聯邦制藥國際控股有限公司

The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code: 3933)

ANNUAL REPORT 2013

Contents

2013 CORPORATE CALENDAR OF THE UNITED LABORATORIES

1 January 2013

2 February 2013

The Inner Mongolia environment protection works is approved by the government, achieving industry leading standards.

3 March 2013

Our Memantine Hydrochloride project, which is used for the treatment of Alzheimer's Disease, successfully passed the registered pharmaceutical production site inspection of the State Food and Drug Administration.

Insulin aspart, an insulin analog, received documents for clinical trials and has entered the clinical trial stage.

4 April 2013

The United Laboratories (03933) appointed Mr. Tsoi Hoi Shan as Chairman and Mr. Leung Wing Hon as Vice-Chairman.

After the Ya'an earthquake In Sichuan, the United Laboratories activated its disaster aid budget and immediately donated medical supplies to the affected areas.

5 May 2013

The United Laboratories entered into a comprehensive strategic cooperation agreement with the Bank of China Zhuhai Branch and was granted credit of RMB2 billion.

The State Food and Drug Administration approved the sale of domestically produced bulk medicine and finished products containing memantine hydrochloride. Of which, the memantine hydrochloride oral solution is an exclusive product in China. Memantine hydrochloride is the first drug to be replicated in China, symbolizing the Company's entrance into a new field in specialist drugs.

Phase IV of the United Laboratories (Inner Mongolia) 6-APA proposal conducted trial productions successfully.

6 June 2013

The United Laboratories was selected as one of the "Zhuhai" 3 high-end industries and 1 specialty industry "20 crucial industries and 100 crucial development companies".

The United Laboratories was granted a loan of HK$800million by the China Development Bank Hong Kong Branch with tenor of three years.

The United Laboratories ranked at no. 21 of the 2012 Top 100 Chinese Pharmaceutical Companies published by SMERI.

7 July 2013

8 August 2013

The United Laboratories successfully passed the production site inspection of Mexican authorities.

9 September 2013

The Inner Mongolia workshop was awarded the title of "National Workers' Pioneer".

10 October 2013

United Laboratories (Zhongshan) Limited successfully passed the new GMP certification.

The memantine hydrochloride bulk medicine successfully passed the new GMP certification.

11 November 2013

The raw materials factory of Zhuhai United Laboratories has once again passed Germany's GMP inspection.

Chairman Tsoi Hoi Shan was awarded the title "Honorary Citizen of Zhongshan".

Phase V of the United Laboratories (Inner Mongolia) clavulanate proposal conducted trial productions successfully.

The United Laboratories repurchased RMB690million of convertible bonds. The remaining amount will be paid after the convertible bonds become due.

12 December 2013

Zhuhai United Laboratories successfully passed ISO9000 and ISO14000 re-inspections.

The "United Laboratories" trademark held by Zhuhai United Laboratories Co. Ltd. was officially recognized as a Chinese Well-known Trademark by the State Administration for Industry and Commerce. Also, according to relevant international conventions, the two well-known trademarks, "United Laboratories" and "amoxicillin", held by United Laboratories are also protected internationally.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping
Ms. Choy Siu Chit

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Mr. Huang Bao Guang
Ms. Fu Xiao Nan

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
China Construction Bank of China Limited,
Zhuhai Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of China Limited, Zhuhai Branch
Shanghai Pudong Development Bank Co., Ltd
Guangzhou Science City Sub-branch

Hong Kong

China Development Bank Corporation,
Hong Kong Branch
The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Taipei Fubon Commercial Bank Co., Limited,
Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

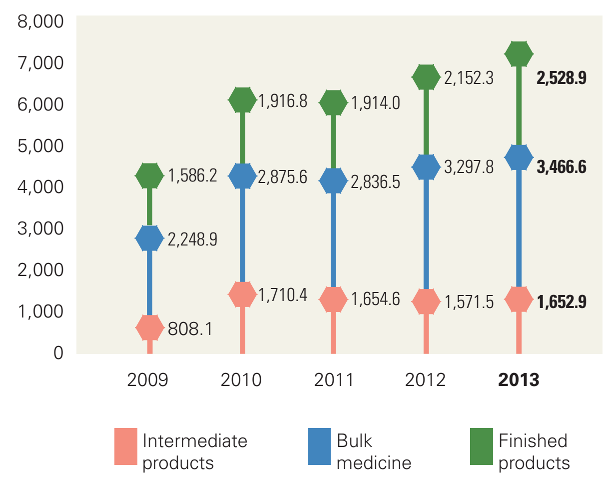
WEBSITE

www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

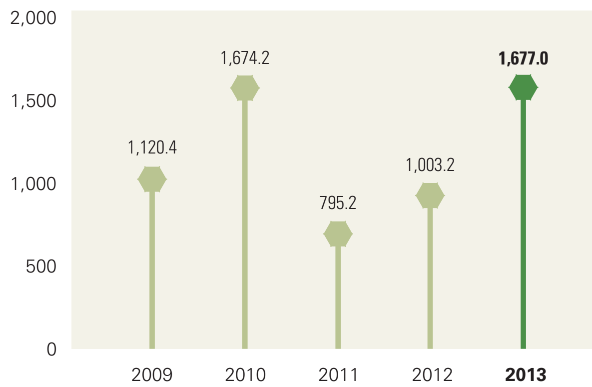
FINANCIAL HIGHLIGHTS

	2013 HK$'000	2012 HK$'000	Increase/ (decrease) %
Turnover	**7,648,443**	7,021,624	8.9%
EBITDA	**1,677,049**	1,003,207	67.2%
Profit before taxation	**901,348**	248,313	263.0%
Profit for the year attributable to owners of the Company	**48,037**	161,977	(70.3%)
Earnings per share			
Basic	**HK2.95cents**	HK10.7cents	(72.4%)
Diluted	**HK2.95cents**	HK10.7cents	(72.4%)

TURNOVER
(HK$ million)



EBITDA
(HK$ million)



BASIC EARNINGS PER SHARE
(HK Cents)

PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY
(HK$ million)

CHAIRMAN'S STATEMENT

Mr. Tsoi Hoi Shan
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "United Laboratories") for the year ended 31 December 2013.

In 2013, global financial markets were unstable. The US Federal Reserve's announcement to withdraw from the market triggered repercussions in global stock markets as the Eurozone sovereign debt crisis reemerged and economic growth in China slowed, bringing uncertainty to the global environment. However, the PRC government's medical expenditure for the year increased by 14% as compared to 2012, reaching RMB820.9billion with a slightly higher growth rate than 2012. With the steady development of medical policies in China, overall inventory decreased. Anti-corruption measures implemented by the government in the second half of the year impacted a proportion of pharmaceutical companies which relied on hospital channels. Due to limited choices in antibiotic products available to various levels of hospitals and clinics, the demand for antibiotics remained stable. In addition, a proportion of obsolete production capacities ceased production, leading to stable supply and demand in the market and improvement in the overall business environment of the Group.

During the year under review, United Laboratories capitalized on its leading position in the industry and earnestly improved its core capacity, sought for opportunities amidst such a changing situation, with a view to realizing consistent growth of business. During the year, the Group's turnover amounted to approximately HK$7,648.4 million, an increase of approximately 8.9% over that of 2012. EBITDA and profit before taxation were approximately HK$1,677.0 million and HK$901.3 million respectively, representing an increase of approximately 67.2% and 263.0% over the same period in the previous year, respectively. The profit attributable to owners of the Company was approximately HK$48.0 million, representing a decrease of 70.3% over the same period in the previous year. Earnings per share amounted to HK2.95 cents. The Board does not recommend payment of final dividend for the year ended 31 December 2013.

During the year, the Group recorded consistent increase in sales. As the demand for antibiotics became more stable, the selling price of 6-APA, the Group's intermediate product, rebounded from the bottom as prices grew steadily since the second half of 2013 and maintained its increasing trend in the beginning of 2014. The price of corn, the primary raw material

CHAIRMAN'S STATEMENT

of our intermediate product, remained stable during the year, effectively maintained production cost of products. Phase IV of the Group's Inner Mongolia plant commenced production during the year and reached 60% capacity by the end of 2013, while phase V of the plant commenced trial productions at the end of 2013. With the first three phases of the Inner Mongolia plant nearing full capacity and the Group actively researching and implementing enzymatic amoxicillin production technologies in new production capacities, vertical integration is further strengthened, thus effectively lowering production cost. The re-allocation plan of the Chengdu 6-APA production line was successfully completed and has already been integrated into the Inner Mongolia factories which help the group in optimising resource allocation to achieve higher cost efficiency.

For finished products, the Group's recombinant human insulin products was officially included in the Essential Drugs List (2012 edition), which accelerated the Group's promotion and bidding work in various levels of medical institutions across the country. During the year, the Group received orders from private hospitals, clinics and pharmacies, with sales being especially prominent in Shandong and Henan provinces. During the year, sales revenue from recombinant human insulin products successfully achieved sales targets set at the beginning of the year, bringing encouraging results.

The Group continued to strengthen its research and development of finished products. In 2012, clinical trials for insulin glargine (third generation insulin) were completed and the Group has also applied to process clinical trials for insulin detemir. Clinical trials for insulin aspart, the third generation insulin, is underway, which further optimises the Group's insulin product line. Also, the Group is developing raw materials, oral solutions and tablets for new memantine hydrochloride, which is used in treating Alzheimer's disease. On 16 July 2013, the China Food and Drug Administration issued the registration documents for the drug, making United Laboratories the first manufacturer in China to receive approval documents to replicate memantine hydrochloride products, thus further expanding the finished products business. The Group possesses a strong sales team of nearly 3,000 employees, effectively shortening the time for a product to enter the market and also provides the strongest driving force for the Group's new products on the market. The Group is currently developing 44 new products. As at 31 December 2013, 13 patents have been granted, while 7 are currently under review.

For overseas sales, the Group focused on expanding its export business. Overseas sales expansion progressed smoothly as export sales for 2013 were approximately HK$2,704.9 million, maintaining stability. Since 2013, all drugs imported into the EU must be produced by factories with EU or GMP certification. The Group has already obtained EU-CEP certification, FDA certification, and GMP certification from Japan and official certification from Mexico. With internationally approved production capabilities and products possessing significant price advantage, the Group is confident that export sales will continue to bring satisfactory contributions to the Group.

