annual report 2013 年報

china animal healthcare

中國動物保健品有限公司

commitment to animal wellness

Contents

HEADQUARTERS - Beijing

REPRESENTATIVE OFFICE
- Chengdu, Hefei, Shenyang, Shijiazhuang

PRODUCTION PLANT
- Hohhot, Shenzhou, Shanxi, Shijiazhuang

Corporate Profile

Based in the People's Republic of China ("PRC"), China Animal Healthcare Ltd. is principally engaged in the business of manufacturing, sale and distribution of animal drugs. The Group is one of the leading players in the PRC animal drugs industry with 14 proprietary product brand names for powdered form drugs, injection form drugs and biological drugs.

Our over 500 types of treatment and non-treatment animal drugs for poultry and livestock are distributed throughout the PRC directly to large poultry corporations, provincial veterinary stations, autonomous regions and municipal cities and an extensive network of animal drug retailers who in turn sell to the farmers. Our range of biological drugs includes vaccines for swine fever, porcine reproductive and respiratory syndrome and animal foot-and-mouth disease which are mandatory for animals under the PRC Ministry of Agriculture's requirements. Our customer base spans across 28 provinces, municipalities and autonomous regions in PRC and is supported by our sales team comprising approximately 1,900 sales and technical personnel. As a value-added service, the Group also provides technical and support services to its customers, sharing our expertise in farming techniques and methodologies as well as imparting knowledge relating to animal health and treatment of animal diseases. We believe we are one of the first in the industry to provide such value-added services since 2001. The provision of these services has allowed the Group to keep in constant contact with its customers, thereby forging closer business relationships.

Our corporate headquarters is located in Beijing and we conduct our business and operations through four regional offices. We have obtained the relevant GMP certifications for all of our 17 production lines, six of which are located in Shijiazhuang, two in Shenzhou, seven in Shanxi, one in Inner Mongolia and one in Beijing.

Chairman's Statement

The future of China Animal Healthcare has never looked more promising, now that we have found a staff captain in Eli Lilly to work with us to helm the growth path of the Group.

Dear Shareholders,

It would be most befitting that I begin the year's recapitulation by extending gratitude to our loyal shareholders for their continuous support to the Company during the course of our delisting from Singapore Exchange Securities Trading Limited ("SGX-ST"). It was an unfathomably challenging exercise with an equally unfathomable outcome. Our concern that the Company's exit from SGX-ST may have been an unpopular proposition was proven unfounded. The support for the special resolution to approve the delisting was overwhelming. 99.85 percent of the votes by independent shareholders were in favour of the special resolution and only 10.87 percent of the issued capital of the Company elected to accept the exit offer pursuant to the selective capital reduction. However, all said and done, I do not perceive our delisting from SGX-ST as bidding farewell to Singapore as a substantial number of Singaporeans or Singapore-based institutions remain amongst our shareholders. Instead, I would prefer to commemorate the milestone by expressing my thankfulness to the Singapore investing community for their years of support. Our initial public listing on SGX-ST was an important and instrumental phase of our Company's upgrowth.

We had a challenging start to the financial year 2013. Our formulated drugs business segment for the earlier half of the year was affected by the H7N9 virus outbreak in the eastern parts of PRC. Incessant media reporting on H7N9 linked human infections and fatalities resulted in a sharp decline in demand for poultry products. Unconnected yet coincidentally, thousands of pig carcasses were found floating on rivers near Shanghai, prompting suspicions of unreported swine epidemics. Domestic demand for pork products receded likewise. Despite these trying circumstances, we kept our focus and continued to work closely with our customers, limiting the first half year-on-year sales deficit to 4.1 percent. The later half of the year was a welcome reprieve as consumer confidence rebounded along with subsiding concerns over the bird flu contagion and abating media scrutiny on meat safety issues. Seizing the improving market conditions, we were able to turn in a strong performance in the second half of the year, reversing the first half sales deficit to conclude the year on a 6.0 percent year-on-year increase in total turnover. We have also improved our Group's profitability. To reward our loyal shareholders, the Board has proposed a first and final dividend of RMB2.5 cents per share in respect of the financial year ended 31 December 2013.

On the equity front, we are delighted and honored to have attracted the strategic investments of Eli Lilly and Themes Investments, comprising SGD120.0 million and SGD47.7 million of new equity, respectively. We have also entered into several operations agreements with Eli Lilly which going forward, will allow the Group to expand its range of products and gain access to new markets both domestically and globally. Our balance sheet position and cash resources have been strengthened considerably by their capital injection, despite the Company having to redeem the convertible bond from Blackstone during the year. We are now in a good position to explore acquisitions and other business expansion plans with our augmented war chest.

On behalf of the CAH board, I would like to thank Mr Joshua Ong, Mr Wong Gang and Mdm Feng Jing Lan, who will be retiring from the Board after our Annual General Meeting on 3 June 2014. They have served the Board and the Company with conviction and purpose since their appointment on 31 December 2007. I would also like to welcome Mr Alberto Riva and Dr Du Ying, who joined the Board on 20 February 2014. Both Mr Riva and Dr Du are Eli Lilly's nominees to our Board. I have little doubt that our Board will benefit richly from their distinct qualifications and experience.

The year 2014 marks a new chapter for us as we continue to strive to strengthen our corporate identity and achieve organisational development with our shareholders base now transferred to Hong Kong. Our corporate values have not changed though as we remain steadfast in our goal to become the leading animal wellness company in PRC. The future of China Animal Healthcare has never looked more promising, now that we have found a staff captain in Eli Lilly to work with us to helm the growth path of the Group. There will be more challenges and uncertainties ahead of us. Outbreaks of animal diseases and food safety related scandals will continue to plague PRC; only more frequently. Adversity brings opportunity. I am confident that with your continued support and under the strong stewardship of our management team, we will meander through these obstacles and achieve success for the Company and our shareholders.

Wang Yangang

Chairman, Executive Director and CEO

Operations and Financial Review

Statement of Profit and Loss Review

The Group has recorded total revenue of RMB914.6 million in FY2013, representing an increase of RMB51.9 million or 6% over revenue of RMB862.7 million in prior year. The increase in turnover is mainly contributed by the increase in sales of biological drugs in the current year.

Turnover for powdered form drugs and injection form drugs amounted to RMB504.0 million and RMB33.9 million respectively in FY2013. The lacklustre performance of formulated drugs segment can be attributed to PRC's poultry industry being severely hit by reports on H7N9 human infections during first quarter of the year. This has entailed in the closure of many poultry markets in eastern PRC by the authorities to curb the spread of the H7N9 virus. Consumers have stayed away from poultry products due to fears of being infected by the deadly virus, resulting in lower poultry prices which in turn led to breeders reducing their breeding stocks to cut losses. Results for the first half of FY2013 had been adversely impacted, which corresponded with the peak of the H7N9 outbreak during the first quarter of FY2013. Sales for powdered drugs subsequently picked up in second half of the year, achieving sales of RMB292.9 million, a 38.7% increase from the preceding period of RMB211.2 million in the first six months of the year.

In the current year, biological drugs contributed RMB 376.7 million to turnover. Sales of mandatory vaccines to provincial veterinary stations accounted for RMB338.5 million in FY2013, achieving a 16.6% growth in the current year over sales of RMB290.3 million in prior year. Surge in the biological drugs segment is mainly contributed by the strong performances of animal foot and mouth disease ("FMD") vaccines sales and common vaccines sales. FMD vaccines sales has posted stronger sales of RMB165.6 million in FY2013, representing an increase of RMB53.0 million or 47.0% from RMB112.7 million in FY2012. Common vaccines recorded sales of RMB38.2 million in FY2013, an increase of RMB4.8 million or 14.4% as compared to sales of RMB33.4 million in FY2012. Revenue from swine fever vaccines of RMB32.1 million in FY2013 has remained relatively constant in comparison to prior year sales of RMB31.9 million. PRRS vaccine sales amounted to RMB140.9 in FY2013, a slight dip of 3.4% as compared to PRRS sales of RMB145.8 million in FY2012. This is due mainly to lower average price per dosage sold.

Cost of sales of the Group constituted approximately 35.1% and 35.9% of its revenue in FY2013 and FY2012 respectively. Cost of sales increased by RMB11.1 million or 3.6% from RMB309.8 million in FY2012 to RMB320.9 million in FY2013. Overall gross profit margin remained relatively constant at 64.9% in FY2013 (FY2012: 64.1%).

Excluding the effects of amortisation, gross profit margins remained relatively stable across all business segments in the current year. Gross profit margins for powdered form drugs and injection form drugs in FY2013 were 76.4% and 66.7% respectively, compared to 76.5% and 62.0% respectively in FY2012. The gross profit margin for injection form drugs is lower as the costs of raw materials and packaging materials required in the manufacture of the injection form drugs are comparatively higher compared to those for powdered form drugs. The increase in gross profit margin of injection form drugs are mainly due to a variation of product mix sold in the current year. Gross profit margin for biological drug sales has increased by 2.1 percentage points to 69.4% in FY2013 compared to the 67.3% gross profit margin achieved in FY2012. The improvement is mainly attributed to a higher gross profit margin achieved for the mandatory vaccines. Gross profit margins of animal FMD vaccine, swine fever vaccines and PRRS vaccines are 65.6%, 66.8% and 75.3% respectively in FY2013 (FY2012: 61.0%, 66.8% and 72.4% respectively).

Other expenses and losses of RMB37.8 million comprises mainly research and development expenses of RMB9.8 million, net foreign exchange losses of RMB7.1 million and delisting expenses of RMB20.8 million, of which RMB11.7 million pertained to arrangement fee for the bridging financing facility. In connection with the Company's proposed voluntary delisting from SGX, the Group has entered into a SGD60.0 million facility agreement with Macquarie Capital (Singapore) Pte Limited ("Macquarie"). The total arrangement fee for the standby facility amounted to SGD2.4 million of which SGD1.96 million was borne and paid by our two shareholders, Lilly Nederland

Operations and Financial Review

Holding B.V. (Lilly") and Themes Dragon International Limited ("Themes"). The portion borne by the shareholders is deemed as contribution to equity. The foreign exchange loss is mainly due an increase of Singapore Dollar deposits from the issuance of shares and warrants and the appreciation of Renminbi against Singapore Dollar during the year. Distribution and selling expenses remained relatively constant at RMB212.8 million (FY2012: RMB203.2 million) and these mainly relates to payroll expenses, travelling and transport expenses and marketing and promotion expenses.

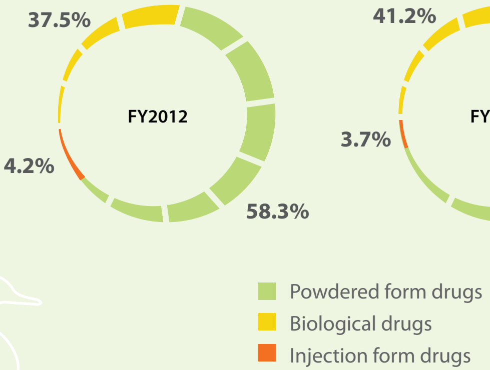
Administrative expenses remained relatively constant at RMB55.7 million (FY2012: RMB53.6 million) and these mainly pertained to payroll expenses, depreciation expenses and other office expenses.

Finance costs amounted to RMB7.6 million in FY2013, a decrease of RMB25.7 million from prior year. It comprises interest on Redemption Amount of the convertible bond of RMB2.6 million and loan interest expense of RMB5.0 million. The decrease is mainly due to the redemption of convertible bond in prior year, and as such no interest expense on convertible bonds at amortised costs were recognised in current year. Loan interest expense relates mainly to working capital loans from HSBC Bank (China) Company Limited amounting to RMB87.3 million as at 31 December 2013. The increase in interest income of RMB0.1 million was due mainly to the increase of average deposits with the banks of various subsidiaries.

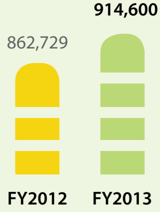
Tax expense increased by RMB21.1 million to RMB73.2 million in FY2013. Excluding expenses incurred for the delisting exercise and foreign exchange loss, the Group's effective tax rate is 23.4%. The Group's PRC subsidiaries are subject to tax at rates of 25%, except for certain subsidiaries which were awarded the high-tech enterprise status during the period and are therefore entitled to the preferential enterprise tax rate of 15% for 2 years commencing from FY2012. In addition, the Group has also provided for withholding tax of 10% on the portion of distributable profits derived by the PRC subsidiaries in FY2013 that is expected to be distributed out as dividend.

As a result of the foregoing, net profit for the year attributable to owners of the Company increased by RMB80.4 million or 75.9% from RMB105.9 million in FY2012 to RMB186.3 million in FY2013. Net profit attributable to non-controlling interests amounted to RMB25.2 million in FY2013.

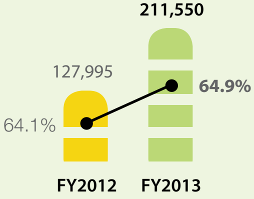
Revenue by Products



Revenue (RMB'000)



Net Profit (RMB'000) and Gross Profit Margin



Operations and Financial Review

Statement of Financial Position Review

The Group's financial position as at 31 December 2013 has strengthened significantly consequent to the completion of tranche two investment by Lilly, comprising the issuance of 240.9 million new ordinary shares at S$0.30 per share which reeled in net proceeds of RMB347.8 million for the Group.

Current assets of the Group increased by RMB529.7 million to RMB1.6 billion as at year end, comprising mainly cash and bank balances of RMB 1.5 billion. Other current assets comprised inventories, trade receivables, prepayments and other receivables amounting to RMB168.5 million in aggregate.

Cash and cash equivalents (excluding pledged deposit of RMB29.1 million) amounted to RMB1.4 billion as at 31 December 2013. Approximately RMB440.2 million was generated from the Group's operating activities. Net cash used in investing activities amounted to RMB20.2 million. PPE purchases amounted to RMB5.5 million, of which RMB2.9 million relate to payment made for PPE purchased in prior year and RMB2.6 million pertained to PPE purchased during FY2013. Intangible assets purchases pertained to RMB10.0 million deposit placed to Xinjiang Tecon Animal Husbandry Biotechnology Co., Ltd for the transference of the new veterinary certificate pertaining to the FMD trivalent vaccine and RMB6.0 million pertained to payment made for purchase of intangible asset in prior year. Pledged deposits for the outstanding banking facilities increased by RMB1.4 million during the year. Net cash generated from financing activities amounted to RMB205.7 million. Proceeds from the issuance of shares amounted to RMB159.4 million and the corresponding expenses amounted to RMB22.0 million. Advance proceeds from exercise price of warrants and issuance of warrants and tranche 2 shares amounted to RMB318.6 million and RMB347.8 million respectively. Payment for shares repurchase and delisting expenses amounted to RMB266.5 million and RMB11.3 million respectively. The Group repaid RMB95.0 million of the working capital loan and drew down a new working capital loan of RMB117.3 million in the current year.

Trade receivables decreased by RMB94.4 million to RMB121.0 million as at 31 December 2013. Outstanding trade debts due from provincial veterinary stations in relation to compulsory vaccine sales accounted for RMB119.0 million, of which RMB99.4 million has been collected subsequent to year end. In 2012, the Group had extended a one-off 18 month credit term to some of the retailers of the Group's formulated animal drugs amounting to RMB144.5 million. These trade receivables have been collected in entirety during the year.

Prepayments and other receivables amounted to RMB10.4 million as at 31 December 2013, comprising mainly security deposits for the compulsory vaccines sales bidding exercise and other sundry debtors.

Inventories increased marginally by RMB4.0 million to RMB37.2 million, comprising mainly stockpile of PRRS vaccines and FMD vaccines of RMB23.5 million scheduled for delivery in the ensuing quarter. Raw materials and packing materials accounted for a further RMB11.8 million.

Non-current assets amounted to RMB854.5 million, comprising property, plant and equipment ("PPE") of RMB176.8 million, prepaid lease payments of RMB15.7 million, intangible assets of RMB525.3 million, goodwill of RMB124.6 million, available-for-sale financial asset of RMB1.1 million, deferred tax asset of RMB1.0 million and deposits for intangible asset of RMB10.0 million. PPE decreased by RMB15.5 million during the year as a result of depreciation charge of RMB17.8 million, partially offset by PPE additions of RMB2.6 million comprising mainly motor vehicles. Prepaid lease payments amounted to RMB15.7 million as at 31 December 2013 after amortisation charge of RMB0.4 million for the year. These prepaid lease payments have remaining tenures ranging from approximately 40 to 45 years as at end of 2013. In addition, the Group received RMB2.4 million for the disposal of an utilised plot of land in Inner Mongolia to the authorities. Deposits for intangible asset pertained to prepayment of RMB10.0 million in November 2013 to Xinjiang Tecon Animal Husbandry Biotechnology Co., Ltd for the transference of the new veterinary certificate pertaining to the FMD trivalent vaccine.

