(1,608)
Zhejiang Dong Ying	**–**	(3,311)
	–	(6,887)

The above related party transactions (i) and (ii) constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Continuing connected transactions" of the section headed "Report of the Directors" of this annual report.

Particulars of significant balance between the Group and the related parties are as follows:

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions (continued)

(v) Trade and other receivable balances due from related parties:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
		(Restated)
CNPGC's subsidiaries	**76,312**	–

(vi) Trade and other payable balances due to related parties:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Hanyu Pharmaceutical	**5,000**	–
CNPGC's subsidiaries	**2,038**	–
	7,038	–

As at 31 December 2013, none of the bank loans were secured by interests in leasehold land held by Hanyu Pharmaceutical (31 December 2012: RMB90,000,000 as restated).

(Expressed in Renminbi unless otherwise indicated)

31 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate controlling party as at 31 December 2013 to be Sinopharm Group Hongkong Co., Limited, while the ultimate controlling party of the Company as at 31 December 2013 to be China National Pharmaceutical Group Corporation.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which will begin on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.