For financial strategy, the Group seized market opportunities and optimised the financial structure during the year through measures such as three-year financing leases to ensure adequate working capital. In June 2013, the Group entered into an agreement with the China Development Bank Hong Kong Branch and was granted a loan of HK$800 million over a period of years. The net proceeds will mainly be used in business expansion and repaying bank loans. In October 2013, Zhuhai United Laboratories Co., Ltd. (珠海聯邦製藥股份有限公司), a wholly-owned subsidiary of the Group, issued the second tranche of one-year corporate bonds with principal up to RMB600 million.

CHAIRMAN'S STATEMENT

China's pharmaceutical market possesses great potential. The Chinese Ministry of Health released a report in September 2012 which pointed out a total of RMB400 billion will be used in the seven major medical system projects before 2020 with an average investment amount of RMB50 billion. With population ageing growing more severe and increased occurrence of chronic disease due to urbanization, and improved living standard and larger medical insurance coverage, market demand for medical and healthcare also leverages significantly, and expenses relating to medical are destined to increase in future. On the other hand, with the government's increasingly stringent regulation on the pharmaceutical manufacturing industry, the entry barrier of the pharmaceutical industry has continuously increased and integration of the industry is accelerated. The Group is one of the few players which can meet the most stringent standards while capable to maintain stable production and increase output, and therefore it will benefit from the integration of the industry.

2014 is a drug tender year, provinces in the PRC will release their basic drugs and non-basic drugs bidding programs. When we compared between the new tender program and the original tender program, the principle of the new tender is more preferable on the quality of products with reasonable profit margin rather than lower prices, which is fully consideration with manufacture enterprise's scale, its quality level, new GMP standard, brands and intellectual property, etc. It is good news for the Group as we will obtain the tender more easily through the PRC's provinces tender program and it will keep increasing in sales of the Group's finished products steadily.

Also, the government has already stated it will continue to input more resources to support medical industries, especially leading domestic industries. It is expected that United Laboratories will benefit from such policies and further increase market shares. The Essential Drugs List (2012 edition) implemented on 1 May 2013 increases drug coverage to 520 types, of which 317 are chemical/biological drugs, which includes the Group's insulin and amoxicillin products. Leveraging on competitive prices and an extensive sales network, the Group has already taken an early advantage and penetrated the rural market and grass-roots level medical organizations. The new drugs list will further enhance the sales of related products, promoting business growth. Also, the Group has made greater effort to expand the sale of OTC products, Chinese medicine and health products, driving the growth of finished products.

For new production capacities, phase V of the Inner Mongolia plant is already completed and is in trial productions in the end of 2013. Not only does the expansion of production capacity of the Inner Mongolia plant lower production cost and raise efficiency, it is also expected that planned production can meet future development needs to effectively accommodate the rate of expansion of the export and domestic markets.

In the future, the Group shall continue to implement its existing business development strategies. We will continue to expand sales networks, strengthen penetration in domestic rural markets and communities, put great efforts to increase overseas sales, and actively explore new markets with growth potentials. The Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. At the same time, we will continue to regard the recombinant human insulin products as the key product of the Group and invest substantial resources to capture a larger market share. We will consider promoting the sales of related products to overseas markets as the Group's insulin products have reached international standards in terms of quality and production technology. Also, the Group will focus on driving the sales of the newly packaged large-sized amoxicillin and ampicillin, with a view to turning them into new growth engines for finished products sales.

CHAIRMAN'S STATEMENT

United Laboratories was founded by its former chairman Mr. Choy Kam Lok. Through 20 years of his hard work and leadership, the Group was able to flourish and develop into a leading pharmaceutical company within China, contributing greatly to the Group. I succeeded Mr. Choy Kam Lok as chairman during the year and have undertaken a great responsibility, promising to continue with his legacy and contribute to the Chinese pharmaceutical industry. Leveraging on the Group's advantages in economies of scale, we are confident that we can seize market opportunities and maintain the Group's sustainable growth momentum, hence creating the highest value for our shareholders, clients and stakeholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support during the past year, as well as all staff for their persistent efforts. I hope we can join hands and create a better future together.

Tsoi Hoi Shan
Chairman

Hong Kong, 27 March 2014

New Product


易倍清®
盐酸美金刚口服溶液
Memantine Hydrochloride Oral Solution
聯邦制藥
UNITED LABORATORIES
易倍清®
每小盒48片
盐酸美金刚片
Memantine Hydrochloride Tablets
规格：10mg
聯邦制藥
UNITED LABORATORIES
珠海联邦制药股份有限公司中山分公司
Zhuhai United Laboratories (Zhongshan) Co., Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

New board management team, from left to right, Ms. Zou Xian Hong, Mr. Leung Wing Hon, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Mr. Fang Yu Ping and Ms. Zhu Su Yan

For the year ended 31 December 2013, the Group's turnover was approximately HK$7,648.4 million, an increase of 8.9% as compared with last year. The profit attributable to shareholders was approximately HK$48.0 million, representing a decrease of 70.3% as compared with last year. The decrease is mainly due to (i) Decrease in gain on fair value change of embedded derivative components of convertible bonds as the Company repaid the convertible bonds substantially during the year; and (ii) impairment loss of production facilities located in Chengdu factory to consolidate it with the production in Inner Mongolia factory in order to enhance the scale of production, reduce the cost of production and enhance efficiency as a whole. Segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 18.5%, 7.4% and 17.5% respectively as compared with last year. Segmental profit of bulk medicine decreased by 17.3% as compared with last year. Segmental profit of intermediate products and finished products increased by 109.7% and 21.6% respectively as compared with last year.

Reviewing 2013, global financial markets were unstable. The US Federal Reserve's announcement to withdraw from the market triggered repercussions in global stock markets as the Eurozone sovereign debt crisis reemerged and economic growth in China slowed, bringing uncertainty to the global environment. Our sound development foundation enables us to face the changes in the Chinese pharmaceutical market with ease and handle complex market competition. The Group's operations during the year are summarized as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Leung Wing Hon, Vice-Chairman's speech at internal management meeting

Intermediate product and bulk medicine prices rebound

After the Chinese antibiotics pharmaceutical market has under gone policy adjustments and industry settlement in the past few years, the price of the Group's primary intermediate product 6-APA has begun to rise from its low point since the end of 2012. Prices grew steadily in the second half of the year. Due to the guidelines limiting antibiotic use issued by relevant Chines authorities gradually losing effectiveness, the market's demand for antibiotic pharmaceuticals has risen. Under the synergy effect, sale of the Group's intermediate product and bulk medicine pharmaceuticals have risen.

Sales of finished products increase

During the year, the Group's recombinant human insulin injection products and amoxicillin were officially included in the Essential Drugs List, which is beneficial to the Group's promotion and bidding work in various levels of medical institutions across the country to gain more market share. Turnover of the Group's finished products increased over last year, which was due to the increase in sales of the Group's recombinant human insulin injection products. During the year, the Group received orders from private hospitals, as well as clinics and pharmacies at various levels, with sales being especially prominent in Shandong and Henan province.

Steady increase in overseas sales

During the year, the Group's overseas sales increased from HK$2,482.9 million of last year to HK$2,704.9 million, increased by 8.9% as compared with last year, which was mainly led by increase in sales in European and Southeast Asia markets. Since 2013, all pharmaceuticals imported into the EU must be produced in a plant which has obtained certification from the EU or GMP. The Group has obtained EU-CEP certification, US-FDA certification, Japan-GMP certification and official certification from Mexico.

Reorganizing plant production lines

During the year, the Group reviewed its production lines to enhance production efficiency and lower cost in order to enhance the Group's competitiveness. Therefore, the Group has decided to move all production lines of the Chengdu plant, including production lines for 6-APA and clavulanate potassium, to the Inner Mongolia production plant for concentrated production and to further lower costs. Due to cost effectiveness reasons, the Group has also written off the 7-ACA production line of the Chengdu plant and terminated operations, switching to external purchase as a substitute. Plant facilities of the Chengdu plant which were written off due to reallocation plan to streamline production were approximately HK$808.4 million. Also, the Group has applied to relevant government authorities to change the site of the Chengdu plant into commercial purposes and service industry facilities and residential purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Increased in financing sources

The Group effectively grasped market opportunities and optimised the financial structure during the year, increasing operating capital. The Group has entered into an agreement with the China Development Bank Hong Kong Branch and was granted a loan of HK$800million over a period of three years. The net proceeds will mainly be used in business expansion and repaying bank loans. In October 2013, Zhuhai United Laboratories Co., Ltd. (珠海聯邦製藥股份有限公司), a wholly-owned subsidiary of the Group, issued the second tranche of one-year corporate bonds with principal up to RMB600million. As at 31 December 2013, the Group's funding guaranteed by obligations under finance leases were approximately HK$1,218.5 million (2012: HK$660.9 million), which was used to finance working capital. During the year, the Group has repaid most of the convertible bonds within the year, therefore the gain on fair value change of embedded derivative components of convertible bonds went from a gain of approximately HK$56.1 million of last year to a loss of approximately HK$0.4 million in this year. This is also one of the main reason of profit for the year fell substantially as compared with last year. The decrease in profit does not affect the cash flow of the Group.

Recombinant human insulin injection

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Group had pledged deposits, cash and bank balances amounted to HK$1,967.5 million (2012: HK$1,892.5 million).

As at 31 December 2013, the Group had interest-bearing bank borrowings of approximately HK$6,379.6 million (2012: HK$4,923.5 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Bank borrowings of approximately HK$2,207.7 million are fixed rate loans while the remaining balance of approximately HK$4,171.9 million is at floating rate. The Directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2013, current assets of the Group amounted to approximately HK$6,541.6 million (2012: HK$6,610.9 million). The Group's current ratio was approximately 0.66 as at 31 December 2013, as compared with 0.75 as at 31 December 2012. As at 31 December 2013, the Group had total assets of approximately HK$19,600.2 million (2012: HK$16,141.7 million) and total liabilities of approximately HK$13,118.4 million (2012: HK$10,047.0 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less pledged bank deposits and cash and bank balances to total equity) of 88.6% as at 31 December 2013, as compared with 76.1% as at 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENCY EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly in Renminbi and Hong Kong dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

CONTINGENT LIABILITIES

As at 31 December 2012 and 2013, the Group had no material contingent liabilities.