Intangibles as at 31 December 2013 comprised production technology rights of RMB467.7 million and seed strains of RMB57.6 million. The acquisition of Bigvet Biotech and Beijing Jianxiang Hemu in the second quarter of FY2010 resulted in the identification of production technology rights attributable to the production of PRRS vaccines and FMD vaccines of RMB460.0 million and RMB210.0 million respectively. These production technology rights are amortised over their estimated useful life of 10 years and amortisation expenses relating to these acquired production rights amounted to RMB67.0 million in FY2013. In addition, production technology rights of Shanxi Longkeer amounted to RMB3.3 million as at year end, after amortisation charge of RMB1.5 million for the year. These production technology rights have a remaining useful life of approximately 3 years. Seed strains purchased by the Group from a governmental animal disease research and development institute for the production of the FMD vaccine amounted to RMB57.6 million after amortisation charge of RMB6.9 million for the year.

Goodwill on acquisition of subsidiaries amounted to RMB124.6 million, representing mainly the excess of the aggregate purchase consideration for Bigvet Biotech and Beijing Jianxiang Hemu of RMB498.0 million over the fair value of the net identifiable net assets acquired of RMB375.8 million. No impairment loss on the recognised goodwill is required as at 31 December 2013.

The available-for-sale financial asset relates to the Group investment of RMB1.1 million paid towards the paid-in capital of Jilin Kangda Rabbit Industry Co., Ltd. ("Jilin Kangda"), a start-up company in the business of rabbits breeding, for a 11.25% stake in the company. The key objective of this business collaboration is to secure an assured supply of rabbits for the Group at competitive prices going forward. Certain animal vaccines of the Group are produced through the lapinization of rabbits.

The Group's current liabilities decreased substantially from RMB506.2 million to RMB206.2 million consequent to the full redemption of the convertible bonds during the year. Trade payables remained relatively low at RMB21.9 million at as year-end while other payables comprising mainly accrued personnel expenses, operating expenses and VAT and other taxes payable accounted for a further RMB70.0 million.

The Group's borrowings of RMB87.3 million as at 31 December 2013 comprise a loan from HSBC Bank (China) Company Limited taken by its 60% held subsidiary for working capital purposes. The loan is due in 2014. Income tax liabilities relating mainly to corporate tax payable by the PRC subsidiaries on the operating profits for 2HY2013 amounted to approximately RMB27.0 million as at 31 December 2013.

Non-current liability comprises deferred tax liabilities amounting RMB134.8 million as at 31 December 2013. The deferred taxation arose mainly from the accounting for deferred tax effects on the production technology rights identified on consolidation of Bigvet Biotech and Beijing Jianxiang Hemu. In addition, cumulative accruals for PRC withholding tax on expected dividends out of the profits derived by the PRC subsidiaries amounted to RMB17.4 million as at 31 December 2013.

The Group's total equity comprised share capital, share premium, retained earnings, other reserves and non-controlling interests. Total equity increased from RMB1.4 billion as the start of the year to RMB2.1 billion as at 31 December 2013, due mainly to changes in the Group's issued equity during the year. New shares issuance contributed RMB798.3 million to share capital and premium in aggregate, partially offset by the capital reduction of RMB266.5 million pursuant to the Group's delisting from SGX-ST. Net profit attributable to owners of the Company and non-controlling interests amounted to RMB186.3 million and RMB25.2 million during the year respectively. Total equity attributable to owners of the Company amounted to RMB1.9 billion as at 31 December 2013.

Board of Directors

WANG YANGANG

SUN JINGUO

ALBERTO RIVA

SAMANTHA DU

WANG Yangang (王彥剛), aged 54, founder of our Group, is our Chairman, CEO and Executive Director. Mr. Wang established our Group in 1996 and was appointed as our Company's Director on 31 December 2007. Mr. Wang is also a director of our various subsidiaries, namely, Evanton, Bigvet Biotech and Shanxi Longkeer. He has over 20 years of experience in the animal drug industry. Mr. Wang is responsible for the strategic planning and overall management and operations of our Group. He also oversees our R&D activities. Prior to establishing our Group, he was a researcher and head of marketing of the Beijing Science Committee Experimental Animal Research Centre (北京科學技術研究院實驗動物研究中心) from 1986 to 1996. He obtained a Bachelor's degree in veterinary medicine from Hebei Agriculture University (河北農業大學) in 1983 and a Master's degree in agriculture from Shenyang Agriculture University (沈陽農業大學) in 1986.

SUN Jinguo (孫金國), aged 39, who joined the Group in 1999, is our Deputy CEO and Executive Director. Mr. Sun was appointed as our Director on 31 December 2007. He assists the CEO in the overall management and operations of our Group. He is also responsible for, inter alia, corporate development work focusing on new business ventures, mergers and acquisitions, feasibility studies and public relations of our Group.

Mr. Sun is also a director of our various subsidiaries, namely, Shijiazhuang Maidisenda, Shijiazhuang Aoxin, Hebei Runshengzhongfu and Shijiazhuang Sikede. Mr. Sun has over 10 years of experience in the animal drug industry. Prior to joining us, Mr. Sun was the regional sales manager of Hebei Kexing Animal Drugs Co. Ltd. (河北科星藥業有限公司), a company principally engaged in animal drugs and additives, from 1998 to 1999. He obtained a Bachelor's degree in agriculture from Hebei Agriculture University (河北農業大學) in 1998.

ONG KIAN GUAN

FENG JINGLAN

WONG GANG

Alberto RIVA, aged 44, was appointed as our Non-executive Director on 20 February 2014. Mr. Riva is a General Manager of Elanco Greater China (China Mainland, Taiwan and Hong Kong), responsible for animal health operation. Prior to joining Elanco Greater China in 2014, Mr. Riva worked as General Manager of Eli Lilly Israel for three years and during the same period, he also served as a director of the Pharma Israel Board (Association of Multinational Pharmaceutical Companies).

Prior to Eli Lilly Israel, Mr. Riva worked as Global Pricing and Access Director of Eli Lilly Corporate based in Indianapolis (US) and as Sales and Marketing leader in different positions of major pharmaceutical companies in Italy.

Mr. Riva graduated in Pharmacy from Pavia University, Italy and went on to carry out research at Louis Pasteur University of Strasbourg (France) for two years. He holds post-graduate degrees from INSEAD and Bocconi University.

Samantha DU, aged 48, was appointed as our Non-executive Director on 20 February 2014. Dr. Du is a Managing Director of Sequoia Capital China, responsible for healthcare investment. She is also a board member of BGI tech, JHL biotech and Beta pharma. Prior to joining Sequoia Capital China in 2012, Dr. Du founded and served as the Chief Executive Officer of Hutchison MediPharma (HMP) for ten years. She was also the co-founder and Chief Scientific Officer of Hutchison Chi-Med (LSE:HCM), a London AIM-listed company. She has built Hutchison MediPharma from scratch to a leading China based world renowned biotech company with rich product in both oncology and autoimmune.

Prior to HMP, Dr. Du worked as a US-based executive of Pfizer's global R&D and Metabolic business. She is currently an Adjunct Professor at Fudan University's School of Pharmacy and Chairwoman of Shanghai Pudong Drug Innovative Committee. Dr. Du is a recipient of Shanghai's 2010 Magnolia award (an honourable citizenship award) and recipient of Shanghai's thousand talent program. She holds a Ph. D from University of Cincinnati.

ONG Kian Guan (王建源), aged 46, was appointed as our Independent Non-executive Director on 31 December 2007. Mr Ong chairs our Audit Committee and is a member of our Remuneration Committee and Nomination Committee. He is a practising member and a fellow of the Institute of Singapore Chartered Accountants (the "ISCA"), and also a partner with Baker Tilly TFW LLP. He has more than 18 years of professional experience in financial audits of multi-national corporations and public listed companies from diverse industries. His experience also includes consultancy, particularly floatation of companies, financial due diligence and outsourced internal audit assignments. He is currently an independent director and the audit committee chairman of various public companies listed on SGX-ST, namely:

- China Haida Ltd.,
- China XLX Fertiliser Ltd. (which is also listed on the Hong Kong Stock Exchange, Stock Code: 1866).
- Weiye Holdings Limited

He was a former member of the auditing and assurance standards committee of the ISCA. Mr. Ong obtained a Bachelor's degree in accountancy from Nanyang Technological University in 1992.

FENG Jinglan (馮靜蘭), aged 74, was appointed as our Independent Non-executive Director on 31 December 2007. Ms. Feng chairs our Nomination Committee and is a member of our Audit Committee and Remuneration Committee. She is the honoury chairperson of the CAHPA (Now known as Chinese Veterinary Medical Association (中國獸藥協會)). Prior to her appointment in the CAHPA in 2000, she was the vice head and supervisor of the Farming Bureau of the MOA (農業部畜牧局獸醫處) from 1994 to 2000. From 1989 to 1994, she was the vice station head of the National Farming and Veterinary Medicine of the MOA (全國畜牧獸醫總站農業部畜牧獸醫局). From 1982 to 1989, she was the vice-division head and subsequently the division head of the Veterinary Medicine Division of the Farming Bureau of the MOA (農業部畜牧局獸醫處). She obtained a Bachelor's degree in agriculture from Dongbei Agriculture College (東北農業學院) (now known as Northeast Agriculture University (東北農業大學)) in 1964.

WONG Gang (王刚), aged 43, was appointed as our Independent Non-executive Director on 31 December 2007. Mr. Wong chairs our Remuneration Committee and is a member of our Audit Committee and Nomination Committee. Mr. Wong is a partner in Shook Lin & Bok LLP, a law firm in Singapore and has worked there since 2000. He has more than 15 years of professional experience advising on a wide range of corporate finance and securities transactions, including stock market floatations, rights issues, securities regulation for public listed companies, mergers and acquisitions, joint ventures, as well as general corporate advisory work. He is also a member of Shook Lin & Bok LLP's China Practice Group and has advised multinational corporations and Singapore companies on cross-border transactions in the PRC and public offerings of securities in Singapore by companies from the PRC. Currently, he is an Independent non-executive director of Tianjin Zhongxin Pharmaceutical Group Corporation Limited, a company listed on SGX-ST and the Shanghai Stock Exchange. Mr. Wong is also an Independent non-executive director of Bowsprit Capital Corporation Limited (as Manager for First Reit Real Estate Investment Trust), a REIT listed on SGX-ST, an Independent non-executive director of Renewable Energy Asia Group Limited and and Independent director of JEP Holdings Ltd..

He has been cited by Chambers Asia as one of the leading corporate lawyers in Singapore in capital markets. From 2000 to 2002, he was employed by Shook Lin & Bok LLP as a senior associate. From 1998 to 2000, he was employed by Ang & Partners as an associate. From 1996 to 1998, he was employed by Shook Lin & Bok LLP as an associate. From 1995 to 1996, he was a pupil at Shook Lin & Bok LLP. Mr. Wong obtained a Bachelor's degree in law (Honours) from the National University of Singapore in 1995.

Key Executives

LI Jun (李雋), aged 40, joined our Group in April 2002 and is our Group's Deputy CEO. Mr. Li assists the CEO in the overall management and operations of our Group. His responsibilities include the internal management and external liaison of administrative affairs, as well as the organisation and management of our employees and contract personnel (including recruitment, training, remuneration and salary increment). His experience prior to joining the Group include being the head of human resources for Beijing Jinyikang Technology Co., Ltd. (北京金益康公司) from 2001 to 2002, the general manager of Beijing Farm Technology Co., Ltd. (北京農標科技有限公司) from 1999 to 2001 and the human resource manager for Beijing Da Bei Nong Group (北京大北農集團) from 1996 to 1999. From 1993 to 1996, he was employed at Anhui Wuhu Foreign Trade Refrigeration Factory (安徽蕪湖外貿冷凍廠) as a production and operation personnel. Mr. Li obtained a diploma in food hygiene from Anhui Agriculture Techniques Teaching Institute (安徽農業技術師範學院) in 1993.

GOH Kay Seng Edwin (吳啟升), aged 40, joined our Group in April 2007 as our CFO and one of our Joint Company Secretaries. Mr. Goh oversees our Group's financial, accounting and tax matters, with respect to compliance with Singapore laws and regulations, and has been assisting on our Company's secretarial matters in the past years. Mr. Goh is currently a Chartered accountant in Singapore. Immediately prior to his appointment with our Group, Mr. Goh was employed by Ernst & Young as an audit manager in 2007. From 2002 to 2007, following the merger of Arthur Anderson with Ernst & Young, he was involved in the assurance & advisory business services unit and led audit engagements in various companies. He also assisted certain companies in their listings and with mergers and acquisitions. In 1999, he joined Arthur Anderson and was involved in assurance and business advisory and transaction advisory services. In 1998, he worked at KPMG as an audit assistant. Mr. Goh obtained a Bachelor's degree in accountancy from Nanyang Technological University in 1998.

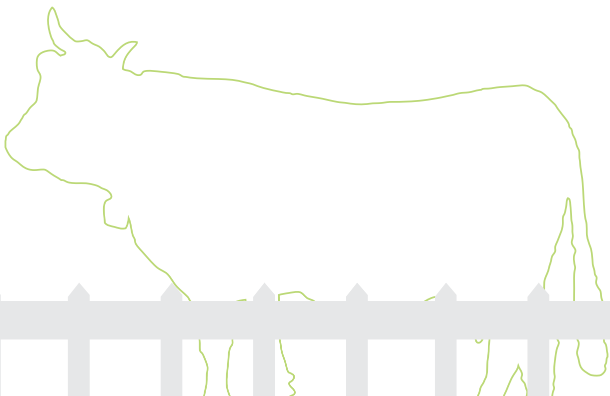
SONG Yanmei (宋艷梅), aged 49, joined our Group in March 2000 and is currently the Assistant CEO of our Group. Ms. Song is responsible for all public relations matters relating to our Group (including dealing with enquiries from the public, news organisations and investors). Ms. Song was employed by the Dairy Farm of Beijing Beijiao Farm (北京市北郊農場奶牛分場) from 1991 to 2000. Ms. Song obtained a Bachelor's degree in agriculture from Shenyang Agriculture University (沈陽農業大學) in 1991.

MA Juhong (馬聚宏), aged 44, joined our Group in March 1997 and is one of our Sales and Distribution Managers. Mr. Ma's responsibilities include the sales and distribution activities relating to Shenzhou Pagina-kang, Beijing Healthcare and Hebei Runshengzhongfu. Mr. Ma works closely with other Sales and Distribution Managers of our Group. Prior to joining our Group, he was the deputy general manager of Hebei Province Xingtai Hongda Technology Co. Ltd. (河北省邢台市宏達科技有限公司) from 1995 to 1997 and the office manager of Hebei Province Xingtai Residential and Property Co-operative (河北省邢台市住宅合作社) from 1994 to 1995. He worked as a freelancer from 1987 to 1989. Mr. Ma obtained a diploma in communications from Hebei Electronics Technological Institute (河北機電職業技術學院) in 1987.

Key Executives

ZHANG Yuguang (張宇光), aged 37, joined our Group in 2001 and is one of our Sales and Distribution Managers. Mr. Zhang is responsible for, amongst others, the sales and distribution activities relating to Shijiazhuang Aoxin, Shijiazhuang Greenxinkang, Hebei Runshengzhongfu and Hebei Geruisi. Mr. Zhang works closely with other Sales and Distribution Managers of our Group. Prior to joining our Group, he was the sales manager of Shijiazhuang Zhengda Hongfu Farming Co., Ltd. (石家莊正大鴻福牧業有限公司) from 1999 to 2001 and the business representative for Hebei Kexing Pharmaceutical Co., Ltd. (河北科星藥業有限公司) from 1998 to 1999. Mr. Zhang obtained a diploma in management and farming economics from Zhangjiakou Agriculture College (張家口農業高等專科學校) in 1998.

WANG Yubin (王玉斌), aged 38, joined our Group in 2000 and is one of our Sales and Distribution Managers. Mr. Wang is responsible for, amongst others, the sales and distribution activities relating to Shenzhou Pagina-kang, Shijiazhuang Maidisenda, Shijiazhuang Lixinkang, and Beijing Healthcare. Mr. Wang works closely with other Sales and Distribution Managers of our Group. He started his employment with our Group in 2000 after he graduated from Hebei Agriculture University (河北農業大學) with a Bachelor's degree in agriculture in 2000.



