China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00512

2013 Annual Report

CGE HEALTHCARE
中国远大 健康

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr Liu Chengwei *(Chairman)*
Mr Hu Bo *(Deputy Chairman)*
Dr Shao Yan *(Chief Executive Officer)*
Dr Zhang Ji

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie
Mr Lo Kai, Lawrence
Dr Pei Geng

COMPANY SECRETARY

Mr Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr Liu Chengwei
Mr Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms So Tosi Wan, Winnie *(Chairwoman)*
Mr Lo Kai, Lawrence
Dr Pei Geng

REMUNERATION COMMITTEE

Ms So Tosi Wan, Winnie *(Chairwoman)*
Mr Liu Chengwei
Mr Lo Kai, Lawrence

NOMINATION COMMITTEE

Ms So Tosi Wan, Winnie *(Chairwoman)*
Dr Shao Yan
Mr Lo Kai, Lawrence

WEBSITE

www.chinagrandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

HSBC
China Construction Bank
China Merchants Bank
Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Units 3302, The Center
99 Queen's Road Central, Hong Kong

Management Discussion and Analysis

Business Review

The Group is mainly engaged in research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialized pharmaceutical raw materials and healthcare products. The core products of pharmaceutical preparations include cerebro-cardiovascular medicines, ENT products such as ophthalmic medicines, medicines for anti-bacterial and antibiotics, antipyretic and analgesic, etc. The major products of pharmaceutical intermediates and specialized raw materials include steroid hormones, amino acids and anti-bacterial and antibiotics products, etc., and our healthcare core products include taurine, etc. The Group commits to expand business through self-expansion such as development of new medicines, improvement of production technology, change of production structure more effectively, expansion of production capacity and extension of the sales networks and acquisition of related medical assets in order to maintain relatively high growth rate, and it also aims to become one of the largest manufacturers of pharmaceutical and healthcare products in the PRC.

In February 2013, Grand Pharmaceutical (China) Co., Limited (the "Grand Pharm (China)") entered into a joint venture agreement with HuangShi Feiyun Pharmaceutical Company Limited (黃石飛雲製藥有限公司) ("HuangShi Feiyun") in related to the formation of Grand Pharmaceutical Huangshi Feiyun Company Limited ("Grand HuangShi Feiyun"). The investment of the Group is RMB75 million, and will own 60% equity interests. The cooperation with HuangShi Feiyun, one of the largest manufacturers of tumor and anti-viral drugs in Hubei province, may enable the Group to achieve advantage in pharmaceutical market in the PRC, especially in entering the area of oncology medicines. It may also add Chinese herbs products in the cerebro-cardiovascular medicines area and superior anti-virus products in the product pool of the Group, strengthen the sales team and network of the Group and will create synergy effect for the business of the Group. The registration of the new company has been completed and has already provided contribution to the Group in the foreseeable future.

In July 2013, the Grand Pharm (China) entered into an acquisition agreement with, among others, 北京錕吾國際商業有限公司 (Beijing Kun Wu International Business Limited#)(the "Kun Wu"), pursuant to which Grand Pharm (China) has agreed to purchase approximately 70.84% equity interest in 北京汭藥科技有限公司 (Beijing Rui Yao Technology Limited#)(the "Rui Yao") at the consideration of RMB35,777,800. This acquisition may increase the product pool of the core cerebro-cardiovascular pharmaceuticals products, enlarge the market share in the cerebro-cardiovascular pharmaceuticals market of the Group and also strengthen the competitive advantages of the Group in the cerebro-cardiovascular pharmaceuticals area, and it may become a new business growing point and profit centre of the Group. Furthermore, it has advanced manufacturing facilities and experienced in the production of cerebro-cardiovascular pharmaceuticals products which could bring advantages to the Group. It also has a large and experienced professional marketing team, which may result in a significant synergy effect with the existing marketing team of the Group for the promotion of cerebro-cardiovascular pharmaceuticals products. Such acquisition was completed in October 2013.

Furthermore, the reallocation of the new production plants is completed and certain production facilities are under test-run. The new GMP production approval and certificates are obtained, and it is preparing to obtain approval for products facilities and products from Europe and important international customers. Hubei Wellness Pharmaceutical Co., Ltd. ("Hubei Wellness"), a company newly acquired at the end of last year, has completed the internal restructuring. Its core products such as cerebro-cardiovascular medicine and rheumatism medicines belong to National Reimbursement Drug List and National Essential Drug List, and have provided positive contribution to the Group during the current year.

Turnover

For the year ended 31 December 2013, the Group recorded a turnover of approximately HK$2,658 million, which increased by approximately 29.1% comparing with the same period of last year. The average gross profit margin of the Group was approximately 33.3%, which increased by approximately 2.0% comparing with 2012.

Management Discussion and Analysis

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products include cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines, etc. During the year ended 31 December 2013, the turnover amount of pharmaceutical preparations was approximately RMB741.28 million and was increased by approximately 38.4% in comparison with the same period of last year.

– Cerebro-cardiovascular medicines

The cerebro-cardiovascular medicine is the core product and the business growth engine of the Group. The sales team of the Group endeavor to expand new markets, and has provided contributions during the year. For the year ended 31 December 2013, the turnover of the cerebro-cardiovascular medicines of the Group recorded approximately RMB 282.63 million and was increased by approximately 44.7% in comparison with the same period of 2012. The Tirofiban, an anti-platelet drug, recorded a turnover of approximately RMB100.36 million with an increment of approximately 43.6%. Our new products Simvastatin also provided approximately RMB28.01 million turnover amount.

– Ophthalmic medicines and other pharmaceutical preparations

During the current financial year, the turnover amount of ophthalmic medicines increased by approximately 16.9% to approximately RMB177.53 million in comparison with 2012. Due to the increment of selling branches and launch of advertisement, the turnover of ophthalmic non-prescription medicines Polyvinyl Alcohol eyedrops recorded approximately RMB49.83 million, which was increased by approximately 81.2% in comparison with the same period of last year. The traditional antibiotics product Enoxacin also recorded approximately RMB50.92 million turnover, with an increment of approximately 73.3% in comparison with same period of last year. Nimesulide tablets, an antipyretic and analgesic medicines by Hubei Wellness, recorded a turnover of approximately RMB24.49 million, Anti-viral Oral Solution by Grand Huangshi Feiyun also recorded turnover of approximately RMB11.32 million.

Pharmaceutical intermediates

The pharmaceutical intermediates are also major products of the Group, which include pharmaceuticals raw materials such as Analgin, Metronidazole and Chloramphenicol and other amino acids products. For the year ended 31 December 2013, the turnover amount of pharmaceutical intermediates was approximately RMB580.86 million, while it was approximately RMB532.20 million in the same period of 2012.

– Pharmaceutical raw materials

During the year ended 31 December 2013, the turnover amount of pharmaceuticals raw materials was approximately RMB326.62 million, while it was approximately RMB306.78 million in the same period of last year. The turnover of Analgin increased by approximately 14.2% to approximately RMB174.08 million. The turnover amount of Chloramphenicol, a raw material of antibiotics which the Group commenced the development since 2011, was approximately RMB65.53 million.

– Amino acids products

The Group is one of the largest manufacturers of amino acids products in the PRC. During the current fiscal year, the turnover amount of the amino acids products of the Group was approximately RMB254.24 million, which was increased by approximately 12.8% in comparison with the same period of last year. The key product N-acetyl-L-cysteine recorded a turnover of RMB41.83 million, which was increased by approximately 46.0%. Apart from export business expansion, the increased production capacity and new production technology at new production plant in Fuchi district contributed our products into the high-end markets. The increase of market demands of L-Leucine triggered the increment of turnover from approximately RMB18.33 million to approximately RMB44.88 million.

Steroid hormones and its intermediates

The Group is one of the few steroid hormones raw materials manufacturers in the PRC, and our products quality has been accepted by the PRC and overseas customers. Certain products have passed the quality assurance test of Europe EDQM and received Europe COS certification.The newly constructed production facilities in Jiangsu was completed in 2013 and gradually put production into practice. It will enhance the steroid hormones intermediates production capacities of the Group and enhance the production technologies in order to cope with the market needs. Apart from completion of newly production facilities, the Group also launched new products during 2013, such as Prednisone series. During the current review period, the turnover amount of steroid hormones of the Group was approximately RMB256.71 million and was increased by approximately 25.4% in comparison with the same period of last year.

– Glucocorticoid and Sex Hormones

In 2013, the Glucocorticoid products of the Group include Betamethasone and Dexamethasone, recorded a turnover amount of approximately RMB142.98 million, which was decreased by approximately 14.9% in comparison with the same period of last year. The reason of such decline was due to the product prices fluctuations affected by the market. The turnover of sex hormones was approximately RMB73.45 million, in which the main growing point was Hydroxyprogesterone, a newly launched product in the second half of 2012, recorded a turnover amount of approximately RMB46.53 million.

– Prednisone Series

Prednisone series, a product newly launched at the year end of 2013, were fully produced at the new production facilities at Jiangsu. During the year ended 31 December 2013, the turnover of such product was approximately RMB19.97 million and was exported to India. It is currently under the application of international certifications and it may help to expand the sales to high tiers market.

Healthcare and chemical products

The healthcare and chemical products manufactured and sold by the Group include Taurine, Calcium Superphosphate and Dimethyl Sulfate, and the bio-pesticides and bio-feed additives products already have certain market shares and are well recognized by customers. During the year 2013, the turnover amount of the relevant products was approximately RMB527.71 million, while the turnover amount of the relevant products attributed to the Group in the same period of last year was approximately RMB429.34 million.

– Taurine

The Group is one of the largest exporters of Taurine in the PRC, and we have done several production technology enhancement projects in the past years, which enhanced the product quality and production efficiency and provided returns to the Group. In 2013, both domestic and export businesses of Taurine of the Group have substantial growth. We have more international new customers, and our existing customers also maintained stable procurement amount. The turnover amount of Taurine products in 2013 was approximately RMB 188.42 million and was increased by approximately 71.7 % as compared with the same period of last year.

Management Discussion and Analysis

Distribution costs and Administrative expenses

Distribution costs and administrative expenses of this year was approximately HK$456.61 million and HK$315.54 million respectively, while it was approximately HK$340.31 million and HK$236.99 million respectively in the same period of last year. The increment of these two expenses was mainly due to the execution of the strategy in relation to the expansion of market share and resulted an approximately 29.1% increment of turnover amount. It is also contributed by the newly acquired business and the reallocation of the production plant.

Finance costs

For the year ended 31 December 2013, the finance costs of the Group were approximately HK$77.63 million, while they were approximately HK$41.80 million in 2012. The increment was mainly due to the addition of bank loans which are financing the short-term operation expenses during the expansion of production capacities and reallocation of production plants.

Outlook and Future Prospects

The IMS market research data in November 2013 shows that the size of the global pharmaceutical market will grow by 5%-8% to US$1,100 billion in 2014 while China's pharmaceutical market will maintain a growth rate of 14% to 17% in the next five years. Being the world's third largest pharmaceutical market, China has been a driving force for the growth of the global pharmaceutical industry. Internally, the Chinese pharmaceutical market has grown rapidly due to market demand arising from factors such as population aging and the change in disease spectrum. In China, the proportion of elderly people aged 50 or above is expected to rise from 24% in 2010 to 33% in 2020 and the incidence of chronic diseases will also gradually increase. Externally, it derives power from the spread and use of medical insurance. For instance, basically more than 95% of the urban and rural population in China has been covered by medical insurance. Moreover, the proportion of government support in medical insurance is on the rise and the level of medical care has been improving.