OUTLOOK FOR 2014

Looking into 2014, we remain cautiously optimistic on China's economy. The Chinese government has introduced medical reform research and promoted new policies for many years, and the current policies are expected to stabilize. Therefore, some suppressed demand will be released. The Group is prepared to continue to increase its market share in China and overseas markets. Our development strategies in various aspects are as follows:

Reorganising product lines and enhance efficiency of the Inner Mongolia plant

After undergoing large scale production line reorganization in 2013, the Group will continue to implement measures to enhance production efficiency of the Inner Mongolia plant to reduce production cost and increase productivity, thereby increasing the competitiveness of the Group's intermediate and bulk medicine products on the market. Lower costs allow for more flexibility in pricing of products to gain larger market shares. Phase V of the Inner Mongolia plant will commence production in 2014 and will create synergy with the completed Phase IV of the plant, further lowering production cost and increasing efficiency.

Continuing development of the international market of intermediate and bulk medicine products

The Group's sales network in countries like Brazil, India and Dubai has matured and it is expected that overseas sales will bring considerable growth to the Group's turnover. As the Group's products obtain approval and certification for sales overseas, the Group will expedite the sales of intermediate and bulk medicine products to overseas markets through its overseas sales network.

MANAGEMENT DISCUSSION AND ANALYSIS

Developing new products and expanding the sales of recombinant human insulin products

The Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. Currently, we have 44 new products being developed, of which 13 products are applying for patent registration and 7 of them were pending approval. The recombinant human insulin products of the Group will continue to be the highlight of sales growth. More resources will be devoted to winning bids in more Chinese provinces to enhance market share. The traditional finished products of the Group include amoxicillin and ampicillin, which will undergo reforms in new packaging to enhance sales. The Group will continue to strengthen research and development in finished products. Clinical trials of Insulin glargine (third generation insulin) is completed, insulin aspart is undergoing clinical trials and insulin detemir was applied to process clinical trials, further enhancing the Group's insulin product line. Also, the Group is developing raw materials, oral solutions and tablets for new memantine hydrochloride, which is used in treating Alzheimer's disease. On 16 July 2013, the China Food and Drug Administration issued the registration documents for the drug, making United Laboratories the first manufacturer in China to receive approval documents to replicate memantine hydrochloride products, thus further expanding the finished products business.

EMPLOYEES AND REMUNERATION

As at 31 December 2013, the Group had approximately 12,000 (2012: 12,000) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (蔡海山), aged 36, is an executive director and the Chairman of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible to supervise the production process at the Hong Kong Yuen Long Plant and ensure that it is in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is the son of Mr. Choy Kam Lok, who is the former Chairman of the Company, and the brother of Ms. Choy Siu Chit, who is an executive director of the Company. Mr. Tsoi is one of the discretionary objects of a discretionary trust established by the settlement deed dated 7 February 2007 made between Mr. Choy Kam Lok (as settler) and DBS Trustee H.K. (Jersey) Limited (as trustee).

Mr. Leung Wing Hon (梁永康), aged 52, is an executive director, the vice-chairman, the Chief Financial Officer and Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Association of International Accountants and a fellow member of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom respectively. Mr. Leung had previously worked for an international accounting firm and had also held the position of accounting manager in a subsidiary of Chinney Investment Ltd., a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung has over 15 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Ms. Zou Xian Hong (鄒鮮紅), aged 49, is an executive director and a vice president of the Group. Ms. Zou graduated from Nanjing Medical College of China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science and engineering at the Business School of Central South University. Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group.

Ms. Zhu Su Yan (朱蘇燕), aged 49, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor of medicine and surgery degree in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu Province, manager and vice president of national hospital development department and the deputy general manager of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Fang Yu Ping (方煜平), aged 51, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. In 1995, Mr. Fang joined the Group and had held a number of positions including the head of China sales office, district manager, regional manager, duty general manager and etc.. He was promoted to vice president of the Group in 2008.

Ms. Choy Siu Chit (蔡紹哲), aged 41, is an executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the daughter of Mr. Choy Kam Lok, the former Chairman of the Company, and the sister of Mr. Tsoi Hoi Shan, an executive director and Chairman of the Company.

Independent non-executive directors

Mr. Chong Peng Oon (張品文), aged 65, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee and remuneration committee and a member of the nomination committee. Mr. Chong qualified as a Chartered Accountant in 1974 and has been in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small enterprises to large listed groups in the service and manufacturing sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax consulting for companies in Hong Kong and China. He has been a member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants since 1998 and a Registered Accountant of the Malaysian Institute of Accountants since 1981. He was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and has been a Fellow Member of the Institute since 1981.

Mr. Huang Bao Guang (黃寶光), aged 66, was appointed as an independent non-executive director on 25 May 2007, and is a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Huang has over 30 years' experience in the PRC pharmaceutical industry. Mr. Huang graduated from the PRC Party College in Guangdong Province with tertiary education qualification in July 2002. Mr. Huang was the deputy general manager of Zhuhai Pharmaceutical Corporation since April 1990, and was the general manager of Zhuhai Pharmaceutical Corporation from October 1992 to October 1997. Mr. Huang was the deputy head of the Administration Bureau of Pharmaceuticals of Guangdong Province from October 1997 to June 2001. From June 2001 to October 2004 Mr. Huang was the deputy head of the Zhuhai SFDA.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Prof. Song Ming (**宋敏**), aged 52, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Prof. Song Ming graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. He is now a university professor, a PhD supervisor and director of the Finance Department in School of Economics of Peking University. He has served as a professor of finance in Faculty of Business and Economics of The University of Hong Kong since 1997. He has been director of HKU-the Centre of China Financial Research since 2002, and vice-chairman of Chinese Financial Association of Hong Kong since 2008. Professor Song concurrently holds different positions such as a postdoctoral mentor of China Securities Regulatory Commission and Shenzhen Stock Exchange, and a member of the Advisory Committee of Qianhai Shenzhen-Hong Kong Modern Service Cooperation Zone of Shenzhen. He has published a number of monographs on his research fields of financial market, bank, financial regulation and management as well as the financial development of China. He also published dozens of academic articles in top international journals such as Journal of Financial Economics, The Journal of Business, The Economic Journal and well-known Chinese journals such as Social Sciences in China (《中國社會科學》) and Economic Research Journal (《經濟研究》). He also acts as editor in chief or a member of the editorial board of various domestic and international finance and economics journals. He often accepts interviews with domestic and foreign mainstream media. As an economic advisor to the government, He also participates in the advisory work and research on major economic and financial policies. Prof. Song is also an independent non-executive director of Guotai Junan International Holdings Limited (Stock Code: 1788), which is listed in the main board of the Stock Exchange of Hong Kong.

Ms. Fu Xiao Nan (**傅小楠**), aged 43, has been appointed as an independent non-executive director of the Company on 10 December 2012. She is a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Fu has over ten years of experience in investment banking and financial services. She is currently an assistant to the Chief Executive Officer of 華泰聯合證券有限責任有限公司 (Huatai United Securities Co., Ltd.) ("Huatai United Securities"), the holding company of Huatai Securities Co., Ltd., a company listed on the Shanghai Stock Exchange. She joined the investment banking division of Huatai United Securities in May 2011 and was appointed to her current position in July 2012. Prior to joining Huatai United Securities, Ms. Fu held senior management positions in various investment banks. Ms. Fu is a registered sponsor representative of China Securities Regulatory Commission since 2007. From June 2008 to March 2010, Ms. Fu was also appointed as an independent non-executive director of Blue Star Cleaning Co., Ltd. (藍星清洗股份有限公司) (now known as Chengdu Xingrong Investment Co., Ltd. (成都市興蓉投資股份有限公司)), a company listed on the Shenzhen Stock Exchange. Ms. Fu obtained a bachelor degree in Economics from Minzu University of China (中央民族大學), a master degree in Accounting from the Central University of Finance and Economics (中央財經大學) and a degree in Executive Master in Business Administration (EMBA) from the Cheung Kong Graduate School of Business.

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷), aged 47, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Liu Bing Yang (劉炳楊), aged 63, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Zhang Wen Yu (張文玉), aged 45, is the general manager of United Laboratories (Inner Mongolia) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Inner Mongolia factory.

Mr. Dou Zhen Guo (竇振國), aged 38, is the factory manager of the Group's production plant in Zhuhai. Mr. Dou graduated from Shenyang Pharmaceutical University in July 1999, majoring in chemical pharmacy; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from Jilin University in 2010, with a master in pharmaceutical engineering. From 1999 to 2011, Mr. Dou worked on different positions in the Group's production plant in Zhuhai, such as technician, quality inspector, manager of production department, workshop supervisor and assistant factory manager, and received the Zhuhai Labour Model award in 2007. Since 2012, Mr. Dou has been chairman of the management committee as well as factory manager of the Group's production plant in Zhuhai, primarily responsible for the overall management and operation of the Group's bulk medicine plant in Zhuhai.

Mr. Yang Qiu Hong (楊秋紅), aged 44, the general manager of bulk medicine sales department in the Group's Zhuhai United Laboratories Co. Ltd. Mr. Yang graduated from Qingdao University of Science and Technology (formerly named as "Qingdao College of Chemical") in 1991. Mr. Yang joined the Group in 1999 and responsible for production, sales and research in the Group's Zhuhai United Laboratories Co. Ltd. Mr. Yang is currently responsible for the Group's sales of intermediate and bulk medicine products.

Ms. Su Li Hong (蘇麗紅), aged 45, is the general manager of the Group's bulk medicine sales department. Ms. Su graduated from China Pharmaceutical University in July 1991, majoring in Chinese traditional medicine; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from The University of International Business and Economics in 2007, with a master in international trade. From 1996 to 2011, Ms. Su worked on different positions in the Group's branch plant in Zhongshan and bulk medicine plant in Zhuhai, such as manager of the administrative personnel department, manager of the procurement department, manager of the bulk medicine sales department, manager of the foreign trade department, assistant factory manager, Chief Marketing Officer and Chief Foreign Trade Officer. Since 2012, Ms. Su has been general manager of the international bulk medicine sales department of the United Laboratories, primarily responsible for sales and management of the Group's intermediate and bulk medicine products on the overseas market.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in note 41 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2013 is set out in note 8 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 35 of this annual report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2013.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 117 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements and reasons of the movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE PREMIUM AND RESERVES

In accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's articles of association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately HK$3,437.7 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 38 and 39 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarised in note 33 to the consolidated financial statements.