Corporate Information

BOARD OF DIRECTORS
Wang Yangang
(Executive Chairman & CEO)
Sun Jinguo
(Deputy CEO)
Alberto Riva
(Non-executive Director)
Du Ying
(Non-executive Director)
Joshua Ong Kian Guan
(Independent Non-executive Director)
Feng Jinglan
(Independent Non-executive Director)
Wong Gang
(Independent Non-executive Director)

AUDIT COMMITTEE
Joshua Ong Kian Guan
(Chairman)
Feng Jinglan
Wong Gang

REMUNERATION COMMITTEE
Wong Gang *(Chairman)*
Feng Jinglan
Joshua Ong Kian Guan

NOMINATION COMMITTEE
Feng Jinglan *(Chairman)*
Joshua Ong Kian Guan
Wong Gang

COMPANY SECRETARY
Ngai Kit Fong

ASSISTANT COMPANY SECRETARY
Codan Services Limited

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

COMPANY REGISTRATION NUMBER
28986
(Incorporated in Bermuda
on 10 August 2000)

PRINCIPAL PLACE OF BUSINESS
No. 6, Kangding Street
Beijing Economic and
Technological
Development Zone
Beijing 100176
PRC
Tel: 86 10 5157 1919
Fax: 86 10 5157 1928
www.chinanimalhealthcare.com

AUDITORS
Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

Partner-in-charge: Patrick Cheng
(since financial year
ended 31 December 2012)

PRINCIPAL SHARE REGISTRAR
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
OCBC Bank
65 Chulia Street
OCBC Centre
Singapore 049513

DBS Bank (Hong Kong) Limited
G/F, The Center,
99 Queen's Road Central,
Central, Hong Kong

HSBC Bank (China)
Company Limited
2/F, Block A, Beijing COFCO Plaza
No.8 Jianguomennei Avenue,
Dongcheng District, Beijing, PRC

Agricultural Bank of China
Shenzhou Sub-Branch
No. 26 Taishan West Road
Shenzhou City, PRC

Agricultural Bank of China
Shijiazhuang Donggang Road
Sub-Branch
No. 75 Donggang Road
Shijiazhuang City, PRC

Agricultural Bank of China
Shijiazhuang Guang'an Sub-Branch
No. 50 West Avenue
Shijiazhuang City, PRC

China Everbright Bank
Economic and Technological
Development Zone
Sub-Branch
No. 1-C2 Tianbao South Road
Beijing Economic and
Technological
Development Zone, PRC

China Minsheng
Banking Corp., Ltd.
Shijiazhuang Branch
No. 10 West Avenue
Shijiazhuang City, PRC

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") and Management of China Animal Healthcare Ltd. (the "Company") are committed to high standard of corporate governance.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Board is of the view that throughout the year ended 31 December 2013, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1 (Chairman and CEO should be separate persons), details will be set out below.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made with all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2013.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

In order to perform its functions effectively, the Board comprises Directors with a wide range of skills, experience and qualities in the fields of operations management, financial, legal and accounting. Such diversity of skills ensures that the Board is equipped to deal with a range of issues.

The Board has seven members comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors and complied with the requirement that these include at least one such Director with appropriate professional qualifications or accounting or related financial management expertise. Each member of the Board will hold office pursuant to the provisions of the Bye-Laws and shall be eligible for re-election unless lawfully disqualified from holding office.

The Board of the Company comprises the following directors:

Name of director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Wang Yangang	√ Executive Chairman & CEO & Executive Director	–	–	–
Sun Jinguo	√ Deputy CEO & Executive Director	–	–	–
Alberto Riva (appointed on 20 February 2014)	√ Non-executive Director	–	–	–
Du Ying (appointed on 20 February 2014)	√ Non-executive Director	–	–	–
Joshua Ong Kian Guan	√ Lead Independent Non-executive Director	√ Chairman	√	√
Feng Jinglan	√ Independent Non-executive Director	√	√ Chairman	√
Wong Gang	√ Independent Non-executive Director	√	√	√ Chairman

There is no relationship among members of the Board. Key information regarding the Directors is given in the section entitled "Board of Directors" in this Annual Report.

The composition of the Board enables management to benefit from a broad and objective perspective as each director brings to the Board a diverse background, experience and knowledge in the fields of operations management, financial, legal and accounting.

The Board is satisfied that the current composition of the Board is appropriate and that the present constitution of the Board allows it to exercise objective judgement on corporate matters.

Chairman and Chief Executive Officer

Mr Wang Yangang, the Executive Chairman and Chief Executive Officer ("CEO"), bears responsibilities for the workings of the Board and ensures the integrity and effectiveness of the governance process of the Board. He is responsible for representing the Board to Shareholders. As the CEO, his responsibilities include the charting and reviewing of corporate directions and strategies, which cover areas of marketing and strategic alliances and providing the Company with strong leadership and vision.

The Chairman, with the assistance of the company secretaries, schedules board meetings, determines meeting agendas in consultation with other Board members, co-ordinates the flow of information between management and the Board and ensures compliance with the Company's guidelines on corporate governance.

The Board has not adopted the recommendation of code provision A.2.1 of the CG Code to have separate directors appointed as the Chairman and CEO. This is because the Board is of the view that there is already a sufficiently strong independent element on the Board to enable independent exercise of objective judgement on affairs and operations of the Group by members of the Board, taking into account factors such as the number of the Independent Non-executive Directors on the Board as well as the contributions made by each member at board meetings which relate to the affairs and operations of the Group. The Board is satisfied that one person is able to effectively discharge the duties of both positions. Further, the independence of the Board has been enhanced by the appointment of the Lead Independent Non-executive Director, Mr Joshua Ong Kian Guan since 31 December 2007. Mr Joshua Ong Kian Guan is the Chairman of the Audit Committee. The role of the Lead Independent Non-executive Director includes meeting with shareholders where they have concerns which contact through the normal channels of the Chairman, CEO or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. In addition, the Lead Independent Non-executive Director will co-ordinate and lead the Independent Non-executive Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the board. Where necessary, the Lead Independent Non-executive Director will chair meeting with Independent Non-executive Directors without executive directors being present so as to facilitate well-balanced viewpoints to the Board.

Independent Non-executive Directors

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Board is of the view that the three Independent Non-executive Directors (who represent almost one-half of the Board) are independent. No individual or small group of individuals dominates the Board's decision making process. Furthermore, the Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied that the current composition of the Board is appropriate and that the present constitution of the Board allows it to exercise objective judgement on corporate matters.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Clause 86(1) of the Company's Bye-Laws, provides that each director (including non-executive director and independent non-executive directors) shall retire at least once every three (3) years and shall be eligible for re-election.

The Service Agreement entered into with the Executive Chairman and CEO, Mr Wang Yangang which expired on 31 December 2013 has been renewed for a further term of 3 years to 31 December 2016. The remuneration package in the Service Agreement is subject to annual review by the Remuneration Committee and the Board. The Service Agreement shall be automatically renewed on the same terms unless either party notifies the other party of its intention of non-renewal by giving three months written notice prior to the expiry thereof. The Company may also terminate Mr Wang Yangang's employment by summary notice upon the occurrence of certain events, such as criminal conviction, bankruptcy or if he becomes of unsound mind. He will not be entitled to any compensation upon termination of his employment. Mr Wang Yangang's Service Agreement covers the term of employment, specifically salaries and bonuses.

The Company has also entered into a Service Agreement with the Deputy CEO, Mr Sun Jinguo which expired on 6 December 2013 and has been renewed for a further term of 3 years to 6 December 2016. The remuneration package in the Service Agreement is subject to annual review by the Remuneration Committee and the Board. The Service Agreement shall be automatically renewed on the same terms unless either party notifies the other party of its intention of non-renewal by giving three months written notice prior to the expiry thereof. The Company may also terminate Mr Sun Jinguo's employment by summary notice upon the occurrence of certain events, such as criminal conviction, bankruptcy or if he becomes of unsound mind. He will not be entitled to any compensation upon termination of his employment. Mr Sun Jinguo's Service Agreement covers the term of employment, specifically salaries and bonuses.

The Group has also entered into letters of appointment with each of the Directors namely Mr Alberto Riva, Dr Du Ying, Madam Feng Jinglan, Mr Joshua Ong Kian Guan and Mr Wong Gang. According to the terms of the letters of appointment, the appointments are renewable on a yearly basis.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board sets the overall strategy for the Company and supervises executive management and monitors their performance. Apart from its statutory responsibilities, the Board is responsible for:

(a) Reviewing the financial performance and conditions of the Group;

(b) Approving the Group's strategic plans, key operational initiatives, major investment and funding decisions; and

(c) Identifying principal risks of the Group's business and ensuring the implementation of appropriate systems to manage the risks.

The Board holds at least 4 formal meetings yearly with active participation of a majority of the directors entitled to be present, with additional meetings for particular matters convened when necessary. For the financial year ended 31 December 2013, the Board held four meetings. The Board shall also periodically review, at least annually, the internal control and risk management systems of the Company to ensure that there are sufficient guidelines and procedures in place to monitor its operations.

Directors are from time to time furnished with detailed information concerning the Group to enable them to be fully cognizant of the decisions and actions of the management. All Directors have unrestricted access to the Company's records and information. The agenda for Board meetings is prepared in consultation with the Chairman. Detailed Board papers are prepared for each meeting of the Board and are normally circulated three days in advance of each meeting. The Board papers include sufficient information from Management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board meetings. Such information may also be communicated to the Directors via briefings and presentation by senior management or by external consultants engaged by the Company for specific projects. All Non-executive Directors (including Independent Non-executive Directors) have access to all levels of senior executives in the Group, and are encouraged to speak to other employees to seek additional information if they so require.

The Board has separate and independent access to the Company Secretaries and to other senior management staff of the Company and of the Group at all times in carrying out their duties. The Company Secretaries or any one of them attend all Board meetings and meetings of the Board committees of the Company and ensure that Board procedures are followed and that applicable rules and regulations are complied with. The minutes of all Board and Board committees' meetings are circulated to the Board. The Board takes independent professional advice as and when necessary to enable it or the Independent Non-executive Directors to discharge its or their responsibilities effectively. The Directors, either individually or as a group have the right to seek independent professional advice at the Company's expense, if necessary to assist them in their duties.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

Continuous Professional Development of Directors

The Company recognizes the importance of appropriate training and development to refresh knowledge and skills for its Directors to ensure their contribution to the Board remains informed and relevant. Briefing and orientation sessions on the Group's business activities and strategic directions have been organized for all the Independent Non-executive Directors and follow-up briefings will be organized whenever necessary. Sessions on duties and responsibilities of directors have been conducted for all the Directors.

The Directors are aware that they should participate in continuous development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company Secretaries inform the Directors of upcoming conferences and seminars relevant to their roles, functions and duties of a listed company director. New releases issued by the SEHK which are relevant to the Directors are circulated to the Board.

During the year ended 31 December 2013, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development:

	Corporate Governance/ Update on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefings	Read Materials	Attended Seminars/ Briefings
Executive Directors				
Wang Yangang	√	√		
Sun Jinguo	√	√		
Non-executive Directors				
Fu Shan *(resigned on 22 November 2013)*	√		√	
Ma Yan Qing Steven *(retired and did not seek re-election on 25 April 2013)*	√		√	
Independent Non-executive Directors				
Joshua Ong Kian Guan	√	√	√	√
Feng Jinglan	√	√		
Wong Gang	√	√	√	

Directors' and Officers' Liability Insurance

The Company has arranged appropriate liability insurance to indemnify its Directors and Officers in respect of legal actions against the Directors and Senior management.

BOARD COMMITTEES

To assist in the execution of its responsibilities, the Board has established a number of committees, including an Audit Committee, a Nomination Committee and a Remuneration Committee. These committees are chaired by Independent Non-executive Directors and function within clearly defined terms of reference and operating procedures. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

All members of each Board committee are Independent Non-executive Directors.

Audit Committee ("AC")

The AC is chaired by Mr Joshua Ong Kian Guan, Lead Independent Non-executive Director. The other members of the AC are Mr Wong Gang and Madam Feng Jinglan. All three Directors are Independent Non-Executive Directors.

The Board recognizes the importance of corporate governance and the offering of high standards of accountability to the shareholders of the Company. For the financial year ended 31 December 2013, the AC held 4 meetings to review half-yearly and annual financial results and reports and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors and arrangements for employees to raise concerns about possible improprieties.

The AC meets from time to time with the Group's external and internal auditors and the Company's management to review accounting, auditing and financial reporting matters so as to provide the necessary checks and balances to ensure that an effective control environment is maintained by the Group.

Where necessary, the AC will also meet among themselves in the absence of management. The main duties of the AC are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and whistle blowing policy where employees can, in confidence, raise concerns about possible improprieties in financial reporting matters or other matters.

The AC has explicit authority to investigate any matter within its terms of reference, and has full access to, and the co-operation of, the Management and resources which are necessary to enable it to discharge its functions properly. It also has full discretion to invite any Executive Director or executive officer to attend its meetings. The AC meets with the internal auditors and the external auditors separately, at least once a year, without the presence of the Management, to discuss the reasonableness of the financial reporting process, to review the adequacy of audit arrangements with particular emphasis on the observations and recommendations of the external auditors, the scope and quality of their audits and the independence and objectivity of the external auditors.

The AC has recommended to the Board the re-appointment of Deloitte Touche Tohmatsu as the Company's auditors for the ensuing year at the forthcoming AGM. There is no disagreement between the Board and the AC regarding the selection, appointment, resignation or dismissal of the external auditors.

The Company's annual results for the year ended 31 December 2013 has been reviewed by the AC.

Remuneration Committee ("RC")

The RC comprises three members, all of whom are Independent Non-executive Directors. The chairman is Mr Wong Gang, and the two members are Mr Joshua Ong Kian Guan and Madam Feng Jinglan. While none of the members specialize in the area of executive compensation, the RC, where necessary, may have access to independent professional expert advice.

The primary functions of the RC include determining and making recommendations to the Board on specific remuneration packages of each Executive Director, each senior management and CEO (or executive of equivalent rank) of the Company and its subsidiaries, establishing a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board on the remuneration policy, structure and framework for the Directors and senior management and to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the year, the RC has met once to review, among other things, making recommendation to the Board on the Directors' fees for the financial year ending 31 December 2014, the remuneration of the CEO and the Deputy CEO governed by their respective Service Agreement, the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

Nomination Committee ("NC")

The NC comprises three members, all of whom are Independent Non-Executive Directors. The chairman is Madam Feng Jinglan and the two members are Mr Joshua Ong Kian Guan and Mr Wong Gang.

The principal duties of the NC include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendation on any proposed changes to the Board to complement the Company's corporate strategy, establishing a process for the selection and appointment of new directors, making recommendations to the Board on the appointment and re-appointment of directors and succession planning for directors, and assessing the independence of Independent Non-executive Directors.

The NC reviews and recommends to the Board the re-appointment of retiring directors standing for re-election and appointment of new directors. The review ensures that the director to be re-appointed or appointed is able to contribute to the ongoing effectiveness of the Board, has the ability to exercise sound business judgement, and has demonstrated leadership experience, high levels of professional skills and appropriate personal qualities. A retiring director shall be eligible for re-election. Clause 86(1) of the Company's Bye-Laws, provides that each director (including non-executive director and independent non-executive directors) shall retire at least once every three (3) years and shall be eligible for re-election. In accordance with Bye-law 86(1) of the Bye-laws, Mr. Joshua Ong Kian Guan shall retire at the Company's forthcoming AGM (the "AGM"). Dr. Ying Du and Mr. Alberto Riva who were appointed by the Board on 20 February 2014 shall hold office until the AGM pursuant to Bye-law 85(2) of the Bye-laws. Mr. Wong Gang and Mdm. Feng Jinglan shall retire voluntarily at the AGM. Dr. Ying Du and Mr. Alberto Riva, being eligible, will offer themselves for re-election at the AGM. Mr. Ong Kian Guan, Mdm. Feng Jinglan and Mr. Wong Gang will not stand for re-election at the AGM.

The NC met once during the year to assess, among other things, the Board's performance as a whole which include the reviewing of the structure, size, composition, and diversity (including the skills, knowledge, experience, education background, gender and age) of the Board, reviewing whether a director who has multiple board representations is able to and has been adequately carrying out effectively the duties as a director and ensuring that internal guidelines adopted to address the competing time commitments are relevant and being followed. All directors are required to declare their Board representations. As a result of the NC's review, the NC was of the view that

Mr Joshua Ong Kian Guan and Mr Wong Gang who sit on multiple boards, would be able to more than adequately carry out their duties as directors of the Board.