In September 2013, the State Council of China released the document "Several Opinions on Promoting the Development of Health Service Industry", pursuant to which accelerating the development of the health service industry is considered not only a prerequisite in intensifying medical reforms, enhancing people's livelihood and improving the national health quality but also an important initiative that alters the pattern of economic development in China. Medical service capabilities, health management standards, health insurance services as well as pharmaceutical and health products will become new focuses in the industry's development. In particular, the Chinese government will provide strong policy support to areas such as R&D, manufacturing and application of independent drugs with intellectual property rights, medical devices and other health-related products, to promote a substantial increase in domestic market share and global competitiveness of related products. The document foresees that, by 2020, the total size of China's health service industry will exceed RMB8,000 billion and the proportion to GDP will rise sharply from the current 5% to 15%.

The Group has always attached great importance on the introduction of advanced production technologies and facilities as well as the development of world-class high-tech and new products. First of all, after several years of strenuous efforts, the Group finally completed the relocation and construction of four major manufacturing bases in 2013 and all of its production facilities have successfully obtained the new GMP certification of China. Secondly, the Group attaches great importance to and actively participates in activities related to the merger and acquisition of pharmaceutical assets. Over the past year or so, the Group greatly enriched its cardiovascular and ENT drug varieties by investing in and acquiring four quality pharmaceutical enterprises, which has solidified its market position in these two treatment areas. At the same time, the Group has made significant progress in natural anti-tumor drugs, drugs for the digestive system and anti-inflammatory and analgesic drugs. These new product areas will become new sources of revenue crucial for the Group. Thirdly, the Group gives full support to the introduction and R&D of new products. Through independent R&D, cooperative development and M&As, the Group has initially built a team of experts with internationally advanced biotechnology experience whom will bring into the Group new development opportunities and competitive edges in some specific pharmaceutical product areas such as amino acids and steroid hormones, as a result of which an impetus boosting a substantial increase in the Group's gross profit and profitability will be gradually formed.

In the next few years, the Group will continue to adhere to the strategy of developing core products and tying in with the industry chain. The Group will consolidate and reinforce its core competitiveness in areas such as ophthalmology and cardiovascular emergency medicine, leverage its biotechnology platform for the development of high-tech and new biotechnologies and differentiated products, strengthen the capacity of its sales force in market and product coverage and bring in synergy among invested and acquired companies, hence substantially improving production efficiency and effectiveness. The Group has confidence and capability to develop itself into one of the fastest growing pharmaceutical enterprises in the pharmaceutical segment of the Hong Kong capital markets and one of the top 20 enterprise groups in China's pharmaceutical industry.

Financial resources and liquidity

As at 31 December 2013, the Group had current assets of HK$1,871,743,000 (31 December 2012: HK$1,239,579,000) and current liabilities of HK$2,614,229,000 (31 December 2012: HK$1,956,654,000). The current ratio was 0.72 at 31 December 2013 as compared with 0.63 at 31 December 2012.

The Group's cash and bank balances as at 31 December 2013 amounted to HK$249,765,000 (31 December 2012: HK$304,588,000), of which approximately 13% were denominated in Hong Kong and United States Dollars and 87% in Renminbi.

As at 31 December 2013, the Group had outstanding bank loans of HK$1,658,035,000 (31 December 2012: HK$1,421,333,000). Included in the bank loans, there were bank loans of approximately HK$413,046,000 were denominated in US$. All other bank loans are denominated in RMB and granted by banks in the PRC and Macau. The interest rates charged by banks ranged from 1.0% to 7.8% (31 December 2012: 3.08% to 7.50%) per annum, in which approximately HK$359,697,000 bank loans were charged at fixed interest rates. These bank loans were pledged by assets of the Group with a net book value of HK$314,862,000 (31 December 2012: HK$73,863,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 189% at 31 December 2013 as compared with 189% at 31 December 2012.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2013, other than the foreign contracts for investment purpose, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Employees and Remuneration Policy

As at 31 December 2013, the Group employed about 5,400 staff and workers in Hong Kong and the PRC (31 December 2012: about 4,800). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Management Discussion and Analysis

Material Acquisitions and Disposals

On 22 February 2013, Grand Pharm (China) entered into a joint venture agreement with HuangShi Feiyun, in which agreed that a new company Grand Huangshi Feiyun was established in Huangshi, the PRC. The Grand Huangshi Feiyun is owned beneficially as to 60% by Grand Pharm (China) and as to the balance of 40% by HuangShi Feiyun. The purpose of establishing the Grand Huangshi Feiyun is to set up a national naturally-sourced medicine research and development and manufacturing base in Huangshi, the PRC.

On 16 July 2013, the Grand Pharm (China) entered into an acquisition agreement with, among others, 北京錕吾國際商業有限公司 (Beijing Kun Wu International Business Limited#)(the "Kun Wu"), pursuant to which Grand Pharm (China) has agreed to purchase approximately 70.84% equity interest in 北京汭藥科技有限公司 (Beijing Rui Yao Technology Limited#)(the "Rui Yao") at the consideration of RMB35,777,800. Such acquisition was completed in October 2013.

Future Plans For Material Investments

Except for those set out in the "Subsequent Events" in this report, the Group had authorised but not provided for capital expenditure commitments of approximately HK$163 million in respect of acquisition of non-current assets as at 31 December 2013.

Significant Investment

There was no other significant investment during the year.

Subsequent Events

In March 2014, the Group sold certain equity interest of 遠大武漢醫藥研究總院有限公司 (Grand Wuhan Pharmaceutical Research Limited)# (formerly known as 武漢遠諾維盛醫藥科技有限公司 (Yuan Nuo Wei Sheng Pharmaceutical Technology Limited)#), a company the Group held 10% equity interest, in which 5% to Dr. Zhang Ji, 1.67% to Mr. Xie Guofan, 1% to Mr. Shi Xiaofeng and 0.67% to Mr. Yang Bo. The consideration is RMB1,000,000, RMB334,000, RMB200,000 and RMB134,000 respectively. Dr. Zhang Ji is the executive director of the Company, Mr. Xie Guofan is the director of the Grand Pharm (China) and Mr. Shi Xiaofeng is the director and general manager of Grand Pharm (China).

Contingent Liabilities

As at 31 December 2013, the directors of the Company were not aware of any material contingent liabilities.

Appreciation

On behalf of the Board, I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Liu Chengwei
Chairman

Hong Kong, 28 March 2014

Biographical Details of Directors and Senior Management

Executive Directors

Mr Liu Chengwei, aged 40, was appointed executive director of the Company in July 2008. Mr Liu is the Chairman of the Company and is a director of Grand Pharm (China), the principal subsidiary of the Company. Mr Liu is also a director of Huadong Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. Mr Liu has over 10 years of financial and management experience in the PRC. Mr Liu is currently the General Manager of the Pharmaceutical Industry Division of China Grand Enterprises Incorporation ("China Grand") and a director of China Grand. Mr Liu worked for General Electric Company's China subsidiaries for 5 years before joining China Grand in 2001. Mr Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr Hu Bo, aged 29, was appointed executive director of the Company in July 2008. Mr Hu has over 10 years of experience in network project management and property management. Mr Hu is currently the deputy general manager of a real estate company in the PRC. Mr Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr Hu is a nephew of Mr Hu Kaijun, the beneficial owner of Outwit, which is the controlling shareholder of the Company.

Dr Shao Yan, aged 51, was appointed executive director of the Company in October 2008. Dr Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr Shao has over 20 years of experience in corporate management and venture capital investment. Dr Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr Zhang Ji, aged 52, was appointed non-executive director of the Company in November 2008 and was redesignated as executive director of the Company in February 2010. Dr Zhang has over 17 years of experience in conducting drug discovery, research and development in the US pharmaceutical industry. Dr Zhang is currently the president of the China Grand Wuhan General Pharmaceutical Research Institute. Dr Zhang had worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years. Dr Zhang holds both a bachelor degree in Microbiology and a master's degree in Virology from Wuhan University, and a doctor degree (PhD) in Pharmacology and Molecular Biology from Chicago Medical School.

Independent Non-executive Directors

Ms So Tosi Wan, Winnie, aged 51, was appointed independent non-executive director of the Company in March 2005. Ms So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr Lo Kai, Lawrence, aged 57, was appointed independent non-executive director of the Company in June 2008. Mr Lo has over 25 years of experience in wealth and asset management business. Currently, he is the CEO of UBP Asia Limited. Prior to that, he was the CEO of BSI-Generali Asia ("BSI") and was responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Dr Pei Geng, aged 54, was appointed independent non-executive director of the Company in May 2011. Dr Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

Biographical Details of Directors and Senior Management

Senior Management

Mr Foo Tin Chung, Victor, aged 45, joined the Company in September 2011 as the Company Secretary of the Company. Mr Foo holds a bachelor's degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr Foo is an executive director of Jinheng Automotive Safety Technology Holdings Limited and an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited, which both companies are listed on the Stock Exchange.

Mr Xie Guofan, aged 63, was appointed as the director of the principal subsidiary Grand Pharm (China) since 1994. Mr Xie is responsible for overseeing entire operations and management of Grand Pharm (China), he has over 30 years of experience in corporate management and pharmaceutical manufacturing. Mr Xie holds a practicing pharmacist license in the PRC.

Mr Shi Xiaofeng, aged 47, was appointed as a director and a general manager of the principal subsidiary Grand Pharm (China). Mr Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), he has over 20 years of experience in the pharmaceutical industry management. Mr Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr Shi holds a medical degree from Medical School of Southeast University and a EMBA degree at China Europe International Business School.

Mr Ye Bo, aged 54, was appointed as the director of Zhejiang Xianle. Mr Ye is responsible for overseeing the entire operation management of Zhejiang Xianle.

Mr Feng Yonghua, aged 46, was appointed as the General Manager of Zhejiang Xianle. Mr Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr Feng holds a practicing pharmacist license in the PRC.

Corporate Governance Practices

During the year ended 31 December 2013, the Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited.

Corporate Governance Report

This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as follows:

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the year ended 31 December 2013.

Board of Directors

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive directors – Mr Liu Chengwei, Mr Hu Bo, Dr Shao Yan and Dr Zhang Ji and 3 independent non-executive directors – Ms So Tosi Wan, Winnie, Mr Lo Kai, Lawrence and Dr Pei Geng. Mr Liu Chengwei is the Chairman and Dr Shao Yan is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Mr Liu, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Dr Shao, as the Chief Executive Officer, focuses on the day-to-day management of the Group's business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors are independent and meet the independent guidelines set out in the Listing Rules.

All directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company's Bye-Laws.

Training, Induction and Continuing Development of Directors

Each Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure the he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

Audit Committee

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The audit committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the audit committee consists of three independent non-executive directors namely, Ms So Tosi Wan, Winnie (Chairwoman), Mr Lo Kai, Lawrence and Dr Pei Geng. Ms So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The audit committee held two meetings during the year ended 31 December 2013 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference. Currently, the remuneration committee is chaired by Ms So Tosi Wan, Winnie with an executive director Mr Liu Chengwei and an independent non-executive director Mr Lo Kai, Lawrence as members.

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and reviewing specific remuneration package of all directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The remuneration committee met twice during the year to review the remuneration policy for all directors and senior management.

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2013 are set out in note 14 to the consolidated financial statements.

Nomination Committee

The Company has established a nomination committee with written terms of reference. Currently, the nomination committee is chaired by Ms So Tosi Wan, Winnie with an executive director Dr Shao Yan and an independent non-executive director Mr Lo Kai, Lawrence as members.

The nomination committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The nomination committee held a meeting in 2013 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

Attendance Record at Meetings

The attendance records of each director at the various meetings of the Company during the year ended 31 December 2013 are set out as below:

	Meetings Attended/Held					
Directors	**Special General Meeting**	**Annual General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr Liu Chengwei	2/2	1/1	11/11	N/A	2/2	N/A
Mr Hu Bo	2/2	1/1	11/11	N/A	N/A	N/A
Dr Shao Yan	2/2	1/1	11/11	N/A	N/A	1/1
Dr Zhang Ji	2/2	1/1	11/11	N/A	N/A	N/A
Ms So Tosi Wan, Winnie	2/2	1/1	11/11	2/2	2/2	1/1
Mr Lo Kai, Lawrence	2/2	1/1	10/11	2/2	2/2	1/1
Dr Pei Geng	2/2	1/1	11/11	2/2	N/A	N/A

Auditors' Remuneration

During the year, the auditors performed the work of statutory audit for the year of 2013 and were also involved in non-audit assignment of acting as the reporting accountants of the Company's circular dated 26 March 2013.