No options has been submitted and/or granted under the Scheme since its adoption.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2013, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

In 2013, the aggregate purchases attributable to the Group's largest and five largest suppliers accounted for 24.2% and 40.6% respectively of the Group's total purchases for the year.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2013 and up to the date of this report were as follows:

Executive Directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping
Ms. Choy Siu Chit *(re-designated on 11 June 2013)*
Mr. Choy Kam Lok *(deceased on 15 April 2013)*

Independent Non-Executive Directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

In accordance with article 87 of the Company's articles of association, Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Ms. Choy Siu Chit and Prof. Song Ming will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors of the Company are set out on pages 16 to 18 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract dated 1 April 2010 with the Company under which he was appointed from 3 April 2010 for a maximum period of three years. Mr. Tsoi's subsequent appointment shall also be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$3,840,000 per annum effective from 16 April 2013.

Mr. Leung Wing Hon has entered into a service contract dated 25 May 2007 with the Company under which he agreed to act as an executive director of the Company for a period of three years unless terminated in accordance with the terms of the service contracts. Under the service contract, the annual salary payable by the Company to Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. He will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

REPORT OF THE DIRECTORS

Each of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping has entered into a service contract dated 1 November 2010 with the Company under which each of them was appointed from 1 November 2010 for a maximum period of three years. Mr. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive directors of the Company with reference to performance of the Group.

Ms. Choy Siu Chit has entered into a service contract dated 11 June 2013 with the Company under which she has agreed to act as an executive director for a period of three years unless terminated in accordance with the terms of the letter of appointment. She is also required to retire by rotation at the annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Choy Siu Chit as an executive director is HK$1,800,000 per annum and will be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

The amount of the annual salary increment and the bonus payable under such service contracts for executive directors is at the discretion of the Board and the remuneration committee of the Company, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the Board in relation to him or her.

Each of Mr. Huang Bao Guang and Prof. Song Ming has entered into a letter of appointment dated 25 May 2010 with the Company, and Mr. Chong Peng Oon has entered into a letter of appointment dated 23 March 2010 with the Company under which they agreed to act as independent non-executive directors for a period of one year and will continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the appointment letters. The annual director's fee for each of the above three independent non-executive directors is HK$240,000.

Ms. Fu Xiao Nan has entered into a letter of appointment with the Company for an initial term of three years commencing from 10 December 2012, unless terminated by at least one month's written notice served by either party at any time during the then existing term. Pursuant to the letter of appointment, Ms. Fu is entitled to an annual fee of HK$240,000, which is determined by the Board with reference to Ms. Fu's experience, duties, responsibilities and the Company's remuneration policy.

Save as disclosed in this annual report, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employer within year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACT

No contracts concerning the management or administration of the whole or any substantial part of the business were entered into or in existence during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

None of the directors have any interests in a business which competes with the business of the Group. Furthermore, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2013, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	225,000	Personal interest	0.01%
Mr. Leung Wing Hon	657,500	Personal interest	0.04%
Ms. Zou Xian Hong	880,000	Personal interest	0.05%
Ms. Zhu Su Yan	179	Personal interest	0.00%
Mr. Fang Yu Ping	460,000	Personal interest	0.03%

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long/short positions in the ordinary shares of the Company:

Name	*Notes*	Number of shares held	Percentage of Interest
Mr. Choy Kam Lok, deceased ("Mr. Choy")	*(1)*	1,193,127,500 (L)	73.34%
	(2)	118,750,000 (S)	7.30%
Ms. Ning Kwai Chun ("Ms. Ning")	*(3)*	1,193,127,500 (L)	73.34%
		119,075,000 (L)	7.31%
		118,750,000 (S)	7.30%
Heren Far East Limited ("Heren")		1,006,250,000 (L)	61.85%
Gesell Holdings Limited ("Gesell")	*(4)*	1,006,250,000 (L)	61.85%
DBS Trustee H.K. (Jersey) Limited	*(5)*	1,006,250,000 (L)	61.85%

L/S: Long position/short position

Note:

(1) Mr. Choy is the founder of The Choy Family Trust, which is a discretionary trust and whose discretionary objects include the directors of the Company, Mr. Tsoi Hoi Shan and Ms. Choy Siu Chit, and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose Part XV of the SFO, Mr. Choy is deemed or taken to be interested in the entire issued share capital of Gesell and Heren which form part of the property of The Choy Family Trust. Mr. Choy is therefore deemed and taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 67,902,500 shares of the Company and 325,000 shares of the Company held by the spouse of Mr. Choy, Ms. Ning which is deemed interests of Mr. Choy. Heren lent 118,750,000 shares to Mr. Choy and Ms. Ning. Hence, Mr. Choy had a long position in the 1,193,127,500 shares.

(2) Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..

(3) Ms. Ning is the spouse of Mr. Choy and is accordingly deemed to have interest in 1,193,127,500 shares of the Company that Mr. Choy has interest in and Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..

(4) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.

(5) DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 1,006,250,000 shares of the Company which The Choy Family Trust is interested through Heren and Gesell for the purpose of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2013.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 27 to 32 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Tsoi Hoi Shan
Chairman and Executive Director

Hong Kong, 27 March 2014

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2013, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("New CG Code") (previously known as Code on Corporate Governance Practices ("Former CG Code")) contained in Appendix 14 of the rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except for certain deviations which are summarized below:

– Code Provision A.1.8

Code provision A.1.8 of the CG Code stipulates that, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the directors and the management of the Group, the Board believes that all potential claims and legal actions against the directors can be handled effectively, and the possibility of actual litigation against the directors is very low. The Company has arranged appropriate insurance cover in respect of legal action against its directors with effective from 16 July 2013.

– Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2013, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director was unable to attend the annual general meeting of the Company held on 29 May 2013 due to other important engagement.

– Code Provision B.1.3

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.2 of the CG Code except that the Remuneration Committee should review and make recommendations to the Board on the remuneration packages of executive directors only and not senior management (as opposed to directors and senior management under the code provision).

CORPORATE GOVERNANCE REPORT

THE BOARD

The Board comprises six executive directors and four independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 16 to 18. The Board has established three Board committees namely Audit Committee, Remuneration Committee and Nomination Committee. The attendance rates of individual directors at board meetings, annual general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Tsoi Hoi Shan	4/4	1/1	N/A	N/A	N/A
Mr. Leung Wing Hon	4/4	1/1	N/A	N/A	N/A
Ms. Zou Xian Hong	4/4	1/1	N/A	N/A	N/A
Ms. Zhu Su Yan	4/4	1/1	N/A	N/A	N/A
Mr. Fang Yu Ping	4/4	1/1	N/A	N/A	N/A
Ms. Choy Siu Chit *(Note 1)*	4/4	1/1	N/A	N/A	N/A
Mr. Choy Kam Lok *(Note 2)*	1/1	0/0	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Chong Peng Oon	4/4	1/1	2/2	1/1	1/1
Mr. Huang Bao Guang	4/4	0/1	2/2	1/1	1/1
Mr. Song Ming	4/4	1/1	2/2	1/1	1/1
Ms. Fu Xiao Nan	4/4	1/1	2/2	1/1	1/1

Notes:

1. Re-designated from non-executive director to executive director on 11 June 2013.

2. Deceased on 15 April 2013.

The Board is responsible for setting the Group's objectives and strategies as well as to monitor the Group's performance. The Board also approves matters like annual and interim results, major transactions, appointment of directors, dividend and accounting policies and scrutinizes internal control procedures of the Group's operations. The Board has delegated the responsibility and authority of day-to-day operations to the management team.

All directors are provided with updated information in relation to governance and control matters regularly. The directors may seek independent professional advice according to prescribed procedures in order to assist them to discharge their duties at the expenses of the Company.

Four regular board meetings were held by the Board during the year. At least 14 days notices are given to all directors for all regular board meetings. Directors can include matters to be discussed in the agenda if necessary. Agenda of regular board meetings accompanied with board papers are dispatched to all directors within a reasonable time before the date of meeting. All draft minutes of the Board are circulated to all directors within a reasonable time for comments before being confirmed.

CORPORATE GOVERNANCE REPORT

Minutes of the Board and Board committees are kept by the secretary duly appointed at such meetings. All directors are entitled to inspect the board papers and relevant information and to access to sufficient information on a timely basis so as to enable the Board to make informed decisions on matters to be brought before meetings.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the New CG Code, directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meeting.

During the year, the Company has arranged for all directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

CHAIRMAN

The information of Mr. Tsoi Hoi Shan, the Chairman is set out in the Biographical Details of Directors and Senior Management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has four independent non-executive directors. Among the four independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All the non-executive directors of the Company are appointed for a fixed term subject to retirement and re-appointment pursuant to the Company's articles of association.

Each of the independent non-executive directors has submitted a confirmation of his independence as required by Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors to be independent and that each of them satisfies the guidelines of independence set out in Rule 3.13 of the Listing Rules.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The members of the Remuneration Committee comprise of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the Chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the New CG Code, but with a deviation from the code provision of the Remuneration Committee's

CORPORATE GOVERNANCE REPORT

responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee held one meeting during the year. It undertook a review of the remuneration and benefits of the directors. The Remuneration Committee ensures that no director is involved in determining his/her own emoluments.

AUDIT COMMITTEE

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the Chairman of the Audit Committee.

The major duties of the Audit Committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The Audit Committee held two meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the Audit Committee are consistent with the relevant provisions set out in the New CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

NOMINATION COMMITTEE

The Board has established Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of directors to the Board. For the year ended 31 December 2013, the Nomination Committee comprises four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Mr. Song Ming and Ms. Fu Xiao Nan. Prof. Song Ming is the Chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year to discuss re-election of directors. During selection and recommendation of candidates for directors, the Committee will consider about experience, qualification and suitability of the candidates. The Board will approve the appointments based on the same criteria. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the New CG Code.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

During the year under review, the Board approved the revised terms of reference of the Nomination Committee, Diversity of Board Members Policy and continuous disclosure obligation procedures of the Company. The Board also approved that the corporate governance duties were delegated to the Audit Committee.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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

To comply with code provision A.6.4 of the New CG Code, the Company has adopted standard code for the code of conduct for relevant employees' securities transactions to regulate certain employees of the Group who are deemed to be in possession of unpublished price sensitive information of the Company when dealing in the securities of the Company.