Corporate Governance Functions

The Board has overall responsibility for performing the functions set out in the code provision D.3.1 of the CG Code so as to protect and enhance long-term shareholder value.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The following table shows the number of meetings held and Directors' attendance during the year under review:

	Board		Nomination Committee		Remuneration Committee		Audit Committee		2013 Annual General Meeting (25 April 2013)		Special General Meeting (12 August 2013)	
	No. of Meeting held	No. of Meeting attended	No. of Meeting held	No. of Meeting attended	No. of Meeting held	No. of Meeting attended	No. of Meeting held	No. of Meeting attended	No. of Meeting held	No. of Meeting attended	No. of Meeting held	No. of Meeting attended
Wang Yangang	4	4	1	1*	1	1*	4	4*	1	1	1	1
Sun Jinguo	4	4	1	1*	1	1*	4	4*	1	1	1	1
Fu Shan *(resigned on 22 November 2013)*	4#	2	1	1*	1	1*	4##	2*	1	0	1	0
Ma Yan Qing Steven *(retired and did not seek re-election on 25 April 2013)*	1#	1	1	1*	1	1*	4##	1*	1	1	1	0
Joshua Ong Kian Guan	4	4	1	1	1	1	4	4	1	1	1	0
Feng Jinglan	4	3	1	1	1	1	4	3	1	1	1	0
Wong Gang	4	4	1	1	1	1	4	4	1	1	1	1

* By invitation

There were 4 four Board meetings held during Mr Fu Shan's tenure of office while there was 1 Board meeting held during Mr Ma Yan Qing Steven's tenure of office.

There were 2 Audit Committee meetings held during Mr Fu Shan's tenure of office while there was 1 Audit Committee Meeting held during Mr Ma Yan Qing Steven's tenure of office.

Apart from regular Board meetings, the Chairman also held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 48 to 49 of this annual report.

AUDITORS' REMUNERATION

The Company paid RMB2.0 million to the external auditors, Messrs Deloitte Touche Tohmatsu for the statutory audit services and there were no other non-audit services provided by the external auditors for non-audit services for the year ended 31 December 2013.

INTERNAL CONTROLS

The external auditors have not reported to the AC any material internal control weakness identified in the course of the audit of the Company's financial statements.

The AC has reviewed the effectiveness of the Group's system of internal controls in light of key business and financial risks affecting the operations. Based on the various management controls put in place, the Board with the concurrence of the AC is satisfied that the internal control systems provide reasonable assurance that assets are safeguarded and that proper accounting records are maintained and financial statements are reliable. Considering all available reports and work done, the AC and the Board are of the opinion that the Group's internal controls addressing financial, operational and compliance risk, were adequate as at 31 December 2013.

The Board recognizes its responsibilities in ensuring a sound system of internal controls to safeguard shareholders' interests and the Company's assets. The Board also notes that no cost effective system of internal controls could provide absolute assurance against the occurrence of material errors, losses, fraud or other irregularities. In view of the above, the Board believes that, in the absence of any evidence to the contrary, the system of internal controls including financial, operational and compliance controls and risk management systems, maintained by the Management that was in place during the financial year provides a reasonable but not absolute assurance against the occurrence of errors, losses, fraud or other irregularities and the identification and containment of business risk. The Board has received assurance from the CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and also an effective risk management and internal control system have been put in place.

COMPANY SECRETARY

Ngai Kit Fong ("Ms Ngai") of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary. Her primary contact person at the Company is Mr Goh Kay Seng Edwin, CFO of the Company.

Ms. Ngai has confirmed that she has taken no less than 15 hours professional training as required by Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting by Shareholders

1. shareholders holding not less than one-tenth of the paid-up capital of the Company as at the date of the deposit of the requisition carrying the right of voting at general meetings of the Company, may by written requisition to the Board or the Company 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.

2. the requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists.

3. the signatures and the requisition will be verified by the Company's share registrars. The Board will proceed to convene a special general meeting for the transaction of any business specified in the requisition within 21 days from the date of deposit of such requisition if it has been validly raised; and such meeting shall be held within two months after the deposit of such requisition.

4. if the Board does not within 21 days from the date of the deposit of a valid requisition, proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves, convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board.

Putting Forward Proposals at General Meetings

1. On the requisition in writing of (i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates, or (ii) not less than one hundred Shareholders, the Company shall be under a duty to:

    (a) give to Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

    (b) circulate to Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

2. The requisition must be signed by the requisitionists and deposited at the registered office of the Company for the attention of the Board or the Company Secretary of the Company and

    (a) in the case of requisition requiring notice of a resolution, not less than six weeks before the meeting; and in the case of any other requisition, not less than one week before the meeting.

(b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

China office:

Address:	No. 6, Kangding Street, Beijing Economic and Technological Development Zone, Beijing 100176, PRC
Fax:	(86) 10 5157 1928

Hong Kong office:

Address:	Level 54, Hopewell Centre, 183 Queen's Road East Hong Kong

For the attention of Mr Sun Jinguo, Director

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company does not practice selective disclosure. In line with continuous disclosure obligations of the Company pursuant to the Listing Rules, the Board's policy is that all Shareholders should be equally and timely informed of all major developments that impact the Group. Information will be disseminated through SEHK announcements. The Company will also make announcements from time to time to update investors and Shareholders on developments that are of interest to them.

The Company will maintain open communications with investors and Shareholders and will strive to attend to their queries directly, whether verbal or written. The Company welcomes active participation from Shareholders at its annual general meetings. To facilitate voting by Shareholders, the Company's bye-laws allow any member to appoint not more than two proxies to attend and vote at the annual general meetings.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Chairman of the AGM will therefore demand a poll for every resolution, except those resolution(s) which relates purely to a procedural or administrative matter and at the discretion of the Chairman to be voted on by a show of hands, put to the vote of the AGM pursuant to Bye-law 65 of the Bye-laws of the Company. Poll results will be posted on the websites of the Company and SEHK after each general meeting.

Subject to compliances to any relevant laws or regulations and the demand for voting in absentia such as by mail, e-mail or fax etc. the Company may evaluate the possibility of such voting method and put in place the necessary security measures to ensure integrity of the information and authentication of the identity of shareholders will not be compromised. The Board may at its sole discretion, approve and implement such voting method.

At annual general meetings, the Chairpersons of the AC, NC, RC as well as the external auditors are requested to be present and available to address any queries by shareholders. They have attended the AGM held on 25 April 2013.

The Board takes note that there should be separate resolutions at general meetings on each substantially separate issue and will provide reasons and material implications where resolutions are interlinked.

During the year under review, the Company has not made any changes to its Bye-laws. An up-to-date version of the Company's Bye-laws is also available on the Company's website and the website of SEHK.

Report of the Directors

The directors are pleased to present their report to the members with the audited consolidated financial statements of China Animal Healthcare Ltd. (the "Company") and its subsidiary companies (collectively the "Group") and the statement of financial position of the Company for the financial year ended 31 December 2013.

1 PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiary companies are set out in Note 40 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2 RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 50 to 146.

A final dividend of RMB2.5 cents per share has been recommended for the year ended 31 December 2013. No dividend was recommended for the year ended 31 December 2012.

3 SUMMARY FINANCIAL INFORMATION

A summary of the published consolidated results and assets and, liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is disclosed in this annual report. This summary does not form part of the audited consolidated financial statements.

4 PROPERTY, PLANT AND EQUIPMENT

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

5 SHARE CAPITAL, PERFORMANCE SHARE SCHEME AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, performance share scheme and convertible bonds during the year are set out in Notes 30, 36 and 29 to the consolidated financial statements, respectively.

6 PRE-EMPTIVE RIGHTS

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

7 PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 29 August 2013, the Company has cancelled 184,539,834 shares under Selective Capital Reduction at the cancellation price of SGD0.30 for each participating share.

Save as disclosed above, neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the year.

8 RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 31 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

9 MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 16.6% of the total sales for the year and sales to the largest customer (included therein) amounted to 4.7%. Purchases from the Group's five largest suppliers accounted for 39.0% of the total purchases for the year and purchases from the largest suppliers (included therein) amounted to 10.9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

10 DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

Executive directors	
Mr Wang Yangang	(Executive chairman and chief executive officer)
Mr Sun Jinguo	(Deputy chief executive officer)
Non-executive directors	
Mr Fu Shan	(Resigned on 22 November 2013)
Mr Steven Ma Yan Qing	(Retired on 25 April 2013)
Mr Alberto Riva	(Appointed on 20 February 2014)
Dr. Du Ying	(Appointed on 20 February 2014)
Independent non-executive directors	
Mr Joshua Ong Kian Guan	
Mr Wong Gang	
Mdm Feng Jinglan	

Mr Joshua Ong Kian Guan will retire in accordance with Bye-law 86(1) of the Company's Bye-laws at the Company's forthcoming annual general meeting ("AGM").

Dr Du Ying and Mr. Alberto Riva who were appointed by the Board on 20 February 2014 shall hold office until the AGM pursuant to Bye-law 85(2) of the Company's Bye-laws while Mr Wang Gang and Mdm Feng Jinglan will retire voluntarily at the AGM.

Dr Du Ying and Mr Alberto Riva, being eligible, will offer themselves for re-election at the AGM while Mr. Joshua Ong Kian Guan, Mdm Feng Jinglan and Mr. Wang Gang will not be standing for re-election at the AGM.

The Company has received annual confirmations of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "SEHK") and still considers them to be independent.

11 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company or their respective spouses or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

12 DIRECTORS' AND KEY MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the key management of the Group are disclosed in this annual report.

13 CHANGE IN DIRECTORS' INFORMATION

Mr Sun Jinguo ("Mr Sun") has resigned as the director of the various subsidiaries of the Company, namely, Beijing Healthcare, Shijiazhuang Lixinkang, Shijiazhuang Greenxinkang, Hebei Qingshanhong, Shijiazhuang Keruida and Hebei Geruisi.

Mr Joshua Ong Kian Guan ("Mr Ong") has resigned as the Independent Director and ceased to be the Chairman of the Audit Committee of Asia Fashion Holdings Limited on 27 March 2014.

The updated information regarding Mr Sun and Mr Ong is disclosed in this annual report.

Apart from the foregoing, the Company has not been advised by the directors of any changes in the information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

Directors' emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. Details of the Directors' emoluments are set out in Note 11 to the consolidated financial statements.

For the financial years ended 2012 and 2013, there are 7 and 6 senior management of the Group respectively. The emoluments of all senior management fell into Band I (up to RMB1.25 million per annum) for both financial year ended 2012 and 2013.

15 DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 37 the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

16 MANAGEMENT CONTRACTS

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

17 DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of directors	Directly beneficially owned	Through spouse or minor children	Percentage of the Company's issued share capital
Mr Wang Yangang*	—	848,774,583	43.17
Mr Sun Jinguo	300,000	—	0.015

* 300,000,000 shares are held in the name of CCB International Securities Ltd, 40,000,000 shares are held in the name of his spouse, Mdm Li Chunhua and 508,774,583 shares are held in the name of Wang Family Company Limited.

Save as disclosed above, as at 31 December 2013, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

18 CAH PERFORMANCE SHARE SCHEME

On 15 April 2010, the shareholders of the Company approved the CAH Performance Share Scheme (the "Initial Scheme") at a special general meeting of the Company. The Scheme is administered by the Remuneration Committee ("Committee") whose members are:

Mr Wong Gang *(Chairman)*
Mr Joshua Ong Kian Guan
Mdm Feng Jinglan

The Scheme is operated for the purpose of providing an opportunity for group employees (including Group Executive Directors) who have met the performance targets to be remunerated through an equity stake in the Company and/or when due recognition should be given to any good work performance and/or significant contribution to the Group. The Scheme aims to motivate and incentivise participants to greater dedication, loyalty and higher standards of performance.

During the year ended 31 December 2010, 13,000,000 share awards were granted and awarded to 223 employees (including directors and other key management personnel) under the Scheme.

There were no outstanding share awards granted and/or awarded during the current year and as at 31 December 2012.

No employee received 5% or more of the total number of share awards available under the Scheme.

The following are details of share awards granted to the Directors of the Company under the Scheme:

Name of director	Awards granted during the year	Aggregate awards granted since commencement of the Scheme to end of the year	Aggregate awards released during the year	Aggregate awards lapsed during the year	Aggregate awards outstanding at the end of the year
Mr Sun Jinguo	–	300,000	–	–	–

19 CONTRACTS OF SIGNIFICANCE

The Company has on 8 May 2013 entered into the Operations Agreement with Eli Lilly Export S.A. ("Lilly Export"). The Operations Agreement comprise:

(a) a distribution agreement pursuant to which Lilly Export will grant to the Company a non-exclusive right to distribute certain of its products in the PRC;

(b) a promotion agreement pursuant to which Lilly Export will introduce and promote two of the Company's vaccine products (and other products the parties may jointly identify in future) to certain large producers in the PRC; and

(c) a licensing agreement pursuant to which the Company will grant licences to Lilly Export in relation to developing, researching and selling (under Lilly Export's brand) certain products utilising certain of the Company's patent rights and know-how globally except for the PRC.

Save as disclosed above, no other contracts of significance in relation to the Group's business in which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

20 SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, the register of interest in shares and short positions of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than interest disclosed in "Directors' and Chief Executives' Interest and Short Positions in Shares and Underlying Shares and Debentures", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Name	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Li Chunhua	40,000,000	2.03	808,774,583	41.14
Lilly Nederland Holding B.V.	400,000,000	20.35	–	–
Eli Lilly International Corporation	–	–	400,000,000(2)	20.35
Eli Lilly and Company	–	–	400,000,000(2)	20.35
Themes Dragon International Limited(3) & (4)	100,486,882	5.11	19,407,201	0.99
Themes Investments Partners II, L.P.(3) & (4)	–	–	119,894,083	6.10
Themes Investments Partners II GP, L.P.(3) & (4)	–	–	119,894,083	6.10
TIP II General Partner Limited(3) & (4)	–	–	119,894,083	6.10
Wanhui Limited(3) & (4)	–	–	119,894,083	6.10
Ally Investment Holdings Limited(3) & (4)	–	–	119,894,083	6.10
Yi Xiqun(3) & (4)	–	–	119,894,083	6.10
Yu Fan(3) & (4)	–	–	119,894,083	6.10
SEB SICAV 2 SEB Listed Private Equity Fund(3) & (4)	19,407,201	0.99	100,486,882	5.11
SEB Asset Management S.A(3) & (4)	–	–	119,894,083	6.10
Skandinaviska Enskilda Banken AB (Publ)(3) & (4)	–	–	119,894,083	6.10

Notes:

(1) 300,000,000 shares are held in the name of CCB International Securities Ltd, and 508,774,583 shares are held in the name of Wang Family Company Limited which is wholly owned by Mdm Li Chunhua.

(2) Lilly Nederland Holding B.V. is a subsidiary of Eli Lilly International Corporation which is in turn a subsidiary of Eli Lilly and Company.

(3) Themes Dragon International Limited is a wholly-owned subsidiary of Themes Investment Partners II, L.P.. Themes Investment Partners II GP, L.P. is the general partner of Themes Investment Partners II, L.P.. TIP II General Partner Limited is the general partner of Themes Investments Partners II GP, L.P.. Wanhui Limited and Ally Investment Holdings Limited together holds a majority of the voting shares in TIP II General Partner Limited. Mr Yi Xiqun is is the controlling shareholder of Wanhui Limited and Mr Yu Fan is the controlling shareholder of Ally Investment Holdings Limited.

Each of Themes Investment Partners II, L.P., Themes Investment Partners II GP, L.P., TIP II General Partner Limited, Wanhui Limited, Ally Investment Holdings Limited, Mr Yi Xiqun and Mr Yu Fan are therefore deemed to have an interest in the shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(4) Skandinaviska Enskilda Banken AB (Publ) ("SEB") and Themes Dragon International Limited entered into an agreement to which section 317 of the SFO applies in relation to shares in the Company. As such, under section 318 of the SFO, Themes Dragon International Limited is deemed to be interested in the shares held by Skandinaviska Enskilda Banken AB (Publ) ("SEB") and SEB is deemed to be interested in the shares held by Themes Dragon International Limited.

21 INTERESTED PERSON TRANSACTIONS, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Save as disclosed in Note 37 to the consolidated financial statements, there were no connected transactions and continuing connected transactions (as defined under the Listing Rules).

The independent non-executive directors of the Company have reviewed the continuing connected transactions during the year set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board of Directors have received an unqualified letter from the Company's auditors containing their findings and conclusions in respect of the continuing connected transactions which comprise various lease agreements and sales agreement as disclosed in the announcement made by the Company (the "Announcement") on 24 December 2013, for the year ended 31 December 2013 by the Group in accordance with Rule14A.38 of the Listing Rules.