The audit committee was satisfied that the non-audit services provided by the auditors did not affect its independence.

Audit fees and fees for non-audit services for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$1,200,000, and HK$380,000 respectively.

Financial Reporting

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently.

Corporate Governance Report

Internal Control

The Board has the overall responsibility for maintaining an effective internal control system to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and ensure compliance with applicable legislation and regulations. The internal control system provides a reasonable but not absolute assurance against material errors, losses or fraud.

The Board has reviewed the effectiveness of the internal control system and will conduct an annual review on the system in order to make it effective and practical.

Communication with Shareholders and Investors

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend general meetings of the Company which allows the directors to meet and communicate with them.

Shareholders' Rights

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

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

Unit 3302, The Centre,
99 Queen's Road Central,
Hong Kong
Email: victor.foo@chinagrandpharm.com

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

Constitutional Documents

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye-laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

The directors are pleased to present their report together with the audited consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013.

Principal Activities

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 21 and 17 to the consolidated financial statements respectively.

Results

The results of the Group for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out on pages 23 to 99.

Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil). No interim dividend was declared during the year (2012: Nil).

Reserves

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 39 to the consolidated financial statements respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

Subsidiaries and Associates

Particulars of the Company's subsidiaries and associates at 31 December 2013 are set out in notes 21 and 17 to the consolidated financial statements respectively.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

Bank Borrowings

Particulars of bank borrowings of the Group during the year are set out in note 30 to the consolidated financial statements.

Directors

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr Liu Chengwei
Mr Hu Bo
Dr Shao Yan
Dr Zhang Ji

Independent non-executive directors

Ms So Tosi Wan, Winnie
Mr Lo Kai, Lawrence
Dr Pei Geng

Pursuant to bye-law 87(1), Dr Shao Yan, Dr Zhang Ji and Mr Lo Kai, Lawrence will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Competing Interest

Save that Mr Liu Chengwei, the chairman and an executive director, who is director of some pharmaceutical companies in the PRC (including China Grand and Huadong Medicine Company Limited) and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the directors are aware of, no directors or their associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Related Party Transactions

For the year ended 31 December 2013, the related party transactions entered by the Group are all disclosed note 42 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules.To the extent of the related party transactions as disclosed in note 42 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

Continuing Connected Transactions

For the year ended 31 December 2013, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

1) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm R&D Agreement I") with Yuan Chuang Yi Cheng Pharmaceutical Technology Limited (the "Yuan Chuang Yi Cheng"). Pursuant to the Grand Pharm R&D Agreement I, Yuan Chuang Yi Cheng shall provide research and development services for Bosentan to Grand Pharm (China) or its related companies and the maximum annual amount to be paid by the Group to Yuan Chuang Yi Cheng for the two years ending 31 December 2014 are RMB3.6 million and RMB1.5 million respectively (the "Grand Pharm First R&D Caps"). In 2013, the transaction amount under Grand Pharm R&D Agreement I is approximately RMB1.0 million.

2) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm R&D Agreement II") with Yuan Chuang Yi Cheng. Pursuant to the Grand Pharm R&D Agreement II, Yuan Chuang Yi Cheng shall provide research and development services for Trimetazidine to Grand Pharm (China) or its related companies and the maximum annual amount to be paid by the Group to Yuan Chuang Yi Cheng for the two years ending 31 December 2014 are RMB1.0 million and RMB1.0 million respectively (the "Grand Pharm Second R&D Caps"). In 2013, the transaction amount under Grand Pharm R&D Agreement II is approximately RMB1.0 million.

3) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm R&D Agreement III") with Yuan Nuo Wei Sheng Pharmaceutical Technology Limited (the "Yuan Nuo Wei Sheng"). Pursuant to the Grand Pharm R&D Agreement III, Yuan Nuo Wei Sheng shall provide research and development services for Bimatoprost pharmaceutical raw material and Bimatoprost eyedrops to Grand Pharm (China) or its related companies and the maximum annual amount to be paid by the Group to Yuan Nuo Wei Sheng for the two years ending 31 December 2014 are RMB3.5 million and RMB3.5 million respectively (the "Grand Pharm Second R&D Caps"). In 2013, the transaction amount under Grand Pharm R&D Agreement III is approximately RMB1.8 million.

4) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm Supply Agreement") with Huadong Medicine Co., Ltd (the "Huadong Medicine"). Pursuant to the Grand Pharm Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and technologies to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for the two years ending 31 December 2014 are RMB18.0 million and RMB20.0 million respectively (the "Grand Pharm Supply Caps"). In 2013, the transaction amount under Grand Pharm Supply Agreement is approximately RMB10.0 million.

5) On 28 November 2012, Zhejiang Xianju Xianle Pharmaceutical Company Limited (the "Zhejiang Xianle") has entered into an agreement (the "Xianle Purchase Agreement I") with 保定九孚生化有限公司 (Bao Ding Jiu Fu Bio-chemical Limited (the "Bao Ding Jiu Fu"). Pursuant to the Xianle Purchase Agreement I, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Bao Ding Jiu Fu or its related companies and the maximum annual amount of products to be purchased by the Group from Bao Ding Jiu Fu for the two years ending 31 December 2014 are RMB80.0 million and RMB146.0 million respectively (the "Xianle First Purchase Caps"). On 17 November 2013, Zhejiang Xianle has entered into another agreement (the "Second Supplemental CCT Agreement"), pursuant to which the Xianle First Purchase Caps for the year ending 31 December 2013 are revised to RMB160.0 million. In 2013, the transaction amount under Xianle Purchase Agreement I and Second Supplemental CCT Agreement is approximately RMB81.9 million.

6) On 28 November 2012, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement II") with 鹽城信誼醫藥化工有限公司 (Yan Cheng Xin Yi Pharmaceutical Chemical Limited#) (the "Yan Cheng Xin Yi"). Pursuant to the Xianle Purchase Agreement II, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Yan Cheng Xin Yi or its related companies and the maximum annual amount of products to be purchased by the Group from Yan Cheng Xin Yi for the two years ending 31 December 2014 are RMB60.0 million and RMB80.0 million respectively (the "Xianle Second Purchase Caps"). In 2013, the transaction amount under Xianle Purchase Agreement II is approximately RMB25.7 million.

7) On 28 November 2012, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement III") with Grand Group Corporation Limited (the "Grand Group Corporation"). Pursuant to the Xianle Purchase Agreement III, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Grand Group Corporation or its related companies and the maximum annual amount of products to be purchased by the Group from Grand Group Corporation for the two years ending 31 December 2014 are RMB5.0 million and RMB8.0 million respectively (the "Xianle Third Purchase Caps"). In 2013, the transaction amount under Xianle Purchase Agreement III is approximately RMB2.4 million.

As Yuan Chuang Yi Cheng, Yuan Nuo Wei Sheng, Huadong Medicine, Bao Ding Jiu Fu, Yan Cheng Xin Yi and Grand Group Corporation are regarded as connected persons of the Company since they are associates of the China Grand Enterprises Incorporation (which is a connected person of the Company since it is controlled and ultimately and beneficially owned by Mr Hu Kaijun, who is the sole shareholder of Outwit Investments Limited which is the substantial shareholder of the Company holding approximately 62.60% of the total issued Shares), and the subject matters of each of the Grand Pharm R&D Agreement I, Grand Pharm R&D Agreement II, Grand Pharm R&D Agreement III, Grand Pharm Supply Agreement, Xianle Purchase Agreement I, Xianle Purchase Agreement II, Xianle Purchase Agreement III and Second Supplemental CCT Agreement (collectively known as "Continuing Connected Transaction Agreements") are similar in nature, under Chapter 14A of the Listing Rules the transactions between the Group and each of these companies should be aggregated together. As the applicable percentage ratios in connection with the service fees payable for the transactions contemplated respectively under the Continuing Connected Transaction Agreements on an aggregated basis are less than 25% and do not exceed HK$10,000,000, the Continuing Connected Transaction Agreements constitute connected transactions on the part of the Company and are not subject to the independent Shareholder's approval but the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to the Listing Rules in respect of the Continuing Connected Transaction Agreements for the two financial year ending 31 December 2014.

The independent non-executive directors of the Company have reviewed and confirmed that these transactions were entered into:

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

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Continuing Connected Transaction Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

(i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

(ii) obtained the relevant agreements governing each of the continuing connected transactions from management;

(iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 28 November 2012, 21 December 2012 and 17 November 2013 made by the Company in respect of each of the continuing connected transactions.

Share Option Scheme

The share option scheme of the Company was adopted on 17 May 2002 under which the Board may, at its discretion, offer to grant employees and directors of the Group and other eligible persons options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. Such share option scheme was expired on 16 May 2012, and the Company did not adopt any new share option scheme.

No share options were granted or exercised under the share option scheme during the year ended 31 December 2013 and there were no outstanding share options as at 31 December 2013.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2013, the directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long positions in the shares of the Company:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	2,220,000	0.11%

Note: Dr Shao Yan, a director of the Company, is the spouse of Ms Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr Shao Yan shall be deemed to be interested in such 2,220,000 shares.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

Substantial Shareholders

As at 31 December 2013, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	1,228,275,094	62.60%
Mr Hu Kaijun (Note)	1,228,275,094	62.60%

Note: These shares are held by Outwit Investments Limited, the entire issued share capital of which is wholly owned by Mr Hu Kaijun.

Save as disclosed above, as at 31 December 2013, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Major Customers and Suppliers

For the year ended 31 December 2013, the five largest customers of the Group accounted for less than 30% of the Group's total turnover while the five largest suppliers accounted for less than 30% the Group's total purchases.

Purchase, Sale or Redemption of Shares

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

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2013.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 11 to 14.

Auditors

On 19 February 2013, the shareholders of the Company approved to appoint HLB Hodgson Impey Cheng Limited as auditors of the Company in the special general meeting to fill the casual vacancy created by SHINEWING (HK) CPA Limited. Apart from the foregoing, there were no other changes in auditors of the Company in any of the proceeding three years.