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2013, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

In the year under review, the Board considers the systems of internal control of the Company are sufficient and effective, hence the Company has complied with the code provisions relevant to the internal control in the New CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2013, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit service in 2013 amounted to approximately HK$4,100,000 and HK$1,506,000 respectively.

COMPANY SECRETARY

Mr. Leung Wing Hon is the company secretary of the Company. Mr. Leung report to Mr. Tsoi Hoi Shan, the Chairman of the Board. Mr. Leung Wing Hon was appointed as company secretary of the Company on 25 May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of International Accountants. He undertook no less than 15 hours of relevant professional training during the year.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

Pursuant to Article 58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Making Enquiry to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a range of communication channels between itself, its shareholders and investors, including answering questions through the annual general meeting, the publications of annual and interim reports, notices, announcements and circulars on the website of the Company at www.tul.com.cn/www.irasia.com/listco/hk/unitedlab. During the year, the Board is not aware of any significant changes in the Company's constitutional documents.

On behalf of the Board

Leung Wing Hon
Vice-Chairman and Executive Director

Hong Kong, 27 March 2014

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accompanying consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 116, which comprise the consolidated statement 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 Hong Kong Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing. 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

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 the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Turnover	8	**7,648,443**	7,021,624
Cost of sales		**(5,010,782)**	(4,904,338)
Gross profit		**2,637,661**	2,117,286
Other income	9	**78,253**	73,650
Other gains and losses	10a	**14,573**	(874)
Selling and distribution expenses		**(1,231,296)**	(1,081,691)
Administrative expenses		**(556,073)**	(590,305)
Other expenses	10b	**(387,146)**	(110,907)
Impairment loss recognised in respect of property, plant and equipment		**(808,363)**	–
Fair value change on investment properties	19	**1,355,261**	–
(Loss) gain on fair value change of embedded derivative components of convertible bonds		**(376)**	56,085
Finance costs	11	**(201,146)**	(214,931)
Profit before taxation		**901,348**	248,313
Taxation	13	**(853,311)**	(86,336)
Profit for the year attributable to owners of the Company	14	**48,037**	161,977
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**217,135**	55,604
Fair value change upon transfer of land use rights to investment properties		**318,852**	–
Taxation relating to fair value change upon transfer of land use rights to investment properties		**(196,884)**	–
Total comprehensive income for the year attributable to owners of the Company		**387,140**	217,581
Earning per share (HK cents)	16		
– Basic		**2.95**	10.7
– Diluted		**2.95**	10.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**9,807,079**	8,379,224
Investment properties	*19*	**2,320,316**	–
Prepaid lease payments	*18*	**114,275**	144,488
Goodwill	*20*	**3,866**	3,770
Intangible assets	*21*	**60,674**	2,774
Deposit for land use rights		**169,094**	164,532
Deposits for acquisition of property, plant and machinery		**464,635**	803,810
Pledged deposit against finance leases		**100,772**	–
Available-for-sale investment	*22*	**–**	–
Deferred tax asset	*30*	**17,911**	32,211
		13,058,622	9,530,809
Current assets			
Inventories	*23*	**1,271,855**	1,813,609
Trade and bills receivables, other receivables, deposits and prepayments	*24*	**3,290,653**	2,896,789
Derivative financial instruments	*25*	**7,917**	4,426
Prepaid lease payments	*18*	**3,632**	3,542
Pledged bank deposits	*26*	**886,824**	1,246,403
Bank balances and cash	*26*	**1,080,713**	646,125
		6,541,594	6,610,894
Current liabilities			
Trade and bills payables and accrued charges	*27*	**4,274,793**	3,312,789
Derivative financial instruments	*25*	**7,364**	4,669
Convertible bonds	*31*	**–**	943,431
Obligations under finance leases – due within one year	*28*	**549,357**	238,950
Tax payables		**32,870**	33,026
Borrowings – due within one year	*29*	**4,998,359**	4,322,486
		9,862,743	8,855,351
Net current liabilities		**(3,321,149)**	(2,244,457)
Total assets less current liabilities		**9,737,473**	7,286,352

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Deferred tax liabilities	*30*	**983,132**	64,899
Deferred income in respect of government grants	*27*	**107,271**	103,827
Obligations under finance leases			
– due after one year	*28*	**669,145**	421,950
Borrowings – due after one year	*29*	**1,381,240**	600,987
Convertible bonds	*31*	**114,856**	–
		3,255,644	1,191,663
		6,481,829	6,094,689
Capital and reserves			
Share capital	*32*	**16,269**	16,269
Reserves		**6,465,560**	6,078,420
Equity attributable to owners of the Company		**6,481,829**	6,094,689

The consolidated financial statements on pages 35 to 116 were approved and authorised for issue by the Board of Directors on 27 March 2014 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company							
	Share capital	Share premium	Special reserve	Capital reserve	Revaluation reserve	Foreign exchange reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2012	13,015	1,959,061	286,032	464,450	–	718,833	1,735,230	5,176,621
Changes in equity during the year:								
Exchange differences arising on translation to presentation currency	–	–	–	–	–	55,604	–	55,604
Profit for the year	–	–	–	–	–	–	161,977	161,977
Total comprehensive income for the year	–	–	–	–	–	55,604	161,977	217,581
Issue of new shares upon rights issue *(note 32)*	3,254	715,825	–	–	–	–	–	719,079
Expenses incurred in connection with rights issue	–	(18,592)	–	–	–	–	–	(18,592)
Appropriations	–	–	–	66,763	–	–	(66,763)	–
At 31 December 2012	16,269	2,656,294	286,032	531,213	–	774,437	1,830,444	6,094,689
Changes in equity during the year:								
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**–**	**217,135**	**–**	**217,135**
Fair value change upon transfer of land use rights to investment properties	**–**	**–**	**–**	**–**	**318,852**	**–**	**–**	**318,852**
Taxation relating to fair value change upon transfer of land use rights to investment properties *(note 30)*	**–**	**–**	**–**	**–**	**(196,884)**	**–**	**–**	**(196,884)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**48,037**	**48,037**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**121,968**	**217,135**	**48,037**	**387,140**
Appropriations	**–**	**–**	**–**	**42,754**	**–**	**–**	**(42,754)**	**–**
At 31 December 2013	**16,269**	**2,656,294**	**286,032**	**573,967**	**121,968**	**991,572**	**1,835,727**	**6,481,829**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided for before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective subsidiaries.

Included in special reserve is an amount of HK$208,792,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of HK$77,240,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquiring additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity. Details of which is set out in note 19.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Operating activities		
Profit before taxation	**901,348**	248,313
Adjustments for:		
Reversal of allowance for inventories	**(3,841)**	–
Written down of long aged deposit/prepayment	**21,128**	–
Addition (reversal) of provision of allowance for doubtful debts	**7,510**	(4,767)
Amortisation of intangible assets	**2,221**	1,432
Amortisation of prepaid lease payments	**4,563**	3,553
Depreciation of property, plant and equipment	**567,771**	534,978
Fair value change on investment properties	**(1,355,261)**	–
Impairment loss recognised in respect of property, plant and equipment	**808,363**	–
Finance costs	**201,146**	214,931
Bank interest income	**(25,196)**	(19,734)
Net loss on disposal of property, plant and equipment	**21,290**	2,992
Fair value change on derivative financial instruments	**1,588**	(3,239)
Loss (gain) on fair value change of embedded derivative components of convertible bonds	**376**	(56,085)
Operating cash flows before movements in working capital	**1,153,006**	922,374
Decrease (increase) in inventories	**553,855**	(260,705)
Increase in trade and bills receivables, other receivables, deposits and prepayments	**(450,554)**	(361,765)
(Decrease) increase in derivative financial instruments	**(2,384)**	1,965
Increase in trade and bills payables and accrued charges	**342,253**	394,770
Cash generated from operations	**1,596,176**	696,639
Income taxes paid	**(116,726)**	(105,803)
Net cash from operating activities	**1,479,450**	590,836
Investing activities		
Payments for purchase of property, plant and equipment	**(2,046,117)**	(2,740,151)
Proceeds on disposal of property, plant and equipment	**49,763**	26,852
Increase in prepaid lease payments	**–**	(37,090)
Placement of pledged bank deposits	**(1,869,098)**	(1,538,289)
Receipt of government subsidy relating to property, plant and machinery	**8,811**	–
Withdrawal of pledged bank deposits	**2,252,822**	891,583
Interest received	**25,196**	19,734
Acquisition of intangible assets	**–**	(1,880)
Payment for deposit for land use rights	**(377)**	(111,373)
Net cash used in investing activities	**(1,579,000)**	(3,490,614)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013	2012
	HK$'000	HK$'000
Financing activities		
Interest paid	**(439,982)**	(311,843)
Finance leases raised	**859,061**	738,000
Repayments of obligations under finance leases	**(301,509)**	(84,538)
Placement of pledged deposits against finance leases	**(100,772)**	–
New borrowings raised	**6,129,096**	4,332,231
Repayment of borrowings	**(4,757,815)**	(2,900,087)
Partial redemption of principal of convertible bond	**(875,149)**	–
Increase in bank overdraft, net	**–**	122,698
Issue of ordinary shares	**–**	719,079
Expenses relating to issue of ordinary shares	**–**	(18,592)
Net cash from financing activities	**512,930**	2,596,948
Net increase (decrease) in cash and cash equivalents	**413,380**	(302,830)
Effect of foreign exchange rate changes	**21,208**	351
Cash and cash equivalents at beginning of the year	**646,125**	948,604
Cash and cash equivalents at end of the year	**1,080,713**	646,125
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,080,713**	646,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company is Heren Far East Limited and Gesell Holdings Limited, respectively, both are company incorporated in the British Virgin Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 41.