22 SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

23 DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this annual report, none of the directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

24 EVENTS AFTER THE REPORTING PERIOD

On 17 February 2014, the Group entered into three sale and purchase agreements in relation to acquire a total 27.8% of additional equity interest in Inner Mongolia Bigvet Biotech Co., Ltd. ("Bigvet Biotech") at a total cash consideration of RMB417 million. The acquisition is expected to be completed before 31 May 2014. Upon completion of the acquisition of additional equity interest in Bigvet Biotech, the Group will hold 87.8% of equity interest in Bigvet Biotech.

25 USE OF PROCEEDS

During the financial year ended 31 December 2013, the Company issued 559,139,062 new ordinary shares at S$0.30 per share, raising total net proceeds of approximately RMB810.9 million. Approximately RMB226.5 million has been utilised for the repurchase of shares pursuant to the delisting from SGX-ST and a further RMB335.0 million has been applied towards the redemption of the Blackstone convertible bond. The remaining proceeds are intended for use as working capital and have been placed with banks and financial institutions pending deployment.

26 AUDITORS

Deloitte Touche Tohmatsu has expressed their willingness to accept re-appointment as independent auditors. A resolution will be submitted to the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as auditors of the Company until the conclusion of the next AGM.

On behalf of the Board of Directors,

WANG YANGANG
Director

SUN JINGUO
Director

14 March 2014

Statement by Directors

In the opinion of the directors:

(a) the accompanying consolidated financial statements of the Group and the statement of financial position of the Company together with the notes thereto, as set out on pages 50 to 146, are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Group for the year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

WANG YANGANG
Director

SUN JINGUO
Director

14 March 2014

TO THE SHAREHOLDERS OF CHINA ANIMAL HEALTHCARE LTD.
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Animal Healthcare Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 146, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of 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 annual report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
14 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Revenue	5	**914,600**	862,729
Cost of sales		**(320,910)**	(309,802)
Gross profit		**593,690**	552,927
Other income and gains		**1,275**	3,661
Financial impact of convertible bonds	29	**—**	(81,987)
Distribution and selling expenses		**(212,751)**	(203,160)
Administrative expenses		**(55,671)**	(53,622)
Other expenses and losses	7	**(37,783)**	(7,796)
Finance income		**3,561**	3,450
Finance costs	8	**(7,635)**	(33,360)
Profit before tax		**284,686**	180,113
Income tax expense	9	**(73,186)**	(52,118)
Profit and other comprehensive income for the year	10	**211,500**	127,995
Profit and other comprehensive income for the year attributable to:			
Owners of the Company		**186,333**	105,929
Non-controlling interests		**25,167**	22,066
		211,500	127,995
Earnings per share			
— Basic (RMB cents)	14	**10.80**	6.66
— Diluted (RMB cents)	14	**10.77**	6.66

Statements of Financial Position

At 31 December 2013

	NOTES	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Non-current Assets					
Property, plant and equipment	15	**176,846**	192,312	**—**	—
Prepaid lease payments	16	**15,654**	18,315	**—**	—
Available-for-sale financial asset	17	**1,125**	1,125	**—**	—
Intangible assets	18	**525,300**	600,700	**—**	—
Goodwill	19	**124,617**	124,617	**—**	—
Deferred tax assets	32	**1,007**	—	**—**	—
Deposits for intangible asset		**10,000**	—	**—**	—
Investment in subsidiaries	21(a)	**—**	—	**869,696**	869,696
Amounts due from a subsidiary	21(b)	**—**	—	**544,621**	249,893
		854,549	937,069	**1,414,317**	1,119,589
Current Assets					
Inventories	22	**37,172**	33,201	**—**	—
Trade receivables	23	**120,965**	215,407	**—**	—
Prepayments and other receivables	24	**10,410**	5,664	**—**	—
Amounts due from a subsidiary	21(b)	**—**	—	**—**	228,840
Pledged deposits	25	**29,131**	27,701	**—**	—
Cash and cash equivalents	25	**1,422,963**	808,934	**125,467**	31,969
		1,620,641	1,090,907	**125,467**	260,809
Current Liabilities					
Trade payables	26	**21,870**	10,962	**—**	—
Other payables and accrued charges	27	**69,903**	76,189	**4,327**	7,011
Amounts due to subsidiaries	21(c)	**—**	—	**3,752**	2,752
Borrowings	28	**87,297**	65,000	**—**	—
Convertible bonds — loan component	29	**—**	338,675	**—**	338,675
Provision for income tax		**27,171**	15,357	**—**	—
		206,241	506,183	**8,079**	348,438
Net Current Assets (Liabilities)		**1,414,400**	584,724	**117,388**	(87,629)
Total Assets Less Current Liabilities		**2,268,949**	1,521,793	**1,531,705**	1,031,960

Statements of Financial Position

At 31 December 2013

	NOTES	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Capital and Reserves					
Issued equity/share capital	30	**108,677**	79,075	**176,729**	147,127
Reserves	31	**1,757,835**	1,059,780	**1,354,976**	884,833
Equity attributable to owners of the Company		**1,866,512**	1,138,855	**1,531,705**	1,031,960
Non-controlling interests		**267,682**	242,515	**–**	–
Total Equity		**2,134,194**	1,381,370	**1,531,705**	1,031,960
Non-current Liabilities					
Deferred tax liabilities	32	**134,755**	140,423	**–**	–
		2,268,949	1,521,793	**1,531,705**	1,031,960

The consolidated financial statements on pages 50 to 146 were approved and authorised for issue by the board of directors on 14 March 2014 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	NOTE	Issued equity RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000	Merger reserve RMB'000 (note b)	Reserve fund RMB'000 (note c)	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
		Attributable to owners of the Company								
At 1 January 2012		79,075	309,702	–	(26,358)	80,702	637,547	1,080,668	220,449	1,301,117
Profit and other comprehensive income for the year		–	–	–	–	–	105,929	105,929	22,066	127,995
Dividends	13	–	–	–	–	–	(47,742)	(47,742)	–	(47,742)
Appropriation to reserve fund		–	–	–	–	11,224	(11,224)	–	–	–
At 31 December 2012		79,075	309,702	–	(26,358)	91,926	684,510	1,138,855	242,515	1,381,370
Profit and other comprehensive income for the year		–	–	–	–	–	186,333	186,333	25,167	211,500
Issue of shares	30(a) (i)	27,429	486,966	–	–	–	–	514,395	–	514,395
Share issue expenses		–	(22,049)	–	–	–	–	(22,049)	–	(22,049)
Exercise of warrants	30(a) (ii)	16,741	289,168	–	–	–	–	305,909	–	305,909
Repurchase of shares	30(a) (iii)	(14,568)	(251,907)	–	–	–	–	(266,475)	–	(266,475)
Contribution by shareholders	31(b) (ii)	–	–	9,544	–	–	–	9,544	–	9,544
Appropriation to reserve fund		–	–	–	–	13,383	(13,383)	–	–	–
At 31 December 2013		108,677	811,880	9,544	(26,358)	105,309	857,460	1,866,512	267,682	2,134,194

Notes:

(a) The share premium account may be applied only for the purposes specified in the Companies Act 1981 of Bermuda (as amended). The balance is not available for distribution of dividends except in the form of shares and redemption of any shares.

(b) Merger reserve represents the premiums paid for the considerations pursuant to the group restructuring in 2007.

(c) In accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"), the subsidiaries of the Group in the PRC are required to set aside a statutory reserve fund by way of appropriation 10% of their profit after tax as reported in the PRC statutory financial statements each year.

The statutory reserve fund may be used to offset any accumulated losses or increase the registered capital of the subsidiaries, subject to approval from the relevant PRC authorities. The appropriation is required until the cumulative total of the statutory reserve fund reaches 50% of the subsidiary's registered capital. This reserve is not available for dividend distribution to shareholders.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**284,686**	180,113
Adjustments for:			
Financial impact of convertible bonds		**—**	81,987
Depreciation of property, plant and equipment		**17,840**	15,871
Loss on disposal of property, plant and equipment		**42**	—
Release of prepaid lease payments		**384**	413
Gain on disposal of prepaid lease payments		**(140)**	—
Amortisation of intangible assets		**75,400**	72,817
Delisting expenses		**20,863**	—
Foreign exchange loss (gain)		**2,394**	(2,293)
Interest income		**(3,561)**	(3,450)
Finance costs		**7,635**	33,360
Operating cash flows before movements in working capital		**405,543**	378,818
(Increase) decrease in inventories		**(3,971)**	868
Decrease (increase) in trade receivables		**94,442**	(117,783)
(Increase) decrease in prepayments and other receivables		**(5,175)**	2,093
Increase (decrease) in trade payables		**10,908**	(6,762)
Increase in other payables and accrued charges		**3,080**	42,056

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 RMB'000
Cash generated from operations		**504,827**	299,290
Interest received		**3,444**	3,100
Income taxes paid		**(68,047)**	(70,358)
NET CASH FROM OPERATING ACTIVITIES		**440,224**	232,032
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(5,494)**	(785)
Proceeds from disposal of property, plant and equipment		**141**	—
Purchase of intangible assets		**(16,000)**	(56,000)
Proceeds from disposal of prepaid lease payments		**2,417**	—
Placement of pledged deposits		**(2,331)**	(21,701)
Proceeds from release of pledged deposits		**901**	19,998
Interest received from deposits pledged		**117**	350
NET CASH USED IN INVESTING ACTIVITIES		**(20,249)**	(58,138)

	NOTE	**2013 RMB'000**	2012 RMB'000
FINANCING ACTIVITIES			
Proceeds from shares issuance		**159,438**	—
Prepaid exercise price for the warrants		**318,579**	—
Payment for share issuance expenses		**(22,049)**	—
Payment for repurchase of shares		**(266,475)**	—
Payment for delisting expenses		**(11,319)**	—
Interest paid		**(7,635)**	(6,064)
Proceeds from borrowings		**465,099**	65,000
Repayment of borrowings		**(95,000)**	(77,984)
Payment for redemption of convertible bonds		**(334,987)**	—
Repayment of amount due to a former shareholder of a subsidiary		**—**	(2,627)
Dividends paid		**—**	(47,742)
NET CASH FROM (USED IN) FROM FINANCING ACTIVITIES		**205,651**	(69,417)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**625,626**	104,477
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**808,934**	704,182
Effect of foreign exchange rate changes		**(11,597)**	275
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	**1,422,963**	808,934

1. GENERAL

The Company is a public limited liability company incorporated in Bermuda and its shares were dual primary listed on the Mainboard of Singapore Exchange Securities Trading Limited ("SGX-ST") and the Stock Exchange of Hong Kong Limited ("SEHK") up to 29 August 2013. On 29 August 2013, the shares of the Company were delisted from the Mainboard of SGX-ST (the "Delisting") and the Company's shares continue to list in the Mainboard of SEHK. The ultimate controlling party of the Group is Madam Li Chunhua. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the Company's Annual Report.

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

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are disclosed in note 40.

2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB").

Amendments to IFRSs	Annual Improvements to IFRSs 2009–2011 Cycle, except for the amendments to IAS1
Amendments to IAS1	Presentation of items of Other Comprehensive Income
Amendments to IFRS 1	Government Loans
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised 2011)	Employee Benefits
IAS 27 (as revised 2011)	Separate Financial Statements
IAS 28 (as revised 2011)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets

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

2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see note 41 for details).

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

The Group has applied the amendments to IAS 1 for the first time in the current year. Pursuant to the amendment to IAS 1, the title of "Consolidated statement of comprehensive income" is changed to "Consolidated statement of profit or loss and other comprehensive income".

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

As a consequence of issuing IFRS 13 in 2011, some of the disclosure requirements in IAS 36, including the recoverable amount disclosures for non-financial assets were amended. In May 2013, the IASB issued further amendments to IAS 36, in particular, relating to the recoverable disclosures for non-financial assets which will become effective for the annual periods beginning on or after 1 January 2014. After evaluating both amendments, the directors of the Company (the "Directors") decided to early adopt the latest amendments to IAS 36. The application of the amendments to IAS 36 does not result in any impact on the amounts reported in these consolidated financial statements. The disclosure of recoverable amounts for non-financial assets has been prepared in accordance with these latest amendments to IAS 36.

2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

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

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

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

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

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

2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

The Directors anticipate that the application of the new and revised IFRSs, other than those set out below, will have no material impact on the consolidated financial statements.

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

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

2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

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

- IFRS 9 has been further amended in 2013 to include the new requirements for hedge accounting. The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 9 is available for application but the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised. The Directors anticipate that the adoption of IFRS 9 in the future may have impact on amounts reported in respect of the Group's available-for-sale financial asset which is currently stated at cost less impairment and will be measured at fair value upon adoption. Presently, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on SEHK (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Profit or loss and each component of other comprehensive income and expense are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income and expense of subsidiaries are 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 line with the Group's accounting policies.

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

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

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 assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the Group's 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 are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than 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 on a pro-rata basis based on 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 units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment in subsidiaries

Investment in subsidiaries is included in the Company's statement of financial position at cost less any impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

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

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

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, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land and buildings

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit scheme contribution

Payments to defined contribution retirement benefit plans (including the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC and Central Provident Fund Scheme managed by Singapore Central Provident Fund Board) are charged as an expense when employees have rendered service entitling them to the contributions.

Performance share scheme

The Company adopted a Performance Share Scheme which is settled by granting shares of the Company to award the directors and employees. The grant shares is unconditional and immediately vest at the date of grant. The fair value of the shares granted is measured at fair value of the equity instruments at the date of grant and is recognised as an expense in the period in which the shares are granted.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (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 amounts of its assets and liabilities.

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

Intangible assets

Intangible assets acquired separately

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

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.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised 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 and 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 loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan to a subsidiary, amounts due from a subsidiary, pledged deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For loans and receivables, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments 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 Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to subsidiaries, borrowings and loan component of convertible bonds) are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Convertible bonds

Convertible bonds issued by the Company that contain both liability and multiple embedded components (including conversion option that will be settled other than by the exchange of fixed amount of cash or another financial instrument for a fixed number of the Company's own equity instruments and redemption options) are classified separately into respective items on initial recognition. Multiple embedded derivatives are generally treated as a single compound derivative. At the date of issue, both the liability and compound derivative components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The compound derivative component is measured at fair value with changes in fair value recognised in profit or loss.

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is 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 event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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 the host contracts and the host contracts are not measured at fair value with charges in fair value recognised in profit or loss.

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 assets and substantially all the risks and rewards of ownership of the asset to another entity.

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 is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make 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.

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.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. The Directors estimate the useful lives of these property, plant and equipment to be between 5 to 30 years. The carrying amount of the Group's property, plant and equipment as at 31 December 2013 was RMB176,846,000 (2012: RMB192,312,000). The Group assesses at least annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate due to changes in the expected level of usage and/or technological developments, such difference will impact the depreciation charge in the year in which such estimate is changed and in future periods. A 10% difference in the expected useful lives of these assets from the Directors' estimates would result in approximately 0.6% (2012: 1.1%) variance in the Group's profit after tax for the year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Amortisation of intangible assets

Seed strains and production technology rights are amortised on a straight-line basis over their estimated useful lives. The Directors estimate the useful lives of these intangible assets to be between 5 to 10 years. The carrying amount of intangible assets as at 31 December 2013 was RMB525,300,000 (2012: RMB600,700,000). The Group assesses annually the useful lives of the seed strains and production technology rights and if the expectation differs from the original estimate due to changes in the expected level of usage and/or technological developments, such difference will impact the amortisation charge in the year in which such estimate is changed. A 10% difference in the expected useful lives of these assets from the Directors' estimates would result in approximately 2.7% (2012: 5.2%) variance in the Group's profit after tax for the year.

Estimated impairment of goodwill

The carrying value of goodwill at 31 December 2013 amounted to RMB124,617,000 (2012: RMB124,617,000). 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 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. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the calculation of the recoverable amount are set out in note 20.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment of intangible assets

Intangible assets are allocated to respective cash-generating unit for the purpose of impairment testing whenever there is indication that the intangible assets may be impaired. The recoverable amount of the cash-generating unit has been determined based on value in use calculation. The value in use calculation 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. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the calculation of the recoverable amount are set out in note 20. No impairment loss of intangible assets is recognised in current and prior years. The carrying amount of the intangible assets as at 31 December 2013 was RMB525,300,000 (2012: RMB600,700,000).

5. REVENUE

Revenue of the Group represents the amount receivables of goods sold to customers excluding value- added tax ("VAT"). An analysis of the Group's revenue for the year by major categories of goods sold is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Powdered form drugs	**504,040**	503,086
Injection form drugs	**33,891**	35,946
Biological drugs	**376,669**	323,697
	914,600	862,729

6. SEGMENT INFORMATION

For segment reporting purposes, the Group is organised into three operating segments, namely powdered form drugs, injection form drugs and biological drugs. Each operating segment represents a strategic business unit that offers different forms of animal drug products. The Group's risks and rates of return are affected predominantly by different type of products produced and sold.