HLB Hodgson Impey Cheng Limited will retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 28 March 2014

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 99, which comprise the consolidated and the Company statement of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditors' Report (Continued)

Opinion

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

Material uncertainty concerning going concern basis of accounting

Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicate that the Group had net current liabilities of approximately HK$742,486,000 at 31 December 2013. These conditions, along with other matters as set forth in note 3 to the consolidated financial statements, indicate that existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 28 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Turnover	7	**2,658,282**	2,059,307
Cost of sales		**(1,771,752)**	(1,414,124)
Gross profit		**886,530**	645,183
Other revenue and income	8	**97,616**	89,790
Distribution costs		**(456,608)**	(340,313)
Administrative expenses		**(315,536)**	(236,986)
Other operating expenses		**(2,390)**	(353)
Share of results of associates	17	**301**	15
Finance costs	9	**(77,633)**	(41,801)
Profit before tax		**132,280**	115,535
Income tax expense	10	**(26,994)**	(10,830)
Profit for the year	11	**105,286**	104,705
Other comprehensive income/(loss), net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**28,606**	10,572
Change in fair value of available-for-sale financial assets, after tax		**2,892**	196
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year		**(6,724)**	–
Other comprehensive income for the year, net of income tax		**24,774**	10,768
Total comprehensive income for the year, net of income tax		**130,060**	115,473
Profit for the year attributable to:			
– Owners of the Company		**99,658**	67,305
– Non-controlling interests		**5,628**	37,400
		105,286	104,705
Total comprehensive income attributable to:			
– Owners of the Company		**123,609**	76,809
– Non-controlling interests		**6,451**	38,664
		130,060	115,473
Earnings per share			
Basic (HK cents)	13	**5.08**	3.46
Diluted (HK cents)	13	**5.08**	3.46

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Non-current assets			
Property, plant and equipment	15	**2,095,369**	1,423,363
Prepaid lease payments	16	**287,539**	434,655
Interests in associates	17	**6,297**	11,750
Available-for-sale financial assets	18	**43,387**	52,498
Deposits for acquisition of non-current assets	19	**13,969**	27,804
Goodwill	20	**124,777**	97,133
Intangible assets	22	**82,782**	298
Deferred tax assets	23	**1,362**	3,661
Prepayments	24	**17,631**	26,028
Loan receivables	25	**20,493**	37,316
		2,693,606	2,114,506
Current assets			
Inventories	26	**562,283**	442,297
Trade and other receivables	27	**892,610**	443,436
Loan receivables	25	**33,301**	14,926
Prepaid lease payments	16	**4,761**	10,516
Pledged bank deposits	28	**129,023**	23,816
Cash and cash equivalents	28	**249,765**	304,588
		1,871,743	1,239,579
Current liabilities			
Trade and other payables	29	**1,306,257**	614,466
Bank borrowings	30	**1,262,267**	1,305,755
Obligations under finance leases	32	**5,516**	–
Derivative financial instrument	34	**1,310**	–
Income tax payable		**38,879**	36,433
		2,614,229	1,956,654
Net current liabilities		**(742,486)**	(717,075)
Total assets less current liabilities		**1,951,120**	1,397,431

Consolidated Statement of Financial Position (Continued)

At 31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Non-current liabilities			
Bank borrowings	30	**395,768**	115,578
Deferred tax liabilities	35	**50,200**	81,463
Amount due to holding company	36	**21,401**	19,649
Deferred income	37	**385,046**	301,012
Obligations under finance leases	32	**7,916**	–
		860,331	517,702
Net assets		**1,090,789**	879,729
Capital and reserves attributable to owners of the Company			
Share capital	38	**19,620**	19,620
Reserves	39	**857,263**	733,654
Equity attributable to owners of the Company		**876,883**	753,274
Non-controlling interests		**213,906**	126,455
Total equity		**1,090,789**	879,729

The consolidated financial statements on page 23 to 99 were approved and authorised for issue by the board of directors of the Company on 28 March 2014 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	15	–	87
Interests in subsidiaries	21	419,132	406,132
		419,132	406,219
Current assets			
Other receivables	27	790	1,817
Pledged bank deposits	28	1,198	–
Cash and cash equivalents	28	1	470
		1,989	2,287
Current liabilities			
Other payables	29	2,092	402
Bonds issued	31	41,000	20,000
Amount due to a subsidiary	33	1,560	1,560
		44,652	21,962
Net current liabilities		(42,663)	(19,675)
Total assets less current liabilities		376,469	386,544
Non-current liabilities			
Amount due to holding company	36	21,401	19,649
Net assets		355,068	366,895
Capital and reserves attributable to owners of the Company			
Share capital	38	19,620	19,620
Reserves	39	335,448	347,275
Total equity		355,068	366,895

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

		Attributable to owners of the Company											
	Note	Share Capital HK$'000	Share premium HK$'000	Contribution surplus reserve HK$'000	Statutory reserve HK$'000 (Note a)	Safety fund reserve HK$'000 (Note b)	Translation reserve HK$'000	Available-for-sales financial assets revaluation reserve HK$'000	Other reserve HK$'000 (Note c)	Retained profits HK$'000	Equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012		19,208	268,628	121,273	16,801	4,833	37,116	3,079	2,443	165,797	639,178	330,741	969,919
Profit for the year		–	–	–	–	–	–	–	–	67,305	67,305	37,400	104,705
Other comprehensive income for the year, net of income tax:													
Exchange difference on translation of foreign operations		–	–	–	–	–	9,355	–	–	–	9,355	1,217	10,572
Change in fair value of available-for–sale financial assets		–	–	–	–	–	–	198	–	–	198	63	261
Income tax relating to change in fair value of available-for-sale financial assets		–	–	–	–	–	–	(49)	–	–	(49)	(16)	(65)
Total comprehensive income for the year		–	–	–	–	–	9,355	149	–	67,305	76,809	38,664	115,473
Acquisition of additional interests in a subsidiary	47	–	–	–	–	–	–	–	23,554	–	23,554	(230,081)	(206,527)
Issuance of shares through subscription		412	13,321	–	–	–	–	–	–	–	13,733	–	13,733
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(29,935)	(29,935)
Non-controlling interests arising on the acquisition of subsidiaries	41	–	–	–	–	–	–	–	–	–	–	17,066	17,066
Transfer		–	–	–	29,836	3,331	–	–	–	(33,167)	–	–	–
At 31 December 2012 and at 1 January 2013		19,620	281,949	121,273	46,637	8,164	46,471	3,228	25,997	199,935	753,274	126,455	879,729
Profit for the year		–	–	–	–	–	–	–	–	99,658	99,658	5,628	105,286
Other comprehensive income for the year, net of income tax													
Exchange difference on translation of foreign operations		–	–	–	–	–	27,712	–	–	–	27,712	894	28,606
Change in fair value of available-for–sale financial assets		–	–	–	–	–	–	2,892	–	–	2,892	–	2,892
Income tax relating to change in fair value of available-for-sale financial assets		–	–	–	–	–	(533)	(6,120)	–	–	(6,653)	(71)	(6,724)
Total comprehensive income for the year		–	–	–	–	–	27,179	(3,228)	–	99,658	123,609	6,451	130,060
Capital contribution from a minority shareholder		–	–	–	–	–	–	–	–	–	–	71,929	71,929
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(240)	(240)
Non-controlling interests arising on the acquisition of subsidiaries	41	–	–	–	–	–	–	–	–	–	–	9,311	9,311
Transfer		–	–	–	13,477	3,471	–	–	–	(16,948)	–	–	–
At 31 December 2013		19,620	281,949	121,273	60,114	11,635	73,650	–	25,997	282,645	876,883	213,906	1,090,789

Notes:

a. Each of the Company's the PRC subsidiary's Articles of Association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to the document (Cai Qi [2006] No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Operating activities		
Profit before tax	**132,280**	115,535
Adjustments for:		
Amortisation of intangible assets	**1,744**	353
Amortisation of prepaid lease payments	**10,187**	10,969
Depreciation of property, plant and equipment	**95,127**	68,898
Finance costs	**77,633**	41,801
Loss/(gain) on disposal of property, plant and equipment	**409**	(1,019)
Write-off of property, plant and equipment	**158,582**	1,227
Write-off prepaid lease payments	**188,476**	–
Write-off disposal of deferred tax liabilities	**(42,008)**	–
Reversal of impairment loss on inventories	**(1,422)**	–
Impairment loss on inventories	**496**	868
Impairment loss on trade and other receivables	**8,349**	5,815
Bank interest income	**(7,844)**	(5,431)
Reversal of impairment loss on trade and other receivables	**(2,527)**	(2,099)
Share of results of associates	**(301)**	(15)
Investment income	**(6,210)**	(3,588)
Operating cash flows before movements in working capital	**612,971**	233,314
Increase in inventories	**(99,601)**	(118,653)
Increase in trade and other receivables	**(429,206)**	(96,302)
Increase in deferred income	**72,907**	–
Increase in trade and other payables	**650,815**	291,421
Increase in derivative financial instrument	**1,310**	–
Net cash generated from operations	**809,196**	309,780
Income tax paid	**(17,267)**	(17,157)
Net cash generated from operating activities	**791,929**	292,623

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Investing activities		
Purchase of property, plant and equipment	**(877,649)**	(734,300)
Acquisition of prepaid lease payment	**(28,505)**	(62,107)
(Increase)/decrease in pledged bank deposits	**(106,595)**	43,771
Decrease in deposits for acquisition of non-current assets	**755**	47,599
Decrease/(increase) in non-current prepayments	**8,508**	(1,812)
Proceeds from disposal of property, plant and equipment	**377**	2,091
Proceeds from disposal of available-for-sale financial assets	**9,111**	–
Bank interest income received	**7,844**	5,431
Investment income	**6,210**	3,588
Increase in loan receivable	**(1,572)**	(27,365)
Net cash inflow from de-recognition of an associate	**1,396**	–
Net cash outflow from acquisition of subsidiary	**(34,508)**	(68,248)
Capital contribution from a minority shareholder	**34,787**	–
Acquisition of additional interest in a subsidiary	**–**	(206,527)
Net cash used in investing activities	**(979,841)**	(997,879)
Financing activities		
Proceed from sales and lease back transaction	**10,280**	–
Repayments of bank loans	**(2,006,146)**	(1,380,570)
Repayments of obligation under finance leases	**(638)**	–
Interest paid	**(77,633)**	(41,801)
Proceed from new borrowings	**2,201,011**	2,063,106
Repayment advance from holding company	**1,752**	6,993
Dividend paid to non-controlling interest	**(4,995)**	(3,060)
Proceeds from subscription of shares	**–**	13,733
Net cash generated from financing activities	**123,631**	658,401
Net decrease in cash and cash equivalents	**(64,281)**	(46,855)
Cash and cash equivalents at the beginning of year	**304,588**	343,348
Effect of foreign exchange rate changes	**9,458**	8,095
Cash and cash equivalents at the end of year, representing		
Cash and cash equivalents	**249,765**	304,588

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. GENERAL INFORMATION

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical, healthcare and chemical products in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent and ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as functional currency of the Company, and the functional currency of the of most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

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

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2013.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except for the amendments to HKAS 1, the application of these new HKFRSs has no material impact on the results and the financial position of the Group.

The nature of the impending changes in accounting policy on adoption of the amendments to HKAS 1 is described below.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012.

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) Int-12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

HKFRS 12 Disclosure of Interests in Other Entities

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

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

HKFRS 13 Fair Value Measurement

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

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

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

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

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

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these consolidated financial statements:

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

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

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets *(Continued)*

1 effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
3 effective for annual periods beginning on or after 1 January 2014, with limited exceptions.
4 effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
5 no mandatory effective date yet determined but is available for adoption.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described below:

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

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

The date when entities would be required to apply HKFRS 9 was previously stated at 1 January 2015. This mandatory effective date has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements, which will now become effective from a later date yet to be announced.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Amendments to HKFRS 7 and HKAS 32 – Offsetting Financial Assets and Financial Liabilities and the related disclosures

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

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The Investment Entities amendments apply to a particular class of business that qualify as investment entities. The term 'investment entity' refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Under HKFRS 10, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.

The directors anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKFRS 27 (2011) will have no material impact on the Group's financial performance and positions.

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

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

Similar relief will be included in HKFRS 9.

The amendments will be effective for annual periods beginning on or after 1 January 2014 and applied retrospectively. Earlier application is permitted.

The directors anticipate that the application of these amendments to HKAS 39 will have no material impact on the Group's financial performance and positions.

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

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 is an interpretation of HKAS 37 and addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognise a liability to pay a levy. It clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. HK(IFRIC) – Int 21 is effective for annual periods beginning on or after 1 January 2014 with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$742,486,000 (2012:HK$717,075,000) as at 31 December 2013. The directors of the Company have taken the following factors to consider the future liquidity which include, but not limited to, the followings: (i) as set out in note 37 to the consolidated financial statements, the Group has compensation of approximately RMB229,500,000 (equivalent to approximately HK$293,900,000) not yet received by the Group from the Land Reserve Centre; (ii) as set out in note 5 to the financial statements, the Group has unused banking facilities of approximately HK$1,049 million as at 31 December 2013; and (iii) Outwit Investments Limited, a shareholder of the Company, has agreed to provide continuing financial support to the Group. As such, the directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The principal accounting policies are set out below:

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

Change in the values of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit and loss when the Group obtains control over the acquiree.

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Sale of goods

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

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

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold

Dividend income

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

Interest income

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

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

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

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

Foreign currencies

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

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

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

- exchange differences on monetary items receivable form or payable to a foreign operation for which settlement is nether planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation reserve.