The functional currency of the Company and its subsidiaries (the "Group") in the People's Republic of China (the "PRC") is Renminbi ("RMB"). The consolidated financial statements of the Group are presented in Hong Kong dollars because the Company is a public company with the shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and a majority of its investors are based in Hong Kong and therefore, the directors consider that Hong Kong dollars is a preferred currency to be used in presenting the operating results and financial position of the Group.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013, the Group had net current liabilities of HK$3,321,149,000 which included borrowings due within one year of HK$4,998,359,000. The directors believe the existing bank borrowings included in current liabilities at the end of the reporting period could be successfully renewed on maturity date. In addition, the Group had available unutilised borrowing facilities of HK$6,124,222,000 at 31 December 2013 which can be utilized before maturity of the facilities and will be subject to renew upon maturity. The directors are of the opinion that the Group has a good track record and maintains good relationship with banks which enhance the Group's ability to renew the borrowing facilities upon expiry.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Taking into account the Group's cash flow projection, including the Group's unutilized bank facilities, ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that it has sufficient working capital to meet in full its financial obligations as they fall due for the next twelve months from the end of the reporting period and accordingly, the financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the consolidated financial statements, the Group has consistently adopted the Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations ("HK(IFRIC) – Int"), which are effective for the accounting period beginning on 1 January 2013.

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

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in Note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early adopted the following new or revised standards, amendments and interpretations that have been issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") but are not yet effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
HK(IFRIC) – Int 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 HKFRS 9 are finalised
4 Effective for annual periods beginning on or after1 July 2014, with limited exceptions
5 Effective for first annual HKFRS financial statements beginning on or after1 January 2016

The directors of the Company anticipate that the application of these new or revised standards, amendments and interpretations will have no material impact on the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

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

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

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. 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 Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

Goodwill

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

For the purposes 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 is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an 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 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 unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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 sale of goods is recognised when the goods are delivered and title has passed.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purpose other than construction in progress as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the lease term or the operation period of the relevant company of 50 years
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 25%
Motor vehicles	20% – 25%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or other own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the leased term, assets are depreciated over the shorter of the lease term and their useful lives.

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 net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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.

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

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Sale and leaseback resulting in a finance lease

If a sale and leaseback transaction results in a finance lease, the present value of minimum lease payments is credited to a liability account representing the initial net obligation under finance lease. Any excess of sales proceeds over the carrying amount is not immediately recognised as income by the Group. Instead, it is deferred and amortised over the lease term. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount.

Leasehold land and building

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building *(Continued)*

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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the shorter of the relevant lease/land use right or the operation period of the relevant entity.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure.

Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired separately *(Continued)*

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

Research and development expenditures

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 charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. 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 assets 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 is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to the present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), 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 financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading and classified as a financial asset at FVTPL if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses line item in the consolidated statement of profit or loss and other comprehensive income.

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 are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated its investment in unlisted equity security as an available-for-sale financial asset. 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 the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

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

For 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

- significant financial difficulty of the issuer or counterparty; or
- 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 and bills receivables, and other 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, or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when these is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debt is 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 the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities 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 entered into and the definitions of a financial liability and an equity instrument.

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 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 are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds contains liability component, conversion option derivative and early redemption option derivative components

Convertible bonds issued by the Group that contain the liability, conversion option and early redemption option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments and that gives the Company a choice over how it is settled is a conversion option derivative. Early redemption option that results in redemption other than by an amount which approximates the amortised cost of the liability on each exercise date is a redemption option derivative. At the date of issue, the liability, conversion option and early redemption option derivatives are recognised at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Convertible bonds contains liability component, conversion option derivative and early redemption option derivative components (Continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option derivatives in proportion to their relative fair values. Transaction costs relating to the conversion option and redemption option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible 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.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes 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 asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses as the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on 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 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.

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 profit 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 amount of its assets and liabilities.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the foreign exchange reserve).

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme or state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies as described in note 4, the directors of the Company are required to make judgments, estimations and key assumptions about the classification, carrying amounts of assets and liabilities that are not readily apparent from other sources. 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, are discussed below.

Critical judgements in applying accounting policies

Apart from those involving estimations described below, the directors have made certain critical accounting judgment in the process of applying the Group's accounting policies and that have the significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Critical judgements in applying accounting policies *(Continued)*

Conversion of lands situated in the PRC to investment properties

During the year ended 31 December 2013, the Group ceased operations in its production facilities in Chengdu, the PRC, so that the Group could consolidate its production of antibiotics products, 6-APA and T-octylammonium clavulanate in the Group's Inner Mongolia site in accordance with the Group's long term business strategy. Further, the directors of the relevant subsidiary and of the Company confirmed the intention for the Group to cease permanently the production in Chengdu and to change the use of the lands in Chengdu upon which the production facilities are situated (the "Chengdu Lands") from industrial use to commercial and residential uses (the "Change of Land Use"). The directors also confirmed their intention to commence development of commercial properties on the Chengdu Lands as soon as the Change of Land Use has been effected with the relevant government authority.

Thus, the Chengdu Lands would no longer be under owner-occupation but instead be used for the development of commercial properties which will be held for investment purpose. On that basis, the Chengdu Lands were reclassified from "prepaid lease payments as owner-occupied properties for industrial use" to "investment properties for commercial/residential development" in the financial statements (the "Conversion") and measured at fair value upon the Conversion. Details of the Conversion of the Chengdu Lands and subsequent fair value measurement have been disclosed in note 19.

Key sources of estimation uncertainty

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to experience of the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimates due to changes in the commercial and technological environment, such difference will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. The carrying amount of property, plant and equipment is disclosed in note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Key sources of estimation uncertainty *(Continued)*

Impairment of property, plant and equipment

During the year ended 31 December 2013, the Group ceased operations in its production facilities in Chengdu, the PRC, so that the Group could consolidate its production of antibiotics products, 6-APA and T-octylammonium clavulanate in the Group's Inner Mongolia site in accordance with the Group's long term business strategy. Further, the directors of the relevant subsidiary and of the Company confirmed the intention for the Group to cease permanently the production in Chengdu and to change the use of the lands in Chengdu upon which the production facilities are situated (the "Chengdu Lands") from industrial use to commercial and residential uses (the "Change of Land Use"). The directors also confirmed their intention to commence development of commercial/residential properties on the Chengdu Lands as soon as the Change of Land Use has been effected with the relevant government authority.

Thus, the Chengdu Lands would no longer be under owner-occupation but instead be used for the development of commercial/residential properties which will be held for investment purpose. On that basis, the Chengdu Lands were reclassified from "prepaid lease payments as owner-occupied properties for industrial use" to "investment properties for commercial/residential development" in the financial statements (the "Conversion") and measured at fair value upon the Conversion. Details of the Conversion of the Chengdu Lands and subsequent fair value measurement have been disclosed in note 19.

Other than Chengdu Production Plant, management is confident that the carrying amount of the property, plant and equipment will be recovered in full based on the results of assessment of the estimates of anticipated cash flow generated by the property, plant and equipment. The situation will be closely monitored, and adjustments for impairment will be made in future periods when an indication of such adjustments presents.

Estimated allowance for write-down of inventories to net realisable value

The Group makes allowance for the write-down of inventories based on assessments of the net realisable values of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value of certain items is lower than the cost of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. During the year ended 31 December 2013, a reversal of allowance of inventories of HK$3,841,000 (2012: nil) were recognised upon realisation of sales. The carrying amount of inventories is disclosed in note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Key sources of estimation uncertainty *(Continued)*

Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables, and other receivables. Allowances are applied to trade and bills receivables, and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade and bills receivables, and other receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables, and other receivables and allowance for doubtful debts in the year in which such estimate has changed. The carrying amount of trade and bills receivables, and other receivables is disclosed in note 24.

Valuation of the embedded derivatives in convertible bonds

The fair values for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the area that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the embedded derivatives in convertible bonds. The carrying amount of embedded derivatives is disclosed in note 31.

Investment properties situated in the PRC

As described in note 19, investment properties situated in the PRC are stated at fair value by reference to valuations performed by independent professional valuers. In relying on the valuation reports of the independent professional valuers, the management has exercised its judgment and is satisfied that the method of valuation is reflective of the market conditions prevailing at respective valuation dates after taking into consideration of the state of the investment properties. Any changes in the market conditions will affect the fair value of the investment properties of the Group.

Impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets 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. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. The management is satisfied that no impairment loss is required to recognise during both years.

The carrying amount of intangible assets is set out in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of funding of cash flows from operating activities and the flexibility through the use of the finance from banks. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of net debt, which includes the obligations under finance leases (note 28), borrowings (note 29), convertible bonds (note 31), net of bank balances, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's capital structure.

The management of the Group monitors the utilisation of borrowings and ensures full compliance with loan covenants during the year and at the end of the reporting period.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2013 **HK$'000**	2012 HK$'000
Financial assets		
Loans and receivables (including trade and bills receivables, pledged bank deposits and bank balances and cash)	**4,712,171**	4,075,021
Derivative financial instruments	**7,917**	4,426
Financial liabilities		
Amortised cost	**11,754,921**	9,000,989
Convertible bonds	**114,856**	943,431
Derivative financial instruments	**7,364**	4,669

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, pledged bank deposits, bank balances and cash, trade and bills payables, obligations under finance leases, convertible bonds and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The risk arising from the Group's financial instruments are mainly market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The directors review policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has trade receivables, bank balances and other payables denominated in United States dollars ("USD") and Euro, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to eliminate the currency exposures.

The carrying amounts of the Group's monetary assets denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities at the end of the reporting period are as follows:

	2013	2012
	HK$'000	HK$'000
USD	**505,605**	360,338
Euro	**4,082**	4,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Market risk

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against USD and Euro. 5% is the sensitivity rate used which represents management's assessment of the possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where Renminbi strengthens 5% against USD and Euro. For a 5% weakening of Renminbi against USD and Euro, there would be an equal but opposite impact on the profit for the year.

	2013 **HK$'000**	2012 HK$'000
USD		
Profit for the year	**(21,472)**	(15,476)
Euro		
Profit for the year	**(282)**	(196)

Forward exchange rate sensitivity analysis

The Group had entered into foreign currency forward contracts with banks to reduce its exposure to currency fluctuation risk of settlements from trade receivables which were denominated in USD. The derivatives were not accounted for under hedge accounting. The Group was required to estimate the fair value of the foreign currency forward contracts at the end of the reporting period, which therefore exposed the Group to other price risk.