Based on the three strategic business units' information, the chief operating decision maker, the Company's Chief Executive Officer, monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies disclosed in note 3.

No operating segments have been aggregated to form the following reportable operating segments and there were no inter-segment sales during the two years ended 31 December 2013.

Segment results represent the profit earned by each operating segment without allocation of delisting expenses, financial impact of convertible bonds, corporate expenses, finance income, finance costs and income tax expense. The Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than deferred tax assets and corporate cash and cash equivalents; and
- all liabilities are allocated to operating segments other than borrowings, other corporate payables, convertible bonds — loan component, deferred tax liabilities and provision for income tax.

6. SEGMENT INFORMATION *(continued)*

Segment revenues and results

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

	Powdered form drugs RMB'000	Injection form drugs RMB'000	Biological drugs RMB'000	Total RMB'000
2013				
Segment revenue	**504,040**	**33,891**	**376,669**	**914,600**
Segment results	**206,691**	**14,461**	**111,275**	**332,427**
Delisting expenses				**(20,863)**
Corporate expenses				**(22,804)**
Finance income				**3,561**
Finance costs				**(7,635)**
Profit before tax				**284,686**
2012				
Segment revenue	503,086	35,946	323,697	862,729
Segment results	203,387	14,356	92,594	310,337
Financial impact of convertible bonds				(81,987)
Corporate expenses				(18,327)
Finance income				3,450
Finance costs				(33,360)
Profit before tax				180,113

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

Segment assets

	Powdered form drugs RMB'000	Injection form drugs RMB'000	Biological drugs RMB'000	Total RMB'000
2013				
Segment assets	**932,306**	**70,982**	**1,343,127**	**2,346,415**
Unallocated assets:				
— corporate cash and cash equivalents				**127,768**
— deferred tax assets				**1,007**
Total assets				**2,475,190**
2012				
Segment assets	683,300	62,684	1,249,689	1,995,673
Unallocated assets:				
— corporate cash and cash equivalents				32,303
Total assets				2,027,976

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

Segment liabilities

	Powdered form drugs RMB'000	Injection form drugs RMB'000	Biological drugs RMB'000	Total RMB'000
2013				
Segment liabilities	**45,218**	**3,263**	**38,965**	**87,446**
Unallocated liabilities				
— other corporate payables				**4,327**
— borrowings				**87,297**
— provision for income tax				**27,171**
— deferred tax liabilities				**134,755**
Total liabilities				**340,996**
2012				
Segment liabilities	44,655	3,878	31,607	80,140
Unallocated liabilities				
— other corporate payables				7,011
— convertible bonds — loan component				338,675
— borrowings				65,000
— provision for income tax				15,357
— deferred tax liabilities				140,423
Total liabilities				646,606

6. SEGMENT INFORMATION *(continued)*

Other segment information

Amounts included in the measure of segment results or segment assets:

	Powdered form drugs RMB'000	Injection form drugs RMB'000	Biological drugs RMB'000	Total RMB'000
2013				
Capital expenditure				
— property, plant and equipment	**1,960**	**20**	**577**	**2,557**
Depreciation of property, plant and equipment	**1,794**	**131**	**15,915**	**17,840**
Amortisation of intangible assets	**—**	**—**	**75,400**	**75,400**
Release of prepaid lease payments	**—**	**—**	**384**	**384**
2012				
Capital expenditure				
— property, plant and equipment	2,532	—	5,905	8,437
— intangible assets	—	—	62,000	62,000
Depreciation of property, plant and equipment	1,677	133	14,061	15,871
Amortisation of intangible assets	—	—	72,817	72,817
Release of prepaid lease payments	—	—	413	413

6. SEGMENT INFORMATION *(continued)*

Geographical segments

The Group's operations are located in the PRC and substantially all of the Group's non-current assets excluding financial instruments and deferred tax assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

Information about major customers

There is no customer who represents more than 10% of the total sales of the Group for the years ended 31 December 2013 and 2012.

7. OTHER EXPENSES AND LOSSES

	The Group	
	2013	2012
	RMB'000	RMB'000
Research and development expenses	**9,781**	7,796
Delisting expenses (note)	**20,863**	—
Net foreign exchange losses	**7,097**	—
Loss on disposal of property, plant and equipment	**42**	—
	37,783	7,796

Note: The amount includes the arrangement fee for the bridging financing facility amounting to RMB11,687,000, the legal and professional fees and other service fees in connection with the Delisting.

8. FINANCE COSTS

	The Group	
	2013	2012
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**5,087**	6,064
Interest on convertible bonds — loan component	**2,548**	27,296
	7,635	33,360

9. INCOME TAX EXPENSE

	The Group	
	2013	2012
	RMB'000	RMB'000
PRC Enterprise Income Tax:		
Current year	**79,845**	67,345
Under provision in prior years	**16**	593
	79,861	67,938
Deferred tax (note 32)		
Current year	**(6,675)**	(9,093)
Attributable to a change in tax rate	**—**	(6,727)
	(6,675)	(15,820)
	73,186	52,118

9. INCOME TAX EXPENSE *(continued)*

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards except for certain group entities which are entitled to a concessionary tax rate of 15% as disclosed below. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to a certificate issued by Inner Mongolia Province Science and Technology Commission in September 2011, Inner Mongolia Bigvet Biotech Co., Ltd. ("Bigvet Biotech") had been designated as a High and New Technology Enterprise and accordingly Bigvet Biotech enjoys a tax rate of 15% for the financial years 2012 to 2013.

In November 2011, Shenzhou Pagina-kang Technology Co., Ltd ("Shenzhou Pagina-kang"), Shijiazhuang Maidisenda Animal Medicine Company Limited ("Shijiazhuang Maidisenda") and Beijing Jianxiang Hemu Biological Technology Limited ("Beijing Jianxiang Hemu") had been designated as High and New Technology Enterprises by Hebei Province and Beijing Municipal Science and Technology Commissions. Accordingly, the enterprise income tax rate applicable to these entities is 15% for the financial years 2012 to 2013.

As the Group's income neither arises in, nor is derived from Singapore or Hong Kong, no provision for taxation has been made in these jurisdictions.

9. INCOME TAX EXPENSE *(continued)*

Tax charge for the year can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Profit before tax	**284,686**	180,113
Tax at the applicable income tax rates of 25% (2012: 25%)	**71,172**	45,028
Tax effect of expenses not deductible for tax purposes	**13,518**	31,564
Utilisation of tax losses not recognised as deferred tax assets in previous year	**(2)**	—
Tax effect of tax losses not recognised	**90**	60
Effect on tax concessions granted to subsidiaries in the PRC	**(15,121)**	(20,271)
Additional tax deduction in respect of research and development expenses	**(907)**	(749)
Tax effect on the change in tax rate (note)	**—**	(6,727)
Withholding tax on undistributable profits of PRC subsidiaries	**4,420**	2,620
Under provision in prior years	**16**	593
Tax charge for the year	**73,186**	52,118
Effective tax rate	**25.7%**	28.9%

9. INCOME TAX EXPENSE *(continued)*

Note: During the year ended 31 December 2012, Beijing Jianxiang Hemu and Bigvet Biotech entitled to the concessionary tax rate of 15%. The effect of the change in tax rate from 25% in 2011 to 15% in 2012 has resulted in an adjustment of RMB6,727,000 to the deferred tax liabilities arising from the fair value adjustments of the buildings and intangible assets upon acquisition (note 32).

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	The Group	
	2013	2012
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**17,840**	15,871
Amortisation of intangible assets (included in cost of sales)	**75,400**	72,817
Total depreciation and amortisation	**93,240**	88,688
Staff costs, including directors emoluments disclosed in note 11	**129,455**	128,552
Contributions to defined contribution plans	**2,594**	2,344
	132,049	130,896
Interest income from bank balances	**(3,561)**	(3,450)
Auditors' remuneration	**2,000**	2,000
Net foreign exchange losses (gains)	**7,097**	(1,056)
Gain on disposal of prepaid lease payments	**(140)**	—
Loss on disposal of property, plant and equipment	**42**	—
Release of prepaid lease payments	**384**	413
Operating leases payments in respect of rented premises	**11,616**	9,513

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 7 (2012: 7) directors were as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (note)	Contributions to defined contribution plans RMB'000	Total RMB'000
2013					
Executive directors					
Wang Yangang	244	1,177	3,030	18	4,469
Sun Jinguo	244	255	312	18	829
Non-executive directors					
Fu Shan*	50	–	–	–	50
Steven Ma Yan Qing**	–	–	–	–	–
Independent Non-executive directors					
Joshua Ong Kian Guan	293	–	–	–	293
Feng Jinglan	100	–	–	–	100
Wong Gang	283	–	–	–	283
	1,214	1,432	3,342	36	6,024

* Mr. Fu Shan has resigned as non-executive director of the Company with effect from 22 November 2013.

** Mr. Steven Ma Yan Qing retired as non-executive director of the Company pursuant to Bye-law 85(2) of the Bye-laws of the Company at the Annual General Meeting held on 25 April 2013.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (note)	Contributions to defined contribution plans RMB'000	Total RMB'000
2012					
Executive directors					
Wang Yangang	253	1,212	3,130	12	4,607
Sun Jinguo	253	176	70	12	511
Non-executive directors					
Fu Shan	100	–	–	–	100
Steven Ma Yan Qing*	–	–	–	–	–
Independent Non-executive directors					
Joshua Ong Kian Guan	304	–	–	–	304
Feng Jinglan	100	–	–	–	100
Wong Gang	293	–	–	–	293
	1,303	1,388	3,200	24	5,915

* Mr. Steven Ma Yan Qing was appointed as non-executive director of the Company with effect from 24 October 2012.

Note: The discretionary bonuses of the Directors are determined by reference to the Group's performance during the year as well as the management position that the director is holding on.

Mr. Wang Yangang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

During the years ended 31 December 2013 and 2012, no emoluments has been paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived any emoluments during the years ended 31 December 2013 and 2012. No remuneration was paid or payable to Mr. Steven Ma Yan Qing during the years ended 31 December 2013 and 2012.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2012: four) were Directors whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three individuals (2012: one individual) was as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Salaries, bonuses and other short-term benefits	**2,182**	928
Contributions to defined contribution plans	**151**	119
	2,333	1,047

Their emoluments were within the following bands:

	The Group	
	2013	2012
	Number of employees	Number of employees
Less than HK$1,000,000	**2**	—
HK$1,000,001 to HK$1,500,000	**1**	1
	3	1

13. DIVIDENDS

	The Group and The Company	
	2013	2012
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2011 final — RMB3.0 cents per share	**–**	47,742
	–	47,742

No dividend was proposed during the year ended 31 December 2013 and 2012.

Subsequent to the end of the reporting period, a final dividend of RMB2.5 cents per share (tax inclusive) in respect of the year ended 31 December 2013 amounting to RMB49,150,000 has been proposed by the Directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the earnings per share is based on the following data:

	The Group	
	2013	2012
	RMB'000	RMB'000
Earnings		
Earnings attributable to the owners of the Company for the purpose of basic and diluted earnings per share	**186,333**	105,929

	The Group	
	2013	2012
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**1,725,300,508**	1,591,390,625
Effect of dilutive potential ordinary shares arising from warrants	**5,123,662**	–
Number of ordinary shares for the purposes of diluted earnings per share	**1,730,424,170**	1,591,390,625

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group					
COST					
At 1 January 2012	113,241	113,953	2,528	8,260	237,982
Additions	1,980	5,936	240	281	8,437
At 31 December 2012	115,221	119,889	2,768	8,541	246,419
Additions	154	356	229	1,818	2,557
Disposal	–	–	–	(460)	(460)
At 31 December 2013	115,375	120,245	2,997	9,899	248,516
DEPRECIATION					
At 1 January 2012	9,293	25,166	1,279	2,498	38,236
Charge for the year	5,697	9,066	274	834	15,871
At 31 December 2012	14,990	34,232	1,553	3,332	54,107
Charge for the year	5,160	11,401	328	951	17,840
Disposal	–	–	–	(277)	(277)
At 31 December 2013	20,150	45,633	1,881	4,006	71,670
CARRYING VALUES					
At 31 December 2013	95,225	74,612	1,116	5,893	176,846
At 31 December 2012	100,231	85,657	1,215	5,209	192,312

The above items of property, plant and equipment are depreciated on straight-line basis over the estimated useful lives as follows:

Buildings	30 years, or relevant lease term whichever is shorter
Plant and machinery	5 to 15 years
Office equipment	5 years
Motor vehicles	5 to 10 years

16. PREPAID LEASE PAYMENTS

	The Group	
	2013	2012
	RMB'000	RMB'000
At the beginning of the year	**18,315**	18,728
Disposal	**(2,277)**	—
Release to profit or loss	**(384)**	(413)
At the end of the year	**15,654**	18,315

The amounts represent the payment for the right to use the land situated in Shanxi and Inner Mongolia, the PRC, with lease terms of 50 years.

17. AVAILABLE-FOR-SALE FINANCIAL ASSET

The Group

The amount represented the Group's 11.25% equity interest in Jilin Kangda Rabbit Industry Co., Ltd. ("Jilin Kangda"). Jilin Kangda was established in the PRC in the form of domestic-invested company and is engaged in the business of rabbits breeding.

The amount is measured at cost at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that its fair value cannot be measured reliably.

18. INTANGIBLE ASSETS

	Seed strains	Production technology rights	Total
	RMB'000	RMB'000	RMB'000
The Group			
COST			
At 1 January 2012	11,500	685,000	696,500
Additions	57,000	5,000	62,000
At 31 December 2012 and 2013	68,500	690,000	758,500
AMORTISATION			
At 1 January 2012	1,900	83,083	84,983
Charge for the year	2,150	70,667	72,817
At 31 December 2012	4,050	153,750	157,800
Charge for the year	6,900	68,500	75,400
At 31 December 2013	10,950	222,250	233,200
CARRYING VALUES			
At 31 December 2013	57,550	467,750	525,300
At 31 December 2012	64,450	536,250	600,700

The acquisitions of certain subsidiaries during the financial year ended 31 December 2010 resulted in the identification of production technology rights and seed strains used in the production of certain animal biological drugs. The estimated useful life of such right is estimated to be 10 years from the date of acquisition, with reference to the anticipated production capacity and existing technologies. The estimated useful life of other seed strains is 10 years.

Production technology rights also include technologies rights acquired in 2008 and 2012 in relation to various animal biological drugs the Group produces. The estimated useful life of these technologies rights is 5 years from the date of acquisition.

19. GOODWILL

	The Group	
	2013	2012
	RMB'000	RMB'000
COST AND CARRYING VALUE		
At 1 January and 31 December	**124,617**	124,617

Particulars regarding impairment testing on goodwill are disclosed in note 20 below.

20. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

For the purposes of impairment testing, goodwill and intangible assets have been allocated to three individual cash-generating units ("CGUs"), which comprise three different type of products, namely animal foot and mouth disease ("FMD") vaccine, porcine reproductive and respiratory syndrome ("PRRS") vaccine and swine fever and other common vaccines, respectively, included in the biological drugs segment. The details of the amount allocated are as follows:

	Goodwill		Intangible assets	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
The Group				
FMD vaccine	**69,741**	69,741	**387,217**	440,117
PRRS vaccine	**52,435**	52,435	**134,750**	155,750
Swine fever and other common vaccines	**2,441**	2,441	**3,333**	4,833
	124,617	124,617	**525,300**	600,700

20. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS *(continued)*

As at 31 December 2013, the management carried out an impairment test on the intangible assets and goodwill. The recoverable amounts of the identified CGUs have been determined based on value in use calculations using cash flow projections from financial budgets and forecasts approved by management covering a ten-year period (2012: ten-year period). The pre-tax discount rate of 15% (2012: 15%) applied to the cash flow projections reflects management's estimate of the risks specific to the CGUs. It is derived from the cost of capital plus a reasonable risk premium at the date of assessment of the CGUs. The growth rates in respect of production capacity and the bidding price used during the projection years are 0% to 20% (2012: 5% to 20%) made by reference to industry growth forecasts. The key factors for the value in use calculation are discount rates, growth rates and estimated useful lives of the intangible assets. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflow and outflow patterns, estimated based on the CGUs' past performance and management's expectation of the market development. The Directors believe that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of CGUs to fall below their respective carrying amounts.

Based on review of the recoverable amounts of the identified CGUs, the Directors are of the view that no impairment on intangible assets and goodwill was required during both financial years.

21. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES

(a) Investment in subsidiaries

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted equity investments, at cost	**869,696**	869,696

Details of the Company's principal subsidiaries are set out in note 40.

(b) Amounts due from a subsidiary

	The Company	
	2013	2012
	RMB'000	RMB'000
Amounts due from a subsidiary (note (i))	**–**	228,840
Loan to a subsidiary (note (ii))	**544,621**	249,893
	544,621	478,733

Notes:

(i) The amounts due from a subsidiary are unsecured and interest-free and repayable on demand. In the opinion of the Directors, the amounts approximate its fair value.

(ii) The loan to a subsidiary bears interest at rates ranging from 2% to 5% (2012: 2% to 5%) per annum and is repayable by 2015 and 2018 (2012: 2015). The fair value of the loan is not significantly different from its carrying amount based on discounting expected future cash flows at market lending rates of an equivalent instrument as at the end of the reporting period.

21. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES *(continued)*

(c) Amounts due to subsidiaries

	The Company	
	2013	2012
	RMB'000	RMB'000
Amounts due to subsidiaries	**3,752**	2,752

The amounts due to subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand.

22. INVENTORIES

	The Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**11,643**	8,885
Finished goods	**24,309**	22,597
Packing materials	**1,220**	1,719
	37,172	33,201

The cost of inventories recognised as "cost of sales" during the year was RMB320,910,000 (2012: RMB309,802,000).

23. TRADE RECEIVABLES

	The Group	
	2013	2012
	RMB'000	RMB'000
Trade receivables	**120,565**	214,405
Trade receivables from related parties (note)	**400**	1,002
	120,965	215,407

Note: Related parties are companies controlled by a director of the Company

The Group allows credit period ranging from 30 to 180 days to large-scale poultry enterprises and varies on a case to case basis based on the creditworthiness and the Group's existing relationships with its customers.

During the year ended 31 December 2012, with the introduction of Good Supply Practice ("GSP") requirements, animal drug retailers are required to allocate considerable resources to be GSP compliant. For strategic purpose, the Group extended one-off credit terms of 18 months for sales to animal drug retailers to aid them through this critical period when many were experiencing transitional working capital difficulties. At 31 December 2013, the related amounts had been collected.

23. TRADE RECEIVABLES *(continued)*

(a) Aged analysis of trade receivables

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

	The Group	
	2013	2012
	RMB'000	RMB'000
0–30 days	**21,420**	13,438
31–90 days	**32,760**	51,107
91–180 days	**41,836**	126,938
181–365 days	**24,949**	22,204
Over 365 days	**–**	1,720
	120,965	215,407

(b) Trade receivables which are past due but not impaired

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is minimised. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate amount of RMB24,949,000 (2012: RMB23,924,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

23. TRADE RECEIVABLES *(continued)*

(b) Trade receivables which are past due but not impaired *(continued)*

No allowance for doubtful debts have been made to the receivables past due as the Group satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

	The Group	
	2013	2012
	RMB'000	RMB'000
181–365 days	**24,949**	22,204
Over 365 days	**–**	1,720
	24,949	23,924

(c) Movements in the allowance for doubtful debts

	The Group	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	**–**	120
Amount written off as uncollectible	**–**	(120)
At end of the year	**–**	–

24. PREPAYMENTS AND OTHER RECEIVABLES

	The Group	
	2013	2012
	RMB'000	RMB'000
Advances to suppliers	**26**	87
Deposit for purchases of property, plant and equipment	**—**	429
Deposit for tender bidding exercises (note)	**3,910**	2,769
Sundry debtors	**4,950**	2,332
Amount due from a shareholder	**1,400**	—
Prepaid expenses	**124**	47
	10,410	5,664

Note: The balance represented the deposits paid by Bigvet Biotech and Shanxi Longkeer Biological Pharmaceutical Co., Ltd. ("Shanxi Longkeer") for bidding of the sale contracts relating to mandatory vaccines to provincial veterinary stations.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**1,452,094**	836,635	**125,467**	31,969
Pledged deposits (note 28)	**(29,131)**	(27,701)	**—**	—
Cash and cash equivalents of Group as per consolidated statement of cash flows	**1,422,963**	808,934	**125,467**	31,969

Cash at banks carry interest at market rates which range from 0% to 0.50% (2012: 0% to 0.50%) per annum. The pledged deposits carry fixed interest rate of 1.35% (2012: 1.35%) per annum. The pledged deposits will be released upon the settlement of relevant bank borrowing which are repayable within one year and are classified as current assets.

26. TRADE PAYABLES

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

	The Group	
	2013	2012
	RMB'000	RMB'000
0–30 days	**6,605**	2,325
31–90 days	**9,878**	2,974
91–180 days	**2,773**	1,821
181–365 days	**1,518**	2,814
Over 365 days	**1,096**	1,028
	21,870	10,962

There average credit period on purchases of goods is 0 to 40 days.

27. OTHER PAYABLES AND ACCRUED CHARGES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued payroll	**46,500**	46,626	**3,030**	3,159
Accrued expenses	**8,957**	5,721	**1,297**	3,852
VAT and other taxes payables	**11,604**	12,094	**–**	–
Payables for acquisition of property, plant and equipment, and intangible assets	**2,242**	11,608	**–**	–
Sundry creditors	**600**	140	**–**	–
	69,903	76,189	**4,327**	7,011

28. BORROWINGS

	The Group	
	2013	2012
	RMB'000	RMB'000
Secured RMB term loans	**87,297**	65,000

The RMB term loans are repayable in full within the next twelve months from the end of the reporting period.

The interest rates at the end of the financial year were as follows:

	2013		2012	
	RMB'000	**Interest**	RMB'000	Interest
Variable rate borrowings	**87,297**	**Not lower than the daily Benchmark Borrowing Rate of the People's Bank of China**	65,000	Not lower than the daily Benchmark Borrowing Rate of the People's Bank of China

As at 31 December 2013, the RMB term loans of approximately RMB87.3 million were secured on (i) a corporate guarantee of approximately United States Dollar ("US$")16.5 million (equivalent to RMB99,890,000) from the Company, (ii) a corporate guarantee of approximately RMB60.0 million from Shenzhou Pagina-kang, (iii) a corporate guarantee of approximately RMB40.0 million from Bigvet Biotech; and (iv) a pledge of approximately RMB29.1 million of bank deposits (note 25).

As at 31 December 2012, the RMB term loans of approximately RMB65.0 million were secured on (i) a corporate guarantee of approximately United States Dollar ("US$")16.5 million (equivalent to RMB102,816,000) from the Company, (ii) a corporate guarantee of approximately RMB60.0 million from Shenzhou Pagina-kang, (iii) a corporate guarantee of approximately RMB40.0 million from Bigvet Biotech; and (iv) a pledge of approximately RMB27.7 million of bank deposits (note 25).

29. CONVERTIBLE BONDS

The convertible bonds were issued to a third party on 11 August 2010 at zero-coupon with principal amounts of US$40.0 million and will originally mature on 10 August 2015 (the "Maturity Date"). The convertible bonds have a conversion period at any time commencing from 1 January 2012 up to five business days before the Maturity Date, and will be converted into shares at a price of Singapore Dollar ("S$") 0.40 per share.

The holders of the convertible bonds shall be entitled, within the period of 4 weeks commencing on 31 December 2012, to require the Company to redeem the convertible bonds at a redemption price equal to the principal amount plus a redemption premium of 15% per annum (on a simple, non-compounding basis, based on a 365-day per year and actual days elapsed) on such principal amount.

The holders of the convertible bonds served the redemption notice dated 31 December 2012 for the full redemption of the convertible bonds on 15 January 2013 (the "Redemption Date"). Accordingly, the convertible bonds became a non-derivative financial liability of the Company and the Group at 31 December 2012.

In accordance with the terms of the convertible bonds agreement, the Company was required to pay the redemption amount of US$54,351,000 (equivalent to RMB338,675,000) in respect of the convertible bonds ("Redemption Amount") to the holders of the convertible bonds within six months from the Redemption Date ("Redemption Settlement Date"). Interest was payable by the Company on the Redemption Amount for the period between the Redemption Date and the Redemption Settlement Date based on an interest rate equivalent to that which would be chargeable by DBS Bank Limited on an equivalent US$ corporate loan. The Redemption Amount was settled during the year ended 31 December 2013.

Before the service of redemption notice by the holders of the convertible bonds, the convertible bonds contain two components, liability component and compound derivative component (comprising the conversion option and the redemption option). The compound derivative component is carried at fair value with changes in fair value recognised in profit or loss.

29. CONVERTIBLE BONDS *(continued)*

The carrying amounts of the liability component and derivative component of the convertible bonds as at 31 December 2012 and the movements are as follows:

	The Group and The Company	
	Loan component	**Derivative component**
	RMB'000	RMB'000
At 1 January 2012	122,323	109,087
Interest at amortised cost	27,296	—
Financial impact of convertible bonds	190,746	(108,759)
Exchange realignment	(1,690)	(328)
At 31 December 2012	338,675	—

During the year ended 31 December 2012, the financial impact of convertible bonds charged to profit or loss is amounting to RMB81,987,000.

30. ISSUED EQUITY/SHARE CAPITAL

(a) Share capital of the Company

The details of share capital of the Company are set out as follows:

Authorised shares

	Number of shares		Share capital	
	2013	2012	**2013**	2012
			HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
At beginning and end of the year	**2,500,000,000**	2,500,000,000	**250,000**	250,000

30. ISSUED EQUITY/SHARE CAPITAL *(continued)*

(a) Share capital of the Company *(continued)*

Issued and fully paid shares

	Number of shares		Share capital			
	2013	2012	**2013**		2012	
			HK$'000	**RMB'000**	HK$'000	RMB'000
Ordinary shares of HK$0.10 each						
At beginning of the year	**1,591,390,625**	1,591,390,625	**159,139**	**147,127**	159,139	147,127
Issue of shares (note (i))	**347,019,478**	–	**34,702**	**27,429**	–	–
Exercise of warrants (note (ii))	**212,119,584**	–	**21,212**	**16,741**	–	–
Repurchase of shares for Delisting (note (iii))	**(184,539,834)**	–	**(18,454)**	**(14,568)**	–	–
At end of the year	**1,965,989,853**	1,591,390,625	**196,599**	**176,729**	159,139	147,127

Notes:

(i) Issue of shares

On 8 May 2013, the Company issued 106,158,540 new shares of S$31,848,000 (equivalent to RMB159,438,000) at S$0.30 per share pursuant to two subscription agreements dated 25 September 2012, as amended and restated on 9 April 2013, entered into between the Company and independent parties ("Subscription Agreements").

On 4 October 2013, the Company issued the Second Tranche Subscription (as defined in the Subscription Agreements) 240,860,938 new shares of S$72,258,000 (equivalent to RMB354,957,000) at S$0.30 per share pursuant to one of the Subscription Agreements.

All shares issued above rank pari passu in all respect of then existing shares of the Company. The proceeds from issue of shares were used for Delisting, settlement the Redemption Amount and the general working capital of the Company.

30. ISSUED EQUITY/SHARE CAPITAL *(continued)*

(a) Share capital of the Company *(continued)*

Issued and fully paid shares (continued)

Notes: *(continued)*

(ii) Exercise of Warrants

On 8 May 2013, the Company issued 212,119,584 warrants without consideration pursuant to the Subscription Agreements. Each warrant was entitled to convert into one share of the Company at a cash consideration of S$0.30 per share within one year from the date of issue of the warrants. These warrants will be automatically exercised for conditions in connection with the Delisting.

On 4 September 2013, the Company issued 212,119,584 new shares at cash consideration of S$63,636,000 (equivalent to RMB305,909,000) upon the exercise of the warrants.

All shares issued rank pari passu in all respect of then existing shares of the Company. The proceeds from issue of shares were used for Delisting, settlement the Redemption Amount and the general working capital of the Company.

(iii) Repurchase of shares for Delisting

Pursuant to a cash exit offer to be effected by way of a selective capital reduction under Section 46 of the Bermuda Companies Act at S$0.30 for each participating share of the Company, on the terms and subject to the conditions set out in the circular dated 19 July 2013, the Company repurchased 184,539,834 then existing shares of Company on 29 August 2013 at cash consideration of S$55,362,000 (equivalent to RMB266,475,000) and cancelled on the same date.

30. ISSUED EQUITY/SHARE CAPITAL *(continued)*

(b) Issued equity of the Group

The issued equity of the Group represents the share capital of Evanton Pte. Ltd ("Evanton") (the legal subsidiary) amounting to RMB4,045,000 before the completion of reverse acquisition in December 2007 and the deemed cost of acquisition made by Evanton of RMB40,000,000, which is determined using the fair value of the issued equity of the Company before the acquisition, for the purpose of reverse acquisition accounting.

Subsequent to the completion of the reverse acquisition, the Company further issued ordinary shares totalling HK$95,219,000 at HK$0.10 per share (equivalent to RMB79,200,000), and repurchased and cancelled totalling HK$18,454,000 at HK$0.10 per share (equivalent to RMB14,568,000). Accordingly, the capital of the Group as of 31 December 2013 is RMB108,677,000 (2012: RMB79,075,000).

31. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

31. RESERVES *(continued)*

(b) The Company

	Share premium	Contributed surplus	Capital reserve	Retained earnings/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	309,702	656,977	–	39,855	1,006,534
Loss and other comprehensive expense for the year	–	–	–	(73,959)	(73,959)
Dividends	–	(47,742)	–	–	(47,742)
At 31 December 2012	309,702	609,235	–	(34,104)	884,833
Loss and other comprehensive expense for the year	–	–	–	(41,579)	(41,579)
Issue of shares (note 30(a)(i))	486,966	–	–	–	486,966
Share issue expenses	(22,049)	–	–	–	(22,049)
Exercise of warrants (note 30(a)(ii))	289,168	–	–	–	289,168
Repurchase of shares (note 30(a)(iii))	(251,907)	–	–	–	(251,907)
Contribution by shareholders (note (ii))	–	–	9,544	–	9,544
At 31 December 2013	811,880	609,235	9,544	(75,683)	1,354,976

Notes:

(i) The contributed surplus of the Company amounting to RMB751,941,000 was arising from the issue of 2,296,781,250 ordinary shares in exchange for the entire shares in Evanton during the reverse acquisition in 2007. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for dividend and other distributions. As at 31 December 2013, the distributable reserve of the Company amounted to RMB553,552,000 (2012:RMB575,131,000).

(ii) The amount represents the arrangement fee for the bridging financing facility in connection with the delisting of the Company's shares from the Mainboard of SGX-ST reimbursed by certain shareholders of the Company.

32. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2013	2012
	RMB'000	RMB'000
Deferred tax assets	**1,007**	—
Deferred tax liabilities	**(134,755)**	(140,423)
	(133,748)	(140,423)

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

	Fair value adjustment on buildings upon acquisition	Fair value adjustment on intangible assets upon acquisition	Tax losses	Accrued expense	Undistributable profits of subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'0000 (note)	RMB'000
At 1 January 2012	(1,354)	(149,604)	5,100	–	(10,385)	(156,243)
(Charge) credit to profit or loss	53	16,760	(5,100)	–	(2,620)	9,093
Effect of the change in tax rate (note 9)	22	6,705	–	–	–	6,727
At 31 December 2012	(1,279)	(126,139)	–	–	(13,005)	(140,423)
(Charge) credit to profit or loss	33	10,055	–	1,007	(4,420)	6,675
At 31 December 2013	(1,246)	(116,084)	–	1,007	(17,425)	(133,748)

32. DEFERRED TAXATION *(continued)*

Note: The amount represents deferred taxation in respect of the temporary differences attributable to undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profits of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders at a withholding tax rate of 5% or 10% as the Directors considered the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries in accordance with the generally accepted accounting principles in the PRC, for which deferred tax liabilities have not been recognised, was RMB1,102,404,000 (2012: RMB852,217,000). No liability has been recognised in respect of these differences because the Group is in the position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unutilised tax losses of RMB605,000 (2012: RMB251,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the year ending 31 December:

	The Group	
	2013	2012
	RMB'000	RMB'000
2016	**8**	12
2017	**235**	239
2018	**362**	—
	605	251

33. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial year.

The Group's subsidiaries in the PRC are required to contribute to and maintain a non-distributable statutory reserve funds whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the relevant subsidiaries during the financial year.