Borrowing costs

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

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

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

Government grants

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

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the year

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than allocated land and construction in progress over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Intangible assets

Intangible assets acquired separately

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

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

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

Inventories

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

Cash and Cash Equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Provision

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payment to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expenses when employees have rendered services entitling them to the contribution.

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into one of the following categories, including available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Held-to-maturity investments

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

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

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

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

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fiar value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of ir is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss(see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment loss at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, loan receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

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

Impairment on financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment on financial assets (Continued)

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

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

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

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the available-for-sale financial assets revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Equity instruments

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

Other financial liabilities

Other financial liabilities (including trade and other payables, bank borrowings and amount due to holding company) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are no measured at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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

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

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

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

Related party transactions

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related party transactions *(Continued)*

(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) the entity and the Group 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.

(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).

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

Segment reporting

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

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 business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statement.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in HKAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liabilities in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, management is satisfied that the significant risks and rewards have been transferred an that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs.

Key source of estimation uncertainty

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

Impairment of goodwill

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

The carrying amount of goodwill as at 31 December 2013 was HK$124,777,000 (2012: HK$97,133,000). Details of the recoverable amount calculation are disclosed in note 20.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 5 and 20 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

During the year ended 31 December 2013, the Group did not change the estimated useful lives of property, plant and equipment and intangible assets.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2013 HK$'000	2012 HK$'000
Financial assets		
Available-for-sale financial assets	**43,387**	52,498
Loans and receivables (including cash and cash equivalents)		
– Loan receivables	**53,794**	52,242
– Trade and other receivables	**721,835**	330,161
– Pledged bank deposits	**129,023**	23,816
– Bank balances and cash	**249,765**	304,588
	1,154,417	710,807
Financial liabilities		
Derivative instruments	**1,310**	–
At amortised costs		
– Trade and other payables	**1,247,841**	582,664
– Bank borrowings	**1,658,035**	1,421,333
– Amount due to holding company	**21,401**	19,649
	2,927,277	2,023,646

5. FINANCIAL INSTRUMENTS *(Continued)*

(a) Categories of financial instruments *(Continued)*

The Company

	2013 HK$'000	2012 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
– Amounts due from subsidiaries	**111,105**	98,105
– Other receivables	**420**	1,224
– Pledged bank deposit	**1,198**	–
– Cash and cash equivalents	**1**	470
	112,724	99,799
Financial liabilities		
At amortised costs		
– Other payables	**2,092**	402
– Bonds issued	**41,000**	20,000
– Amount due to a subsidiary	**1,560**	1,560
– Amount due to holding company	**21,400**	19,649
	66,052	41,611

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, bank loans, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and amount due to holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i. Currency risk

The Group

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, bank balances and cash, trade and other payables derivative financial instrument, bank borrowings and amount due to holding company are denominated in foreign currencies of United State dollars ("USD") and HK$. Such USD and HK$ denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD and HK$.

The Group currently does not have any USD and HK$ hedging policy but the management monitors USD and HK$ exchange exposure and will consider hedging significant USD and HK$ exposure should the need arise.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

i. *Currency risk (Continued)*

The Group *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% (2012: 5%) in exchange rate of USD and HK$ against RMB while all other variables are held constant. 5% (2012: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at end of each reporting period for a 5% change in foreign currency rates.

	2013 HK$'000	2012 HK$'000
Increase/(decrease) in profit for the year		
– if USD weakens against of RMB	**15,416**	10,434
– if USD strengthens against of RMB	**(15,416)**	(10,434)
Increase/(decrease) in profit for the year		
– if HK$ weakens against of RMB	**1,069**	359
– if HK$ strengthens against of RMB	**(1,069)**	(359)

A change of 5% in exchange rate of USD and HK$ against RMB does not affect other components of equity except the translation reserve.

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

	2013 HK$'000	2012 HK$'000
USD		
Trade and other receivables	**79,106**	68,150
Cash and cash equivalents	**32,505**	30,375
Trade and other payables	**(6,883)**	(110)
Bank borrowings	**(413,046)**	(307,088)
HK$		
Cash and cash equivalents	**28**	12,468
Amount due to a holding company	**(21,400)**	(19,649)

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

ii. Interest rate risk

The Group

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates and variable-rate borrowings (see note 30). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

The Company has no significant interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2012: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2012: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$6,494,000 (2012: increase/decrease by approximately HK$6,136,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings.

iii. Liquidity risk

The Group

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At 31 December 2013, maximum banking facilities in an aggregate amount of approximately HK$2,555 million (2012: approximately HK$2,413 million) were available from the Group's principal bankers, of which approximately HK$1,506 million (2012: HK$1,372 million) has been utilised.

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

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

The Group *(Continued)*

At 31 December 2013

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,247,841	1,247,841	–	1,247,841
Bank borrowings	5.09%	1,742,300	1,325,960	416,340	1,658,035
Amount due to holding company	5%	22,010	–	22,010	21,401
		3,012,151	2,573,801	438,350	2,927,277

At 31 December 2012

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	Carrying amount HK$'000
Trade and other payables	–	582,664	582,664	–	582,664
Bank borrowings	5.66%	1,501,158	1,379,122	122,036	1,421,333
Amount due to holding company	5%	20,257	–	20,257	19,649
		2,104,079	1,961,786	142,293	2,023,646

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

The Company

At 31 December 2013

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	Carrying amount HK$'000
Trade and other payables	–	2,092	2,092	–	2,092
Bonds issued	6.56%	43,690	43,690	–	41,000
Amount due to a subsidiary	–	1,560	1,560	–	1,560
Amount due to holding company	5%	22,010	–	22,010	21,401
		69,352	47,342	22,010	66,053

At 31 December 2012

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	Carrying amount HK$'000
Other payables	–	402	402	–	402
Bonds issued	6.56%	21,312	21,312	–	20,000
Amount due to a subsidiary	–	1,560	1,560	–	1,560
Amount due to holding company	5%	20,257	–	20,257	19,649
		43,531	23,274	20,257	41,611

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk

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

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for unallocated advances/deposits from these entities.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and provision of services are made to customers with an appropriate credit history. The Group's deposits in bank and deposits placed with a financial institution are placed in high quality financial institutions without significant exposure to credit risk.

The directors consider that there is no significant credit risk in respect of the Group's deposits in banks and deposits placed with a financial institution as the financial institution has no record of default payment.

v. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

– the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider the fair values of trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to holding company approximate to its carrying amount as the impact of discounting is not significant.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. *Fair value (Continued)*

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2013			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Derivative financial instruments (note b)	**–**	**–**	**1,310**	**1,310**

	2012			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sale financial assets – Listed equity securities (note a)	10,363	–	–	10,363

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. *Fair value* *(Continued)*

Note:

(a) The valuation techniques of listed equity securities were based on the quoted bid prices in an active in the PRC stock exchange market.

(b) The discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group from the derivative financial instruments, based on an discount rate of 0.25% (2012: Nil). If the unobservable inputs to the valuation model were 10% higher/lower while all other variables were held constant, the carrying amount of the shares would increase/decrease by approximately HK$131,000 (2012: Nil).

There were no transfers between all levels in both years.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank borrowings and amount due to holding company, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

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

	2013 **HK$'000**	2012 HK$'000
Debts (Note 1)	**1,679,436**	1,440,982
Cash and cash equivalents	**(378,788)**	(328,404)
Net debt	**1,300,648**	1,112,578
Equity (Note 2)	**876,883**	753,274
Net debt to equity ratio	**148%**	148%

Notes:

1) Debts comprise long-term and short-term borrowings and amount due to holding company respectively.

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

7. TURNOVER AND SEGMENT INFORMATION

For the year ended 31 December 2013, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The board of directors, being the chief operating decision maker of the Group, review the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**2,071,336**	1,369,487	**2,648,857**	2,058,347
America	**296,765**	174,613	**–**	–
Europe	**159,164**	246,098	**–**	–
Asia other than the PRC	**115,052**	260,467	**–**	–
Others	**15,965**	8,642	**–**	–
Total	**2,658,282**	2,059,307	**2,648,857**	2,058,347

Note: Non-current assets excluded available-for-sale financial assets and deferred tax assets.

Information about major customers

For the years ended 31 December 2013 and 2012, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

8. OTHER REVENUE AND INCOME

	2013 HK$'000	2012 HK$'000
Government grants	**63,484**	65,480
Interest income	**7,844**	5,431
Sales of raw materials, scrap and other materials, net	**7,146**	6,430
Investment income	**6,210**	3,588
Rental income	**986**	2,065
Cumulative gain on disposal of available-for-sale investment	**6,724**	–
Gain on disposal of property, plant and equipment	**–**	1,019
Reversal of impairment loss on trade and other receivables	**2,489**	2,099
Others	**2,733**	3,678
	97,616	89,790

9. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on bank loans wholly repayable within five years	**76,524**	41,410
Interest on amount due to holding company	**471**	391
Interest on finance lease	**638**	–
	77,633	41,801

10. INCOME TAX EXPENSE

	2013 HK$'000	2012 HK$'000
Current tax:		
The PRC Enterprise Income Tax	**27,518**	13,117
Deferred tax (note 23&35)	**(524)**	(2,287)
	26,994	10,830

10. INCOME TAX EXPENSE *(Continued)*

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax at the rate of 16.5% (2012: 16.5%) during the reporting period. Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

The charge for the year is reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	2012
	HK$'000	HK$'000
Profit before tax	**132,280**	115,535
Tax at the domestic income tax rate of 25% (2012: 25%)	**33,070**	28,884
Tax effect of share of profit of associates	**(75)**	(4)
Tax effect of expenses not deductible for tax purpose	**12,714**	34,819
Tax effect of income not taxable for tax purpose	**(1,106)**	(15,618)
Tax effect of deductible temporary differences not recognised	**(3,398)**	4,127
Effect of tax exemptions granted to the PRC subsidiaries	**(10,583)**	(461)
Income tax on concessionary rate	**(12,007)**	(3,760)
Utilisation of tax losses previously not recognised	**(1,892)**	(36,788)
Under/(over) provision in prior year	**907**	(369)
Tax effect of tax losses not recognised	**9,364**	–
Tax charge for the year	**26,994**	10,830

The applicable tax rate of 25% (2012: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

11. PROFIT FOR THE YEAR

	2013 HK$'000	2012 HK$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	**268,391**	244,152
– Retirement benefits schemes contributions	**33,420**	27,680
	301,811	271,832
Depreciation of property, plant and equipment	**95,127**	68,898
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**10,187**	10,969
Amortisation of intangible assets (included in other operating expenses)	**1,744**	353
Total depreciation and amortisation	**107,058**	80,220
Impairment losses on financial assets		
– trade and other receivables	**8,349**	5,815
– reversal of impairment loss on trade and other receivables (included in other revenue and income)	**(2,527)**	(2,099)
Impairment losses of financial assets, net	**5,822**	3,716
Auditors' remuneration		
– audit services	**1,200**	1,200
– non-audit services	**380**	1,190
Share of tax of associates	**164**	149
Cost of inventories recognised as an expense	**1,771,752**	1,414,124
Operating lease rentals in respect of land and buildings	**1,624**	1,583
Loss/(gain) on disposal of property, plant and equipment	**409**	(1,019)
Loss on sales and lease back transaction	**644**	–
Write-off of property, plant and equipment	**158,582**	1,227
Net foreign exchange (gain)/loss	**(1,246)**	5,056
Research and development expenditure	**62,693**	48,516

12. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2013 (2012: Nil).

13. EARNINGS PER SHARE

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

	2013 HK$'000	2012 HK$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share calculation	**99,658**	67,305

	2013 '000	2012 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share calculation	**1,962,042**	1,946,942

Diluted earnings per share was the same as the basic earnings per share because there was no potential diluted ordinary shares outstanding during the years ended 31 December 2013 and 2012.

14. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2013 HK$'000	2012 HK$'000
Fees:		
Executive directors	**150**	150
Independent non-executive directors	**300**	300
	450	450
Other emoluments		
Salaries and allowances	**1,479**	1,424
Retirement benefits scheme contributions	**15**	14
	1,944	1,888

No emoluments were paid by the Group to the director as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2013 and 2012.

14. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments paid or payable to each of the seven (2012: seven) directors for the year ended 31 December 2013 were as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr Liu Chengwei	**50**	**–**	**–**	**50**
Mr Hu Bo	**50**	**–**	**–**	**50**
Dr Shao Yan (Chief executive officer)	**–**	**1,479**	**15**	**1,494**
Dr Zhang Ji	**50**	**–**	**–**	**50**
Independent non-executive directors:				
Ms So Tosi Wan, Winnie	**180**	**–**	**–**	**180**
Mr Lo Kai, Lawrence	**60**	**–**	**–**	**60**
Dr Pei Geng	**60**	**–**	**–**	**60**
Total	**450**	**1,479**	**15**	**1,944**

Details of directors' emoluments for the year ended 31 December 2012 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr Liu Chengwei	50	–	–	50
Mr Hu Bo	50	–	–	50
Dr Shao Yan (Chief executive officer)	–	1,424	14	1,438
Dr Zhang Ji	50	–	–	50
Independent non-executive directors:				
Ms So Tosi Wan, Winnie	180	–	–	180
Mr Lo Kai, Lawrence	60	–	–	60
Dr Pei Geng	60	–	–	60
Total	450	1,424	14	1,888

During both years ended 31 December 2013 and 2012, no directors of the Company waived any emoluments.

During the year ended 31 December 2013 and 2012, the executive director of the Company, Dr Shao Yan, was the chief executive officer of the Company.

14. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2012: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2012: four) individuals were as follows:

	2013 HK$'000	2012 HK$'000
Employees		
Salaries and allowances	**5,352**	5,240
Retirement benefits schemes contributions	**132**	128
	5,484	5,368

There emoluments were within the following bands:

	2013 No. of employees	2012 No. of employees
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**3**	2
	4	4

During both years ended 31 December 2013 and 2012, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management of the Group are within the following band.

	2013 No. of employees	2012 No. of employees
Nil to HK$1,000,000	**3**	4
HK$1,000,001 to HK$1,500,000	**2**	1
	5	5

During both year ended 31 December 2013 and 2012, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2012	283,061	1,849	276,657	19,087	18,418	412	213,323	812,807
Additions	542	–	32,838	5,782	10,413	–	684,725	734,300
Acquired on acquisition of a subsidiary	20,248	–	4,326	–	1,911	–	–	26,485
Disposals	–	–	(65)	(2,159)	–	–	–	(2,224)
Write-off	–	–	(5,552)	(1,572)	(543)	–	–	(7,667)
Transfer	92,737	–	179,657	475	13,515	–	(286,384)	–
Exchange realignment	4,980	18	1,532	185	473	–	2,068	9,256
At 31 December 2012 and at 1 January 2013	401,568	1,867	489,393	21,798	44,187	412	613,732	1,572,957
Additions	25,036	–	83,052	5,505	7,528	–	762,328	883,449
Acquired on acquisition of a subsidiary	–	–	1,748	1,135	1,113	–	374	4,370
Disposals	–	–	(1,003)	(833)	(8)	–	–	(1,844)
Write-off	(113,978)	–	(123,773)	(1,270)	(7,070)	–	–	(246,091)
Transfer	559,003	–	415,528	1,514	13,217	–	(989,262)	–
Exchange realignment	9,129	55	14,538	648	1,299	–	18,233	43,902
At 31 December 2013	880,758	1,922	879,483	28,497	60,266	412	405,405	2,256,743
Accumulated depreciation and impairment								
At 1 January 2012	25,859	–	49,755	3,514	7,199	412	–	86,739
Depreciation provided for the year	16,332	–	44,710	2,473	5,383	–	–	68,898
Eliminated on disposals	–	–	(11)	(1,141)	–	–	–	(1,152)
Eliminated on write-off	–	–	(4,574)	(1,354)	(512)	–	–	(6,440)
Exchange realignment	441	–	952	35	121	–	–	1,549
At 31 December 2012 and at 1 January 2013	42,632	–	90,832	3,527	12,191	412	–	149,594
Depreciation provided for the year	21,612	–	62,417	3,108	7,990	–	–	95,127
Eliminated on disposals	–	–	(409)	(646)	(3)	–	–	(1,058)
Eliminated on write-off	(18,677)	–	(64,288)	(820)	(3,724)	–	–	(87,509)
Exchange realignment	1,313	–	2,662	131	1,114	–	–	5,220
At 31 December 2013	46,880	–	91,214	5,300	17,568	412	–	161,374
Net carrying values								
At 31 December 2013	**833,878**	**1,922**	**788,269**	**23,197**	**42,698**	**–**	**405,405**	**2,095,369**
At 31 December 2012	358,936	1,867	398,561	18,271	31,996	–	613,732	1,423,363

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Equipment HK$'000
Cost	
At 1 January 2012	568
Additions	48
Written-off	(379)
At 31 December 2012 and 1 January 2013	237
Written-off	(62)
At 31 December 2013	175
Accumulated depreciation and impairment	
At 1 January 2012	268
Depreciation provided for the year	71
Written-off	(189)
At 31 December 2012 and at 1 January 2013	150
Depreciation provided for the year	84
Written off	(59)
At 31 December 2013	175
Net carrying values	
At 31 December 2013	**–**
At 31 December 2012	87

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, at the following rates per annum:

Allocated land	Nil
Buildings	2.5% – 5%
Plant and machinery	5% – 10%
Equipment	12% – 20%
Motor vehicles	10% – 20%
Others	12.5% – 20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant the PRC's authorities.

Buildings are held in the PRC under medium-term leases.

An allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 43.

16. PREPAID LEASE PAYMENTS

The Group

	2013 HK$'000	2012 HK$'000
At the beginning of year	**445,171**	374,531
Arising on acquisition of subsidiaries	**–**	17,025
Additions	**35,968**	62,107
Written-off	**(188,476)**	–
Amortisation for the year	**(10,187)**	(10,969)
Exchange realignment	**9,824**	2,477
At the end of year	**292,300**	445,171
Analysed for reporting purposes as:		
Current assets	**4,761**	10,516
Non-current assets	**287,539**	434,655
	292,300	445,171

Leasehold land are held in the PRC under medium leases.

Certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 43.

17. INTERESTS IN ASSOCIATES

The Group

	2013 HK$'000	2012 HK$'000
Cost of unlisted investments	**1,740**	3,671
Share of post-acquisition profits and other comprehensive income	**5,126**	4,895
Share of net assets of associates	**6,866**	8,566
Amount due (to)/from associates	**(569)**	3,184
	6,297	11,750

Amount due (to)/from an associate is unsecured, interest-free and not repayable/recoverable within next twelve months.

17. INTERESTS IN ASSOCIATES *(Continued)*

The Group *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2013 HK$'000	2012 HK$'000
Total assets	**15,688**	22,039
Total liabilities	**(1,676)**	(4,654)
Net assets	**14,012**	17,385
Group's share of net assets of associates	**6,866**	8,566
Revenue	**23,483**	24,411
Profit for the year	**1,331**	51
Share of results of associates for the year	**301**	15

Details of the principal associates as at 31 December 2013 and 2012 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting rights attributable to the Group for associates 2013	2012	Particulars of issued/ paid-up capital	Principal activities
Yangxin Fuxin Chemical Company Limited ("Yangxin Fuxin") (Note (a))	The PRC/ The PRC	Limited liability company	**40.22%**	40.22%	Contributed capital RMB2,000,000	Production and sales fine chemicals and chemical medicine
武漢智薈生物科技股份有限公司 ("智薈") (Note (b))	The PRC/ The PRC	Limited liability company	**-**	40.35%	Contributed capital RMB4,000,000	Research and development, production and sale of bio-pesticides and additives

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.

(b) 智薈 was an associate of Wuhan Kernel and Wuhan Kernel was acquired by the Group as a subsidiary pursuant to an agreement signed on 22 September 2011. The major shareholder of 智薈 and Wuhan Kernel agreed to deregistrate 智薈 on 28 January 2013. The deregistration of 智薈 was approved by the PRC goverment on 16 April 2013.

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	2013 HK$'000	2012 HK$'000
Listed securities:		
– Listed equity securities in the PRC at fair value	–	10,363
Unlisted securities:		
– Unlisted equity securities, at cost	43,387	42,135
	43,387	52,498

The above unlisted equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

19. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

The Group

	2013 HK$'000	2012 HK$'000
Purchase of land use right (Note (a))	–	7,463
Purchase of land use right and a building (Note (b))	–	3,695
Purchase of a building (Note (c))	–	2,105
Purchase of plant and machineries	13,969	14,541
	13,969	27,804

Note:

(a) On 26 September 2010, Zhejiang Xianle entered into an agreement with the relevant government authority to acquire certain assets including a land use right amounted to RMB6,000,000 (equivalent to approximately HK$7,463,000) within a specified period as stipulated in the agreement. Deposits of RMB3,500,000 (equivalent to approximately HK$4,353,000) were paid during the year ended 31 December 2011. During the year, remaining balance of RMB2,500,000 (equivalent to approximately HK$3,110,000) was paid. The land use right certificate was obtained during the current year.

On 22 December 2010, Hubei Fuchi paid RMB6,030,000 (equivalent to approximately HK$7,429,000) to the relevant government authority for the purpose of amending the usage of certain government allocated lands as industrial lands. During the year, additional amounts of RMB280,000 (equivalent to approximately HK$344,000) was incurred for the lands. As at 31 December 2011, the Group was in the process of obtaining the updated land use right certificates with revised usage. The land use right certificate was obtained in 2012.

On 28 April 2011, Wuhan Wuyao Pharmaceutical Co., Limited ("Wuhan Wuyao") entered into another agreement with 陽新縣國土資源局 to acquire another land use rights of two pieces of land located in the PRC. The total consideration of the land use right amounting to RMB41,890,000 (equivalent to approximately HK$51,605,000) which was fully paid by Wuhan Wuyao during the year. As at 31 December 2011, the Group was in the progress of obtaining the land use right certificates. The land use right certificate was obtained in 2012.

19. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS *(Continued)*

The Group *(Continued)*

Note: *(Continued)*

(b) Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo"), a subsidiary of the Group entered into an agreement with an independent third party to acquire land and a building amounted to RMB3,300,000 (equivalent to approximately HK$4,066,000) in which RMB2,970,000 (equivalent to approximately HK$3,695,000) was paid by Wuhan Grand Hoyo as deposits. The land use right and building certificates were obtained during the current year.

(c) In 2010, Zhejiang Xianle prepaid RMB1,128,000 (equivalent to approximately HK$1,404,000) to an independent third party to acquire a building with a contract price of RMB1,880,000 (equivalent to approximately HK$2,316,000). During the year, approximately RMB564,000 (equivalent to approximately HK$702,000) was paid. The building certificate was obtained during the current year.

20. GOODWILL

The Group

	HK$'000
At 1 January 2012	72,037
Arising on acquisition of a subsidiary (Note 41(ii))	25,096
At 31 December 2012 and 1 January 2013	97,133
Arising on acquisition of subsidiary (Note 41(i))	27,644
At 31 December 2013	**124,777**

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating unit ("CGU"):

- Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")
- Wuhan Kernel
- Hubei Wellness Pharmaceutical Co., Ltd ("Hubei Wellness")
- Beijing Rui Yao Technoloigy Limited ("Beijing Rui Yao")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2013 HK$'000	2012 HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**17,093**	17,093
Hubei Wellness	**25,096**	25,096
Beijing Rui Yao	**27,644**	–
	124,777	97,133

20. GOODWILL *(Continued)*

The Group *(Continued)*

Notes:

Beijing Rui Yao

The recoverable amount of the CGUs is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 12% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Hubei Wellness

The recoverable amount of the CGUs is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 12% (2012: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Zhejiang Xianle

The recoverable amount of the CGUs is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 8% (2012: 14%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 11% (2012: 14%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

21. INTERESTS IN SUBSIDIARIES

The Company

	2013 **HK$'000**	2012 HK$'000
Unlisted shares, at cost	**308,027**	308,027
Amounts due from subsidiaries	**111,105**	98,105
	419,132	406,132

The amounts due from subsidiaries are unsecured, interest free and recoverable on demand.