The sensitivity analyses below had been determined based on the exposure to the Group's forward buying rate risk at the end of the reporting period. If the forward exchange rate of RMB strengthen 1% (2012: 1%) against USD while all other input variables of the valuation models were held constant, the Group's profit for the year would increase by HK$20,236,000 (2012: HK$11,870,000). If the forward exchange rate had been lower by 1% (2012: 1%), the impact on the Group's profit for the year would be insignificant (2012: decreased by HK$12,357,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risk

The Group has significant borrowings which bear interest-rate risk. Floating rate borrowings and bank deposits expose the Group to cash flow interest-rate risk. Borrowings, obligations under finance lease and convertible bonds issued at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk. The directors of the Company consider the Group's exposure to fair value interest rate risk on bank deposits is not significant as most deposits bear variable interest rates.

Interest rate sensitivity analysis

No sensitivity analysis was prepared for pledged bank deposits and bank balances as the financial impact arising on changes in interest rates was minimal due to limited changes in interest rate. The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the end of the reporting period, if interest rates had been increased/decreased by 50 (2012:50) basis points and all other variable remained constant, the Group's profit for the year would decrease/increase by HK$7,761,000 (2012: HK$3,513,000).

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Other price risk

The conversion option and early redemption option derivatives of the Company's convertible bonds stated at fair value exposed the Group to equity price risk.

Equity price risk sensitivity analysis

If the share price of the Company inputted to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% (2012: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2013 would decrease/increase by approximately HK$4,252,000/HK$4,550,000 (2012: HK$18,478,000/HK$17,415,000).

If the expected volatility of share price of the Company inputted to the valuation model for assessing the fair value of such derivatives had been 10% (2012: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2013 would decrease/increase by approximately HK$4,502,000/HK$5,131,000 (2012: HK$10,627,000/HK$10,873,000).

7. FINANCIAL INSTRUMENTS *(Continued)*

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out research on the credit risk of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed when necessary.

In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the directors of the Company consider that counterparties are financially sound.

Other than concentration of credit risk on bank deposits in which the counterparties are financially sound, the Group has no significant concentration of credit risk on trade and bills receivables, with exposure spread over a number of counterparties. There is no customer who represents more than 5% of the total balance of trade receivables at the end of the reporting period.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2013, the Group had available unutilised banking facilities of HK$6,124,222,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates current at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand HK$'000	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2013									
Non-derivative									
Non-interest bearing									
Trade, bills and other payables	–	–	2,722,059	1,102,557	298,946	33,258	–	4,156,820	4,156,820
Interest bearing instruments									
Obligations under finance leases	5.66%	–	105,819	23,602	153,023	320,280	746,175	1,348,899	1,218,502
Borrowings									
– fixed rate	6.15 – 6.40%	–	1,104,230	336,161	36,228	790,871	–	2,267,490	2,207,709
– variable rate	2.09 – 8.28%	755,992	498,779	143,988	630,747	891,126	1,501,149	4,421,781	4,171,890
Convertible bonds									
– fixed rate	15.8%	–	–	–	4,659	4,659	142,886	152,204	114,856
		755,992	4,430,887	1,606,308	1,123,603	2,040,194	2,390,210	12,347,194	11,869,777
Derivative – net settlement	–	–	6,484	–	–	880	–	7,364	7,364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	On demand HK$'000	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2012									
Non-derivative									
Non-interest bearing									
Trade, bills and other payables	–	–	1,565,039	1,503,222	348,355	–	–	3,416,616	3,416,616
Interest bearing instruments									
Obligations under finance leases	5.25%	–	34,795	34,107	68,903	137,805	447,522	723,132	660,900
Borrowings									
– fixed rate	6.02 – 9.85%	396,838	249,596	150,237	748,679	786,138	101,788	2,433,276	2,397,116
– variable rate	2.10 – 8.50%	1,857,862	125,478	692	2,075	59,128	527,667	2,572,902	2,526,357
Convertible bonds									
– fixed rate	15.8%	–	–	–	36,842	1,019,602	–	1,056,444	943,431
		2,254,700	1,974,908	1,688,258	1,204,854	2,002,673	1,076,977	10,202,370	9,944,420
Derivative – net settlement	–	–	–	–	944	356	1,703	3,003	3,003
Derivative – gross settlement									
– inflow	–	–	(131,374)	(12,478)	(181,168)	(164,664)	–	(489,684)	(489,684)
– outflow	–	–	132,296	12,563	181,390	165,101	–	491,350	491,350
		–	922	85	222	437	–	1,666	1,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

The table below summarises the maturity analysis of term loans of HK$755,992,000 (2012: HK$2,254,700,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates and variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments						
	0-60 days	61-90 days	91-180 days	181-365 days	1-2 years	2-5 years	Total undiscounted cash flows
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2013	**6,606**	**3,303**	**234,617**	**297,975**	**196,407**	**50,762**	**789,670**
As at 31 December 2012	372,085	161,140	236,359	952,986	405,211	225,579	2,353,360

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

Fair value

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.

The fair value of derivative instruments are measured using quoted forward rates and discounted using applicable yield for the duration of the instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

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

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

The level within which the financial asset is determined based on the lowest level of significant input to the fair value measurement.

Other than those disclosed in note 31, the following table presents the Group's (liabilities) assets that are measured at fair value at the end of the reporting period:

	2013	
	Level 2	**Total**
	HK$'000	**HK$'000**
Derivative financial instruments – assets	**7,917**	**7,917**
Derivative financial instruments – liabilities	**(7,364)**	**(7,364)**
Total	**553**	**553**

	2012	
	Level 2	Total
	HK$'000	HK$'000
Derivative financial instruments – assets	4,426	4,426
Derivative financial instruments – liabilities	(4,669)	(4,669)
Total	(243)	(243)

There have been no transfers between level 1 and 2 during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities is set out in note 31.

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

8. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes.

	2013	2012
	HK$'000	HK$'000
Sales of pharmaceutical products	**7,648,443**	7,021,624

Segment information

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. executive directors of the Company) (the "CODM") for the purpose of allocating resources to segments and assessing their performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

The Group is currently organised into three revenue streams – (i) sale of intermediate products ("Intermediate products"); (ii) sale of bulk medicine ("Bulk medicine"); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products"). These three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

(a) Segment turnover and results:

Year ended 31 December 2013

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,652,920	3,466,638	2,528,885	7,648,443	–	7,648,443
Inter-segment sales	1,718,358	360,898	–	2,079,256	(2,079,256)	–
	3,371,278	3,827,536	2,528,885	9,727,699	(2,079,256)	7,648,443
RESULT						
Segment profit (loss)	78,527	63,879	537,073			679,479
Unrealised profit elimination	(18,181)	(25,989)	(21,121)			(65,291)
	60,346	37,890	515,952			614,188
Unallocated other income						59,461
Unallocated corporate expenses						(132,250)
Other gains and losses						14,573
Impairment loss recognised in respect of property, plant and equipment						(808,363)
Loss on fair value change of embedded derivative components of convertible bonds						(376)
Fair value on investment properties						1,355,261
Finance costs						(201,146)
Profit before taxation						901,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment turnover and results:

Year ended 31 December 2012

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,571,494	3,297,839	2,152,291	7,021,624	–	7,021,624
Inter-segment sales	1,274,164	266,593	–	1,540,757	(1,540,757)	–
	2,845,658	3,564,432	2,152,291	8,562,381	(1,540,757)	7,021,624
RESULT						
Segment profit	22,058	55,594	426,771			504,423
Unrealised profit elimination	6,720	(9,758)	(2,538)			(5,576)
	28,778	45,836	424,233			498,847
Unallocated other income						23,291
Unallocated corporate expenses						(114,105)
Other gains and losses						(874)
Gain on fair value change of embedded derivative components of convertible bonds						56,085
Finance costs						(214,931)
Profit before taxation						248,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment turnover and results: *(Continued)*

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Performance is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

The turnover and profit or loss of the Group are allocated based on the operations of the segments.

Total assets and liabilities for reportable segments are no longer provided to the CODM. Accordingly, the Group has not included total assets or liabilities information as part of segment information.

Inter-segment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of certain other income, impairment loss recognised in respect of property, plant and equipment, gain on fair value of embedded derivative components of convertible bonds, fair value on investment properties, sundry income, other gains and losses, corporate expenses and staff costs, and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2013

	Intermediate products HK$'000	**Bulk medicine HK$'000**	**Finished products HK$'000**	**Consolidated HK$'000**
Amortisation of prepaid lease payment	**2,860**	**1,317**	**386**	**4,563**
Amortisation of intangible assets	**–**	**–**	**2,221**	**2,221**
Depreciation of property, plant and equipment	**398,279**	**111,916**	**57,576**	**567,771**
Loss on disposal of property, plant and equipment	**18,396**	**2,894**	**–**	**21,290**
Written down of long aged deposit and prepayment	**6,291**	**14,837**	**–**	**21,128**
Impairment loss recognised in respect of property, plant and equipment	**808,363**	**–**	**–**	**808,363**

For the year ended 31 December 2012

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Consolidated HK$'000
Amortisation of prepaid lease payment	2,002	1,173	378	3,553
Amortisation of intangible assets	–	–	1,432	1,432
Depreciation of property, plant and equipment	403,266	77,791	53,921	534,978
Loss on disposal of property, plant and equipment	296	2,493	203	2,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information

The turnover by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Turnover from external customers	
	2013	2012
	HK$'000	HK$'000
PRC (country of domicile)	**4,943,565**	4,538,721
Europe	**837,008**	682,436
India	**654,311**	772,564
Hong Kong	**24,401**	36,215
Middle east	**87,331**	170,449
South America	**437,921**	350,701
Other Asian regions	**529,345**	389,865
Other regions	**134,561**	80,673
	7,648,443	7,021,624

Note:

1) Analysis on turnover from external customers attributed to individual countries in Europe, other Asian regions and other regions is not presented as the cost to develop such necessary information would be excessive.

(d) Information about major customers

There is no customer who represents more than 10% of the total sales of the Group.