The Group monitors capital using a net debt to equity ratio, which is total borrowings (including convertible bonds) divided by total equity. The net debt to equity ratio at the end of the financial year is as follow:

	2013	2012
Net debt to equity ratio	**0.04**	0.29

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale financial asset, at cost	**1,125**	1,125	**–**	–
Loans and receivables (including cash and cash equivalents)	**1,583,319**	1,057,143	**670,088**	510,702
Financial liabilities				
Amortised cost	**167,466**	478,732	**8,079**	348,438

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial asset, trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and convertible bonds. The Company's major financial instruments include amounts due from a subsidiary, cash and cash equivalents, amounts due to subsidiaries and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk

(i) Foreign currency risk

The Group operates in the PRC and most transactions were entered in RMB, the functional currency of the group entities. At the end of the reporting period, the Group and the Company hold certain financial assets and liabilities denominated in foreign currencies for working capital purposes.

Management monitors the fluctuation in exchange rates closely to ensure that the Group's exposure to the risk is minimised.

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

	Assets		Liabilities	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
The Group				
Foreign currency:				
US$	**4,012**	4,760	**–**	338,675
S$	**112,843**	1,027	**–**	–
Hong Kong Dollar ("HK$")	**2,868**	287	**–**	–
The Company				
Foreign currency:				
US$	**811**	4,374	**–**	338,675
S$	**110,579**	736	**–**	–
HK$	**2,868**	287	**–**	–

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Foreign currency risk (continued)

Sensitivity analysis

The following table details of the Group's and the Company's sensitivity to a reasonable possible change in exchange rate of each foreign currency against RMB, while all other variable are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2012: 5%) change in foreign currency rates.

	US$		S$		HK$	
	2013	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
The Group						
Increase (decrease) in profit for the year:						
– if RMB weakens against foreign currencies	**162**	(16,700)	**5,642**	51	**143**	14
– if RMB strengthens against foreign currencies	**(162)**	16,700	**(5,642)**	(51)	**(143)**	(14)
The Company						
Increase (decrease) in profit for the year:						
– if RMB weakens against foreign currencies	**41**	(16,715)	**5,529**	37	**143**	14
– if RMB strengthens against foreign currencies	**(41)**	16,715	**(5,529)**	(37)	**(143)**	(14)

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing bank borrowings at variable rates (see note 28 for details of these borrowings). The Group currently does not have an interest rate policy except that the Group would regularly review the market interest rate to capture potential opportunities to reduce the cost of borrowings. Accordingly, the Group may enter into interest rate swap arrangement to mitigate the interest rate risk if when needs arise.

The Company is exposed to fair value interest rate risk in relation to fixed rate loan to a subsidiary, details of which are set out in note 21(b).

In the management's opinion, the interest rate risk in relation to variable rate bank balances and deposits are insignificant due to these balances are either within short maturity period or the outstanding balances are not significant.

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

Sensitivity analysis

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate bank borrowings. The analysis is prepared assuming the amount of bank borrowings outstanding at the end of the reporting period was outstanding for the whole year.

	The Group	
	2013	2012
	RMB'000	RMB'000
Change in interest rate	**75 basis point**	75 basis point
Increase (decrease) in profit for the year		
— as the result of increase in interest rate	**(557)**	(414)
— as the result of decrease in interest rate	**557**	414

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the respective year.

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2013, the Group's and the Company's maximum exposure to credit risk which cause financial loss to the Group and the Company due to failure to discharge an obligation by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in respective statements of financial position.

The Group's sales to animal drug retail customers are mainly on a cash-on-delivery basis since the expiration of the one-off credit terms of 18 months for sales to animal drug retailers as detailed in note 23. In order to minimise the credit risk, credit terms are only granted to large-scale poultry enterprises and drug retail customers, and vary on a case to case basis based on the creditworthiness and the Group's existing relationships with its customers. The Group trades only with recognised and 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, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Company's credit risk is related to the amounts due from a subsidiary arising from advances granted to the subsidiary and dividend receivables. The Directors consider that the Company's credit risk is limited as the subsidiary has the ability to repay the amounts owed to the Company by demanding the payments from the Group's PRC subsidiaries which has sufficient cash and bank balances.

The credit risk on cash and cash equivalents and pledged deposits is limited because the counterparties are banks with good reputation.

The Group does not have any significant concentration of credit risk to certain counterparties as the exposure is spreaded over a number of counterparties and customers. The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables as at the end of the reporting period.

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturity of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. In the management of its 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. Details on the repayment terms of the Group's borrowings are set out in note 28.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities and convertible bonds. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. 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 at the end of the reporting period.

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

	Repayable on demand or within one month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flow RMB'000	amount at end of the reporting period RMB'000
The Group					
2013					
Trade payables	**19,148**	**2,722**	**–**	**21,870**	**21,870**
Other payables	**58,299**	**–**	**–**	**58,299**	**58,299**
Borrowings (note)	**–**	**53,027**	**41,271**	**94,298**	**87,297**
	77,447	**55,749**	**41,271**	**174,467**	**167,466**
2012					
Trade payables	9,760	1,202	–	10,962	10,962
Other payables	64,095	–	–	64,095	64,095
Borrowings (note)	–	57,688	8,113	65,801	65,000
Convertible bonds	–	–	342,937	342,937	338,675
	73,855	58,890	351,050	483,795	478,732
The Company					
2013					
Other payables	**4,327**	**–**	**–**	**4,327**	**4,327**
Amounts due to subsidiaries	**3,752**	**–**	**–**	**3,752**	**3,752**
Financial guarantee contracts	**99,890**	**–**	**–**	**99,890**	**–**
	107,969	**–**	**–**	**107,969**	**8,079**
2012					
Other payables	7,011	–	–	7,011	7,011
Amounts due to subsidiaries	2,752	–	–	2,752	2,752
Convertible bonds	–	–	342,937	342,937	338,675
Financial guarantee contracts	102,816	–	–	102,816	–
	112,579	–	342,937	455,516	348,438

34. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

Note: the weighted average interest rate is 6% (2012: 6% to 6.56%) per annum

The amounts included above for financial guarantee contracts are the maximum amounts of the Company could be required to settle under the arrangement for the full guaranteed amount (disclosed in note 28) if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair value

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

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

- the fair value of the derivative financial instruments (conversion and redemption option) was determined based on a valuation carried out by an independent firm of valuers using the Binomial Option Pricing Model.

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

35. COMMITMENTS

(a) Operating lease commitments — the Group as lessee

The Group had entered into several operating lease commitments for its production and office premises, and staff hostels with related parties, companies controlled by a director of the Company, for years between 1 year and 2 years with renewable options and no restrictions were placed upon the Group by entering into these leases.

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Within one year	**10,983**	—

(b) Capital commitments — the Group

	The Group	
	2013	2012
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of intangible assets contracted for but not provided in the consolidated financial statements	**10,000**	—

35. COMMITMENTS *(continued)*

(c) Operating lease and Capital commitments — the Company

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

	The Company	
	2013	2012
	RMB'000	RMB'000
Within one year	**143**	—

At the end of the reporting period, the Company did not have commitments for capital expenditure (2012: Nil).

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company had adopted a performance share scheme (the "Performance Share Scheme") which becomes effective on 15 April 2010 (the "Adoption Date"). The purpose of the Performance Share Scheme is to provide an opportunity for group employees (including the Company's Executive Directors) who have met the performance targets to be remunerated through an equity stake in the Company and/or when due recognition should be given to any good work performance and/or significant contribution to the Group. The Performance Share Scheme aims to motivate and incentivise participants to greater dedication, loyalty and higher standards of performance.

36. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

The Performance Share Scheme is administered by the remuneration committee of the Company. Under the Performance Share Scheme, the remuneration committee of the Company is authorised, at any time within ten years after the Adoption Date, to grant share in any one financial year which shall not exceed 1% of the total number of issued shares of the Company (excluding treasury shares) on the day preceding the relevant date of the granted shares. Furthermore, the aggregate number of shares over which the remuneration committee may grant shares on any date, when added to the number of shares issued and issuable in respect of all shares granted under the Performance Share Scheme and all other shares issued and issuable under any other share-based incentive schemes of the Company for the time being in force, shall not exceed 10% of the total number of issued shares of the Company (excluding treasury shares) on the day preceding that date.

There are no shares granted or awarded under the Performance Share Scheme during the years ended 31 December 2012 and 2013.

37. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	The Group	
	2013	2012
	RMB'000	RMB'000
Rental expense paid to		
— Shijiazhuang Maidisen Animal Healthcare Co. Ltd.	**4,700**	4,100
— Beijing Haichenruian Technology Co. Ltd.	**5,100**	4,500
— Shenzhou Pagina Animal Drug technologies Consultancy and Service Co. Ltd.	**800**	700
	10,600	9,300
Sale of finished goods to related parties	**3,397**	2,922

Related parties comprise companies that are controlled by a director of the Company.

As at 31 December 2013 and 2012, outstanding balances arising from sale of finished goods to related parties are unsecured and receivable within 12 months from the end of the reporting period and are disclosed in note 23.

As at 31 December 2013, the amounts due from one shareholder of the Company, disclosed in note 24, are unsecured and will be settled in cash.

37. RELATED PARTY TRANSACTIONS *(continued)*

Compensation of key management personnel

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Directors' fees	**1,214**	1,303
Salaries, bonuses and other short-term benefits	**8,310**	7,061
Contributions to defined contributions plans	**260**	222
	9,784	8,586

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

38. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2013, included in the total additions of property, plant and equipment amounting to RMB429,000 (2012: RMB2,044,000) is deposit paid for acquisition of property, plant and equipment in prior year and recognised as additions to property, plant and equipment during the year ended 31 December 2013, and an amount of RMB2,242,000 (2012: RMB5,608,000) being unpaid costs of acquisition of property, plant and equipment included in "other payables and accrued charges", which are non-cash transactions.

Included in the total additions of intangible assets amounting to Nil (2012: RMB6,000,000) is unpaid costs of acquisition of seed strains included in "other payables and accrued charges" as at 31 December 2013.

During the year, the consideration for the warrants amounting to S$63,636,000 (equivalent to RMB305,909,000) and the Second Tranche Subscription of 240,860,938 shares amounting to S$72,258,000 (equivalent to RMB354,957,000) were prepaid by the shareholders pursuant to the Subscription Agreements. The Company has issued a promissory note for the amount of the payment in advance of the Second Tranche Subscription amount. New ordinary shares are issued in respect of the exercise of the warrants and Second Tranche Subscription and details are set out in note 30.

39. EVENT AFTER THE REPORTING PERIOD

On 17 February 2014, the Group entered into three sale and purchase agreements in relation to acquire a total 27.8% of additional equity interest in Bigvet Biotech at a total cash consideration of RMB417 million. The acquisition is expected to be completed before 31 May 2014. Upon completion of the acquisition of additional equity interest in Bigvet Biotech, the Group will hold 87.8% of equity interest in Bigvet Biotech.

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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

Name of subsidiary	Place of incorporation/ establishment/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2013 %	2012 %	Principal activities
Beijing Healthcare[1]	PRC	US$10,000,000	**100**	100	Research, development and manufacture of animal drugs (powder and pre-mix), sale of self-made products, provision of technical services and consultation relating to animal drugs, and transfer of self-developed technique
Beijing Jianxiang Hemu[2]	PRC	RMB3,000,000	**100**	100	Research and development
Evanton	Singapore	S$800,001	**100**	100	Investment holding
Hebei Biwei Science Technology Co., Ltd[1]	PRC	US$3,060,000	**100**	100	Research, development and manufacture of animal drugs (powder and pre- mixed), and sale of self-made products
Hebei Qingshanhong Animal Medicine Company Limited[3]	PRC	RMB34,400,000	**100**	100	Research, development and manufacture of animal drugs (powder and pre-mixed), and sale of self-made products
Hebei Geruisi Animal Medicine Company Limited[3]	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of self- made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2013 %	2012 %	Principal activities
Hebei Runshengzhongfu Animal Medicine Company Limited[3]	PRC	RMB36,000,000	**100**	100	Research, development and manufacture of animals drugs powder, pre-mixed and injection, and sale of self-made products
Bigvet Biotech[2]	PRC	RMB125,000,000	**60**	60	Research, development and manufacture of animal drugs
Longyao Qingshanhong Animal Medicine Company Limited[2]	PRC	RMB43,000,000	**100**	100	Research, development and manufacture of animal drugs (powder and pre- mixed), and sale of self- made products
Shanxi Longkeer[2]	PRC	RMB42,600,000	**72.16**	72.16	Research, development and manufacture of animal biological drugs and vaccines
Shenzhou Pagina-kang[1]	PRC	US$8,000,000	**100**	100	Research, development and manufacture and sale of animal drugs (oral solution and powder), and provision of technical services and consultation relating to animal drugs
Shijiazhuang Sikede Animal Medicine Company Limited[2]	PRC	RMB34,400,000	**100**	100	Research, development and manufacture of animal drugs (powder for injection), and sale of self-made products

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2013 %	2012 %	Principal activities
Shijiazhuang Aoxin Animal Medicine Company Limited[3]	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of animal drugs (oral solution of self-made products, and wholesale and commission agency of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro- ecological preparation for animals
Shijiazhuang Keruida Animal Medicine Company Limited[3]	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals
Shijiazhuang Lixinkang Animal Medicine Company Limited[3]	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company		Principal activities
			2013	2012	
			%	%	
Shijiazhuang Greenxinkang Animal Medicine Company Limited[3]	PRC	RMB500,000	**100**	100	Research, development and manufacture of animal feed, sales of self-made products, and wholesale and commission agency(excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals
Shijiazhuang Maidisenda[3]	PRC	RMB34,400,000	**100**	100	Research, development and manufacture of animal drugs (powder and granules), and sale of self-made products

All of the above subsidiaries, except for Evanton are indirectly held by the Company.

None of the subsidiaries had issued any debt securities at the end of the year.

1 These companies were established in the PRC in the form of wholly foreign-owned enterprise.

2 These companies were established in the PRC in the form of domestic-invested company.

3 These companies were established in the PRC in the form of sino-foreign equity joint venture enterprise.

41. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Incorporation/ establishment/ registration and operation	Proportion ownership interest held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Bigvet Biotech	PRC	**40**	40	**5,793**	3,412	**175,868**	170,075
Shanxi Longkeer	PRC	**27.84**	27.84	**19,374**	18,654	**91,814**	72,440

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations.

41. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(continued)*

Bigvet Biotech	**2013** **RMB'000**	2012 RMB'000
Current assets	**153,023**	72,306
Non-current assets	**477,435**	528,094
Current liabilities	**(107,151)**	(84,636)
Non-current liabilities	**(83,643)**	(90,581)
Equity attributable to owners of the Company	**263,796**	255,108
Non-controlling interests	**175,868**	170,075
Revenue	**165,640**	112,653
Expense	**(151,159)**	(108,040)
Profit for the year	**14,481**	4,613
Profit and other comprehensive income attributable to owners of the Company	**8,688**	1,201
Profit and other comprehensive income attributable to the non-controlling interests for the year	**5,793**	3,412
Dividends paid to non-controlling interests	**—**	—
Net cash inflow from operating activities	**53,683**	7,688
Net cash outflow from investing activities	**(17,750)**	(6,653)
Net cash inflow (outflow) from financing activities	**938**	(10,343)
Net cash inflow (outflow)	**36,871**	(9,308)

41. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(continued)*

Shanxi Longkeer	2013 RMB'000	2012 RMB'000
Current assets	**356,427**	262,103
Non-current assets	**56,739**	61,972
Current liabilities	**(85,261)**	(65,363)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**236,091**	186,272
Non-controlling interests	**91,814**	72,440
Revenue	**211,029**	211,044
Expense	**(141,836)**	(144,423)
Profit for the year	**69,193**	66,621
Profit and other comprehensive income attributable to owners of the Company	**49,819**	47,967
Profit and other comprehensive income attributable to the non-controlling interests for the year	**19,374**	18,654
Dividends paid to non-controlling interests	**–**	–
Net cash inflow from operating activities	**86,309**	146,605
Net cash outflow from investing activities	**(835)**	(6,689)
Net cash inflow	**85,474**	139,916

Five Year Financial Summary

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year Ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**914,600**	862,729	768,124	590,513	438,289
Gross profit	**593,690**	552,927	487,085	432,049	329,337
Profit before tax	**284,686**	180,113	302,118	193,805	188,563
Profit and total comprehensive income for the year attributable to:					
Owners of the Company	**186,333**	105,929	223,095	119,668	157,895
Non-controlling interests	**25,167**	22,066	5,809	10,008	5,931
	211,500	127,995	228,904	129,676	163,826
Assets and Liabilities					
Total assets	**2,475,190**	2,027,976	1,832,507	1,590,917	825,417
Total liabilities	**340,996**	646,606	531,390	521,698	53,731
Equity attributable to owners of the Company	**1,866,512**	1,138,855	1,080,668	892,584	750,564

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