21. INTERESTS IN SUBSIDIARIES *(Continued)*

The Company *(Continued)*

Particulars of the Group's principal subsidiaries as at 31 December 2013 and 2012 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting right held 2013	2012	Particulars of issued paid-up capital	Principal activities
Grand Pharm (China) Co., Limited ("Grand Pharm (China)") (note (iv), (vi) & (vii))	PRC/PRC	Limited liability company	**99.60%**	99.60%	Contributed capital RMB185,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (note (i) & (vii))	PRC/PRC	Limited liability company	**98.94%**	98.94%	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (note (ii) & (vii))	PRC/PRC	Limited liability company	**62.15%**	62.15%	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (note (vii))	PRC/PRC	Limited liability company	**82.09%**	82.09%	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (vii))	PRC/PRC	Limited liability company	**99.60%**	99.60%	Contributed capital RMB114,000,000	Production and sales ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	**67%**	67%	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (note (iii) & (vii))	PRC/PRC	Limited liability company	**80.70%**	80.70%	Contributed capital RMB57,368,880	Research and development, production and sale of bio-pesticides and additives Hubei Wellness
Hubei Wellness (note (v))	PRC/PRC	Limited liability company	**99.60%**	99.60%	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC
Grand Pharmaceutical Huangshi Feiyun Company Limited ("Grand Huangshi Feiyun") (note (viii))	PRC/PRC	Limited liability company	**59.76%**	–	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajiin")(note (ix))	PRC/PRC	Limited liability company	**50.80%**	–	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the PRC

21. INTERESTS IN SUBSIDIARIES *(Continued)*

The Company *(Continued)*

Note:

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

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010 for the reason as mentioned therein.

During the last year, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%. Further details were set out in note 19(b) above.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

(v) As disclosed in note 41(ii), Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 12 November 2012. The effective equity interest in Hubei Wellness Pharmaceutical Co., Ltd. held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB 136.397 million (approximately HK$169.66 million) (representing approximately RMB 6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.064 million (approximately HK$24.96 milion) (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.

(viii) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Grand Huangshi Feiyun. The effective equity interest in Grand Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(ix) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Beijing Rui Yao acquisition, the Group will own approximately 70.56% equity interest in Beijing Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(x) The above table lists the subsidiaries of the Group, which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors result in particulars of excessive lengths.

In addition, the directors of the Company made an assessment as at the date of initial application of HKFRS 12 and at the end of the reporting period. In the opinion of the directors, there is no subsidiary that has non-controlling interest individually that is material to the Group and therefore no information is disclosed for these non-wholly owned subsidiaries.

22. INTANGIBLE ASSETS

The Group

	Acquired patent rights HK$'000
Cost (note)	
At 1 January 2012	1,888
Exchange realignment	19
At 31 December 2012 and 1 January 2013	1,907
Acquisitions through business combinations	82,966
Exchange realignment	1,339
At 31 December 2013	86,212
Accumulated amortisation and impairment loss	
At 1 January 2012	1,239
Provided for the year	353
Exchange realignment	17
At 31 December 2012 and 1 January 2013	1,609
Provided for the year	1,744
Exchange realignment	77
At 31 December 2013	3,430
Net carrying values	
As at 31 December 2013	**82,782**
As at 31 December 2012	298

The economic useful life of recognised intangible assets are as follows:

Intangible assets	**Useful economic life**
Acquired patent rights	5 years – 7 years

Note:

	2013 HK$'000	2012 HK$'000
Wuhan Grand Everyday Bright Eyes Company Limited	**1,907**	1,888
Grand Huangshi Feiyun	**37,142**	–
Beijing Rui Yao	**45,824**	–
Exchange realignment	**1,339**	19
	86,212	1,907

23. DEFERRED TAX ASSETS

The Group

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

	Impairment loss on trade and other receivables HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2012	1,332	2,291	3,623
Exchange realignment	16	22	38
At 31 December 2012 and 1 January 2013	1,348	2,313	3,661
Credit to profit or loss	–	(2,364)	(2,364)
Exchange realignment	14	51	65
At 31 December 2013	**1,362**	**–**	**1,362**

As at 31 December 2013, the Group has unused tax losses of approximately HK$55,622,000 (2012: HK$46,006,000) available to offset against future profits. No deferred tax asset has been recognised during the year (2012: HK$8,188,000). No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$55,622,000 (2012: HK$37,818,000) due to the unpredictability of future profit streams. The tax losses will expire 5 years from the year of origination, the tax losses of approximately HK$2,364,000 (2012: Nil) has been expired during the year.

24. PREPAYMENTS

The Group

The amount represented prepayment of RMB13,766,000 (equivalent to approximately HK$17,631,000) (2012: RMB20,925,000 (equivalent to approximately HK$26,028,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

25. LOAN RECEIVABLES

The Group

	2013 HK$'000	2012 HK$'000
Current portion	**33,301**	14,926
Non-current portion	**20,493**	37,316
	53,794	52,242

25. LOAN RECEIVABLES *(Continued)*

The Group *(Continued)*

The amount is neither past due nor impaired for whom there was no recent history of default.

The effective interest rates on the Group's loan receivables are 6.15% (2012: 4.01%).

26. INVENTORIES

The Group

	2013 HK$'000	2012 HK$'000
Raw materials	**161,273**	146,785
Work-in-progress	**225,043**	137,212
Finished goods	**180,312**	163,571
	566,628	447,568
Less: impairment loss	**(5,767)**	(5,271)
Add: reversal of impairment loss	**1,422**	–
	562,283	442,297

27. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Trade receivables, net	**321,976**	208,608	**–**	–
Bills receivables	**324,225**	75,516	**–**	–
Other receivables, deposits and prepayments	**269,515**	183,918	**790**	1,817
Less: impairment loss on other receivables	**(23,106)**	(24,606)	**–**	–
	892,610	443,436	**790**	1,817

27. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group generally allows a credit period of 30 – 90 days to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	The Group	
	2013	2012
	HK$'000	HK$'000
Within 90 days	**292,543**	176,798
91 – 180 days	**27,273**	14,463
181 – 365 days	**11,682**	17,611
Over 365 days	**21,781**	21,395
	353,279	230,267
Less: accumulated impairment	**(31,303)**	(21,659)
	321,976	208,608

Impairment losses in respect of trade and other 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 and other receivable balances directly.

Included in the Group's trade receivables are amount due from the Group's associate of HK$Nil (2012: HK$3,152,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

(a) The movement in the impairment loss of trade receivables is as follows:

	The Group	
	2013	2012
	HK$'000	HK$'000
Balance at the beginning of the year	**21,659**	20,122
Arising on acquisition of subsidiaries	**–**	104
Impairment losses recognised	**8,317**	3,949
Impairment losses reversed	**(265)**	(2,057)
Amount written off as uncollectible	**–**	(1,267)
Exchange realignment	**1,592**	808
Balance at the end of the year	**31,303**	21,659

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised.

27. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) The movement in the impairment loss of other receivables is as follows:

	The Group	
	2013 **HK$'000**	2012 HK$'000
Balance at the beginning of the year	**24,606**	27,259
Impairment losses reversed	**(2,262)**	(42)
Amount written off as uncollectible	**–**	(4,765)
Impairment losses recognised on other receivables	**32**	1,866
Exchange realignment	**730**	288
Balance at the end of the year	**23,106**	24,606

(c) Ageing of trade receivables which are past due but not impaired

Included in the Group's trade receivables balances are balances with aggregate carrying amount of HK$39,188,000 (2012: HK$30,943,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 142 days (2012: 123 days).

	The Group	
	2013 **HK$'000**	2012 HK$'000
Within 90 days	**25,195**	17,747
91 – 180 days	**9,829**	12,478
181 – 365 days	**4,164**	718
	39,188	30,943

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	The Group		The Company	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Cash in banks	**249,694**	304,450	**1**	460
Cash at hand	**71**	138	**–**	10
	249,765	304,588	**1**	470

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(Continued)*

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	The Group		The Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
HKD	**28**	12,468	**1**	460
USD	**3,285**	30,375	**–**	–
EUR	**–**	164	**–**	–
RMB	**246,452**	261,581	**–**	10
	249,765	304,588	**1**	470

As at 31 December 2013, bank deposits of the Group and the Company of approximately HK$129,023,000 and HK$1,198,000 (2012: HK$23,816,000 and nil) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2013, the annual effective interest rate on pledged bank deposits is 2.82% (2012: 2.91%)

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

29. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Trade payables	**318,243**	187,232	**–**	–
Bills payables	**389,551**	117,410	**–**	–
Accrued charges and other creditors	**598,463**	309,824	**2,092**	402
	1,306,257	614,466	**2,092**	402

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2013 HK$'000	2012 HK$'000
Within 90 days	**205,376**	134,627
Over 90 days	**112,867**	52,605
	318,243	187,232

The average credit period on purchases of goods is 90 days.

The bills payables are mature within six months from the end of the reporting period.

30. BANK BORROWINGS

The Group

	2013 HK$'000	2012 HK$'000
Bank loans (secured)	**1,658,035**	1,421,333
Carrying amount repayable:		
On demand or within one year	**1,262,267**	1,305,755
More than one year but not exceeding two years	**395,768**	115,578
	1,658,035	1,421,333

As at 31 December 2013 and 2012, certain bank loans are guaranteed by 中國遠大集團有限責任公司 (China Grand Enterprises Incorporation), a related company with common director of the Company, and secured by the allocated land, buildings, prepaid lease payments and bank deposits of the Group in the PRC as detailed in note 43 and independent third parties.

As at 31 December 2013, other than the amount of HK$413,046,000 (2012: HK$345,585,000) and HK$Nil (2012: HK$13,000,000) which are denominated in USD and HK$ respectively, the Group's other bank loans are denominated in RMB.

As at 31 December 2013 and 2012, the bank loans are granted by banks in the PRC, Japan, Macau and Hong Kong.

Except for the bank loans of HK$359,697,000 (2012: HK$222,648,000) that was charged at fixed interest rate of 2.52% to 7.80% (2012: 5.60% to 6.94%) per annum, all other bank loans bear variable interest rates from 1.00% to 7.80% (2012: 3.08% to 7.50%) per annum.

31. BONDS ISSUED

The Company

The Company has issued bonds with aggregate amount of HK$41,000,000 (2012: HK$20,000,000) which are unsecured, interest-bearing at 6.56% per annum and (2012: 6.56% per annum) repayable within one year to Grand Pharm (China).

32. OBLIGATION UNDER FINANCE LEASES

The Group leased certain of its manufacturing equipment under finance lease. The lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 5.6% per annum. The ownership of these manufacturing equipment under finance lease will be returned to the Group at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

As at 31 December 2013 and 2012, the Group's finance lease liabilities were repayable as follows:

The Group

	2013 HK$'000	2012 HK$'000
Amounts payable under finance leases:		
Within one year	**6,206**	–
In the second to fifth year	**8,275**	–
	14,481	–
Future finance charges on finance lease	**(1,049)**	–
Present value of finance lease liabilities	**13,432**	–

The present value of finance lease liabilities is as follows:

The Group

	2013 HK$'000	2012 HK$'000
Current portion	**5,516**	–
Non-current portion	**7,916**	–
	13,432	–

The carrying amount of the finance lease liabilities approximates their fair values. As at 31 December 2013 and 2012, the Group has lease property, plant and equipment under finance leases with net book value of HK$10,275,798 (2012: HK$Nil).

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Financial lease obligations are denominated in functional currency of the relevant group entity.

33. AMOUNT DUE TO A SUBSIDIARY

The Company

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

34. DERIVATIVE FINANCIAL INSTRUMENT

As at 31 December 2013, the Group had the foreign exchange forward contracts with carrying amount of approximately with HK$1,310,000 (2012: Nil) in relation to foreign currency sales.

Major terms of these contracts are as follows:

Notional amount	Maturity	Exchange rates
USD 7,000,000	17 March 2014	USD 1 to RMB 6.1778
USD 4,800,000	21 January 2014	USD 1 to RMB 6.1673

During the current year, fair value loss of approximately HK$1,310,000 (2012: Nil) has been recognised in profit or loss.

35. DEFERRED TAX LIABILITIES

The Group

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Intangible assets HK$'000	Buildings and prepaid lease payments HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
At 1 January 2012	–	80,530	2,286	82,816
Fair value adjustment from acquisition of a subsidiary	–	344	–	344
Charged directly to equity	–	–	65	65
Credited to profit or loss	–	(2,287)	–	(2,287)
Exchange realignment	–	509	16	525
At 31 December 2012 and 1 January 2013	–	79,096	2,367	81,463
Fair value adjustment from acquisition of subsidiaries	11,456	–	–	11,456
Charged directly to equity	–	–	964	964
Written-off upon disposal	–	(38,600)	(3,408)	(42,008)
Credited to profit or loss	–	(2,888)	–	(2,888)
Exchange realignment	–	1,136	77	1,213
At 31 December 2013	**11,456**	**38,744**	**–**	**50,200**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$21,403,000 (2012: HK$14,315,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

36. AMOUNT DUE TO HOLDING COMPANY

The Group and the Company

As at 31 December 2013 and 2012, the amount due is unsecured, interest bearing at 5% per annum and not repayable within next twelve months.

37. DEFERRED INCOME

The Group

The movement of deferred income is set out below:

	HK$'000
At 1 January 2012	298,125
Exchange realignment	2,887
At 31 December 2012 and 1 January 2013	301,012
Compensation received during the year (note (c))	357,580
Eliminated with the disposal loss of property, plant and equipment	(284,673)
Exchange realignment	11,127
At 31 December 2013	**385,046**

On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

37. DEFERRED INCOME *(Continued)*

The Group *(Continued)*

(a) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(b) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

(c) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB 283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. The rest of RMB58,500,000 has yet been received by the Group as at the date of approval of these financial statements.

(d) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

37. DEFERRED INCOME *(Continued)*

The Group *(Continued)*

The relocation commencement fee of RMB100,000,000 (equivalent is approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the year ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the year ended 31 December 2012, the Group did not receive any Compensation. During the year ended 31 December 2013, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) respectively.

38. SHARE CAPITAL

The Group and the Company

	Number of shares at		Share capital at	
	31 December 2013 '000	31 December 2012 '000	**31 December 2013 HK$'000**	31 December 2012 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At the beginning of the year	**1,962,041**	1,920,801	**19,620**	19,208
Issue of shares pursuant to a subscription agreement (note)	**–**	41,240	**–**	412
At the end of the year	**1,962,041**	1,962,041	**19,620**	19,620

38. SHARE CAPITAL *(Continued)*

The Group and the Company *(Continued)*

Note:

On 14 February 2012, the Company entered into the subscription agreement with Ying Na Wei Management Consultancy Limited and agreed to subscribe of an aggregate of 41,240,000 new subscription shares of HK$0.01 each in the share capital of the Company at a subscription price of HK$0.333 per share. The subscription was completed in May 2012.

All shares issue pursuant to the events mentioned above rank pari passu to the then existing shares in issue.

39. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity to the consolidated financial statements.

The Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012	268,628	121,273	(44,885)	345,016
Issuance of shares through subscription	13,321	–	–	13,321
Loss and total comprehensive loss for the year	–	–	(11,062)	(11,062)
At 31 December 2012 and 1 January 2013	281,949	121,273	(55,947)	347,275
Loss and total comprehensive loss for the year	–	–	(11,827)	(11,827)
As at 31 December 2013	**281,949**	**121,273**	**(67,774)**	**335,448**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Loss attributable to shareholders of the Company approximately HK$11,827,000 (2012: HK$11,062,000) has been dealt with in the consolidated financial statements of the Company.

40. SHARE OPTIONS

The Company adopted in 2002 a share option scheme (the "Share Option Scheme") of which the eligible participants include the Company's directors, employees of the Group and any advisors (professional or otherwise) or consultants, distributors, suppliers, agents, customers, joint venture partners, service providers to the Group who, the board of directors considers at its sole discretion, have contributed or will contribute to the Group. Unless otherwise terminated or amended, the Share Option Scheme remains in force to 16 May 2012. As at 31 December 2013, the Company did not adopt any new share option scheme.

Pursuant to the Share Option Scheme, the overall limit of the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Share Option Scheme and other share option schemes of the Company, if any, must not exceed 10% of the shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant or grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but shall not be less than the highest of (i) the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; (ii) closing price of the Company's shares on the date of offer; and (iii) the nominal value of the Company's share.

There was no share options exercised and granted throughout the years ended 31 December 2013 and 2012. As at 31 December 2013 and 2012, there were no outstanding share options.

41. ACQUISITION OF SUBSIDIARIES

(i) Beijing Rui Yao

On 16 July 2013, Grand Pharm (China) has entered into an agreement to acquire 70.84% equity interest in Beijing Rui Yao Technology Limited at a total consideration of approximately RMB36 million (approximately HK$46 million). The acquisition has been completed at 16 October 2013. The aggregate consideration of approximately RMB36 million has been settled by cash.

No acquisition-related costs have been included from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Acquiree's carrying amount before combination HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000
Net assets acquired			
Property, plant and equipment	4,370	–	4,370
Intangible assets	–	45,824	45,824
Inventories	21,042	–	21,042
Trade and bills receivables	19,549	–	19,549
Other receivables	11,598	–	11,598
Cash and cash equivalents	11,316	–	11,316
Trade and other payables	(52,970)	–	(52,970)
Bank borrowings	(21,082)	–	(21,082)
Tax liabilities	(700)	–	(700)
Deferred tax liabilities	–	(11,456)	(11,456)
	(6,877)	34,368	27,491
Non-controlling interests			(9,311)
Goodwill arising on acquisition			27,644
Total consideration			45,824
Satisfied by:			
Cash			45,824
Net cash outflow arising on acquisition:			
Consideration paid in cash			(45,824)
Less: Bank balances and cash acquired			11,316
			(34,508)

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

41. ACQUISITION OF SUBSIDIARIES *(Continued)*

(i) Beijing Rui Yao *(Continued)*

Impact of acquisition on the results of the Group

Had the acquisition of Beijing Rui Yao been effected at 16 October 2013, the Group's revenue for the year ended 31 December 2013 would have been HK$2,636,438,000 and the consolidated profit for the year would have been HK$105,950,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 16 October 2013, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Beijing Rui Yao had been acquire at the end of the year 2013, the directors have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

(ii) Hubei Wellness

On 12 November 2012, Grand Pharm (China) has entered into an agreement to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. at a total consideration of approximately RMB72 million (approximately HK$90 million). The acquisition has been completed on 22 November 2012. The aggregate consideration of approximately RMB72 million has been settled by cash.

No acquisition-related costs have been included from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

41. ACQUISITION OF SUBSIDIARIES *(Continued)*

(ii) Hubei Wellness *(Continued)*

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	25,127	1,358	26,485
Prepaid lease payments	17,008	17	17,025
Inventories	6,375	–	6,375
Trade and other receivables	4,755	–	4,755
Cash and cash equivalents	21,193	–	21,193
Trade and other payables	(9,697)	–	(9,697)
Tax liabilities	(1,447)	–	(1,447)
Deferred tax liabilities	–	(344)	(344)
	63,314	1,031	64,345
Goodwill arising on acquisition			25,096
Total consideration			89,441
Satisfied by:			
Cash			89,441
Net cash outflow arising on acquisition:			
Consideration paid in cash			(89,441)
Less: Bank balances and cash acquired			21,193
			(68,248)

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

Goodwill arose in the acquisition of Hubei Wellness because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Hubei Wellness. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Impact of acquisition on the results of the Group

Had the acquisition of Hubei Wellness been effected at 1 December 2012, the Group's revenue for the year ended 31 December 2012 would have been HK$2,059,307,000 and the consolidated profit for the year would have been HK$104,885,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 December 2012, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Hubei Wellness had been acquire at the end of the year 2012, the directors have calculated depreciation of property, plant and equipment and amortization of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

42. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associates as disclosed in note 17 and holding company as disclosed in note 36, during the year ended 31 December 2013 and 2012, the Group entered into following transactions with its related parties:

	2013 **HK$'000**	2012 HK$'000
Interest charged to the Group by holding company (note (i))	**471**	391
Sales of goods to associate (note (ii))	**171**	4,996

Note:

(i) Interest was charged on an advance from the holding company as disclosed in note 36.

(ii) Transactions were conducted with terms mutually agreed with the contracting parties.

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2013 and 2012 are set out in note 30.

(c) Compensation of key management personnel

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

	2013 **HK$'000**	2012 HK$'000
Short-team benefits	**7,863**	5,844
Post-employment benefits	**111**	104
	7,974	5,948

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

43. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2013 HK$'000	2012 HK$'000
Prepaid lease payments	**81,088**	23,874
Allocated land	**–**	6,920
Buildings	**27,903**	19,253
Discounted bills with recourse	**76,848**	–
Pledged bank deposits	**129,023**	23,816
	314,862	73,863

44. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

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

	2013 HK$'000	2012 HK$'000
Within one year	**2,598**	4,239
In the second to fifth year inclusive	**2,059**	3,366
	4,657	7,605

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to four years and rentals are fixed for an average of one to four years.

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$986,000 (2012: HK$2,065,000). The total future minimum lease payments from tenants under non-cancellable operating lease are as follows:

	2013 HK$'000	2012 HK$'000
Within one year	**–**	13

44. COMMITMENTS *(Continued)*

(b) Capital commitment

	2013 HK$'000	2012 HK$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	**163,294**	321,045

45. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,250 and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,250 (2012: HK$1,250) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and associates in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and associates were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to income of approximately HK$33,435,000 (2012: HK$27,694,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

46. MAJOR NON-CASH TRANSACTIONS

In the current year, the Group did not enter any major non-cash transactions.

47. ACQUISITION OF ADDITIONAL EQUITY INTEREST OF A SUBSIDIARY

During the year ended 31 December 2012, the Group acquired additional 25.93% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB166,121,000 (approximately HK$206,527,000). The Group recognised a decrease in non-controlling interests and increase in other reserve of approximately HK$230,081,000 and HK$23,554,000 respectively.

48. EVENTS AFTER THE REPORTING PERIOD

In March 2014, the Group sold certain equity interest of 遠大武漢醫藥研究總院有限公司 (Grand Wuhan Pharmaceutical Research Limited) (formerly known as 武漢遠諾維盛醫藥科技有限公司 (Yuan Nuo Wei Sheng Pharmaceutical Technology Limited), a company the Group held 10% equity interest which classified as available-for-sale financial assets in the consolidated financial statements.

49. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2014.

Financial Summary

Results

	Year ended 31 December				
	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Revenue	**2,658,282**	2,059,307	1,647,576	1,054,754	545,435
Profit before tax	**132,280**	115,535	99,464	158,166	48,786
Income tax	**(26,994)**	(10,830)	(12,793)	(3,889)	(6,873)
Profit for the year	**105,286**	104,705	86,671	154,277	41,913

Assets and liabilities

	As at 31 December				
	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Total assets	**4,565,349**	3,354,085	2,431,147	1,687,086	617,332
Total liabilities	**(3,474,560)**	(2,474,356)	(1,461,228)	(840,237)	(481,636)
Net assets	**1,090,789**	879,729	969,919	846,849	135,696