9. OTHER INCOME

	2013	2012
	HK$'000	HK$'000
Bank interest income	**25,196**	19,734
Sales of raw materials	**32,884**	30,230
Subsidy income *(note 38)*	**18,030**	20,129
Sundry income	**2,143**	3,557
	78,253	73,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. OTHER GAINS AND LOSSES/OTHER EXPENSES

	2013 HK$'000	2012 HK$'000
a. Other gains and losses		
Investment income on forwards contracts	**24,971**	–
Net foreign exchange gain (loss)	**12,480**	(1,121)
Loss on disposal of property, plant and equipment	**(21,290)**	(2,992)
(Loss) gain on fair value change on derivate financial statements	**(1,588)**	3,239
	14,573	(874)
b. Other expenses		
Research and development expenditures	**138,545**	90,946
Staff redundancy costs and removal costs upon cessation of production in Chengdu	**64,961**	–
Temporary production suspension costs	**160,664**	13,963
Written-down of long aged deposit and prepayment	**21,128**	–
Others	**1,848**	5,998
	387,146	110,907

11. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on borrowings wholly repayable within five years	**317,466**	216,063
Interest on convertible bonds wholly repayable within five years *(note 31)*	**105,618**	110,852
Interest on finance leases wholly repayable within five years	**48,237**	22,797
	471,321	349,712
Less: amounts capitalised in property, plant and equipment	**(270,175)**	(134,781)
	201,146	214,931

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.68% (2012: 7.38%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

(a) Directors and chief executive

Details of the emoluments paid by the Group to the directors and chief executive for the year are as follows:

Year ended 31 December 2013

	Choy Kam Lok HK$'000 note (i)	Leung Wing Hon HK$'000	Tsoi Hoi Shan HK$'000 note (iv)	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Choy Siu Chit HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Fu Xiao Nan HK$'000 note (iii)	Total HK$'000
Fees	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments:												
Salaries and other benefits	1,400	3,720	3,288	2,723	2,719	2,749	1,867	240	240	240	240	19,426
Bonus*	–	–	–	906	906	906	–	–	–	–	–	2,718
Retirement benefit scheme contributions	–	15	15	17	14	43	22	–	–	–	–	126
	1,400	3,735	3,303	3,646	3,639	3,698	1,889	240	240	240	240	22,270
Total emoluments	1,400	3,735	3,303	3,646	3,639	3,698	1,889	240	240	240	240	22,270

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors and chief executive *(Continued)*

Year ended 31 December 2012

	Choy Kam Lok HK$'000 *(note (i))*	Peng Wei HK$'000 *(note (ii))*	Leung Wing Hon HK$'000	Tsoi Hoi Shan HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Choy Siu Chit HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Fu Xian Nan HK$'000 *note (iii)*	Total HK$'000
Fees	–	–	–	–	–	–	–	960	240	240	240	14	1,694
Other emoluments:													
Salaries and other benefits	4,800	3,006	3,720	1,800	1,800	1,800	1,800	840	–	–	–	–	19,566
Bonus*	–	5,761	–	–	460	460	460	–	–	–	–	–	7,141
Retirement benefit scheme contributions	–	37	14	14	6	11	15	27	–	–	–	–	124
	4,800	8,804	3,734	1,814	2,266	2,271	2,275	867	–	–	–	–	26,831
Total emoluments	4,800	8,804	3,734	1,814	2,266	2,271	2,275	1,827	240	240	240	14	28,525

* Executive directors will be entitled to a discretionary bonus as decided by the Board and the remuneration committee with reference to performance of the Group.

Notes:

(i) Choy Kam Lok was the chief executive of the Company until his passing away on 15 April 2013. His emoluments disclosed above included those for services rendered by him as chief executive.

(ii) Peng Wei resigned on 1 November 2012.

(iii) Fu Xiao Nan was appointed on 10 December 2012.

(iv) Tsoi Hoi Shan was appointed as chief executive of the Company on 16 April 2013 and his emoluments disclosed above included those for services rendered by him as chief executive since his appointment.

(b) Employees

For the year ended 31 December 2013 and 2012, all the five highest paid individuals of the Group are directors of the Company, details of which are set out above.

No emolument was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. TAXATION

	2013	2012
	HK$'000	HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**7,119**	4,393
PRC enterprise income tax	**86,300**	83,398
PRC withholding tax	**24,149**	19,693
	117,568	107,484
Over-provision in prior years		
Hong Kong	**(1,461)**	(3,015)
PRC	**619**	396
	(842)	(2,619)
Sub-total	**116,726**	104,865
Deferred tax *(note 30)*	**736,585**	(18,529)
	853,311	86,336

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC Enterprise Income Taxes ("EIT") are calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, the new tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled a reduced rate of 15% and such qualification is subject to renew for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. TAXATION *(Continued)*

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity to non-PRC tax resident shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Details of deferred tax charge on the undistributed earnings charged to profit or loss for both years are set out below.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2013	2012
	HK$'000	HK$'000
Profit before taxation	**901,348**	248,313
Tax at PRC Enterprise Income Tax rate of 25% (2012: 25%)	**225,337**	62,078
Tax effect of expenses not deductible for tax purpose	**2,940**	4,157
Tax effect of income not taxable for tax purpose	**(17,858)**	(15,754)
Overprovision in prior years	**(842)**	(2,619)
Tax effect of land appreciation tax ("LAT") and other associated tax arising on fair value change of investment properties	**464,252**	–
Tax effect of tax losses not recognised	**141,098**	109,253
Utilisation of tax losses previously not recognised	**(5,222)**	(11,280)
Tax effect (utilisation of) of deductible temporary difference not recognised	**140,794**	(15,992)
PRC withholding tax on undistributed profits of PRC subsidiaries	**32,422**	4,493
PRC withholding tax on interest income	**143**	4,258
Effect of tax concessionary rates granted to the PRC subsidiaries	**(129,638)**	(50,441)
Effect of different tax rates of subsidiaries	**(1,828)**	(2,263)
Others	**1,713**	446
Income tax expenses for the year	**853,311**	86,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. PROFIT FOR THE YEAR

	2013 HK$'000	2012 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Reversal of allowances for inventories (included in cost of sales)	(3,841)	–
Provision (reversal) of allowance for doubtful debts, net	7,510	(4,767)
Auditor's remuneration	5,503	3,880
Amortisation of prepaid lease payments	4,563	3,553
Depreciation and amortisation		
Depreciation of property, plant and equipment	567,771	534,978
Amortisation of intangible assets (included in administrative expenses)	2,221	1,432
	569,992	536,410
Less: amount included in temporary production suspension costs in other expenses	(37,327)	(3,824)
Less: amount included in research and development expenditures in other expenses	(27,075)	(26,580)
	505,590	506,006
Operating lease payments in respect of rented premises	1,851	1,920
Staff costs, including directors' emoluments		
Salaries and other benefits costs	782,181	745,787
Retirement benefit costs	79,209	71,247
	861,390	817,034
Less: amount included in research and development expenditures in other expenses	(19,928)	(16,780)
Less: amount included in temporary production suspension costs in other expenses	(18,270)	–
	823,192	800,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. DIVIDENDS

The board of directors do not recommend payment of final dividend for the year ended 31 December 2013 (2012: nil).

16. EARNING PER SHARE

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

Earning

	2013	2012
	HK$'000	HK$'000
Earning for the purposes of basic and diluted earnings per share being profit for the year attributable to owners of the Company	**48,037**	161,977

Number of shares

	2013	2012
Basic and diluted	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earning per share	**1,626,875**	1,513,083

The weighted average number of ordinary shares outstanding during the year ended 31 December 2012 had been adjusted for the bonus effect of rights issue of shares in May 2012.

The computation of diluted earning per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earning per share for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2012	2,387,187	4,725,327	110,349	64,509	783,840	8,071,212
Exchange adjustments	21,218	47,077	958	515	27,624	97,392
Additions	35,422	270,212	8,112	1,955	2,916,242	3,231,943
Disposals	(6,393)	(55,523)	(2,862)	(911)	–	(65,689)
Reclassification	241,082	807,502	3,536	263	(1,052,383)	–
At 31 December 2012	**2,678,516**	**5,794,595**	**120,093**	**66,331**	**2,675,323**	**11,334,858**
Exchange adjustments	**84,825**	**158,812**	**3,246**	**1,678**	**58,161**	**306,722**
Additions	**15,967**	**65,607**	**5,034**	**6,431**	**2,552,173**	**2,645,212**
Disposals	**(11,609)**	**(200,856)**	**(7,191)**	**(5,319)**	**(1,760)**	**(226,735)**
Reclassification	**1,473,091**	**1,513,381**	**24,427**	**2,797**	**(3,013,696)**	**–**
At 31 December 2013	**4,240,790**	**7,331,539**	**145,609**	**71,918**	**2,270,201**	**14,060,057**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2012	372,012	1,932,823	79,743	47,774	–	2,432,352
Exchange adjustments	3,598	19,358	752	441	–	24,149
Charge for the year	84,199	428,546	14,756	7,477	–	534,978
Impairment loss recognised in profit or loss	–	–	–	–	–	–
Eliminated on disposals	(5,118)	(27,721)	(2,324)	(682)	–	(35,845)
At 31 December 2012	**454,691**	**2,353,006**	**92,927**	**55,010**	**–**	**2,955,634**
Exchange adjustments	**12,221**	**61,090**	**2,262**	**1,319**	**–**	**76,892**
Charge for the year	**122,205**	**434,311**	**6,996**	**4,259**	**–**	**567,771**
Impairment loss recognised in profit or loss *(note)*	**449,373**	**357,666**	**526**	**798**	**–**	**808,363**
Eliminated on disposals	**(2,323)**	**(147,045)**	**(401)**	**(5,913)**	**–**	**(155,682)**
At 31 December 2013	**1,036,167**	**3,059,028**	**102,310**	**55,473**	**–**	**4,252,978**
CARRYING AMOUNTS						
At 31 December 2013	**3,204,623**	**4,272,511**	**43,299**	**16,445**	**2,270,201**	**9,807,079**
At 31 December 2012	2,223,825	3,441,589	27,166	11,321	2,675,323	8,379,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

The carrying amount of land and buildings shown above comprises properties situated on:

	2013 **HK$'000**	2012 HK$'000
Leasehold land and buildings in Hong Kong:		
Medium-term lease	**107,103**	110,126
Buildings located on the leasehold land in the PRC:		
Medium-term lease	**3,097,520**	2,123,699
	3,204,623	2,223,825

Note:

During the year ended 31 December 2013, the Group ceased operations in its production facilities in Chengdu, due to relocation plan in aligning the Group's long term business strategy. The discontinuance for use in the Chengdu Production Plant is considered to be a material impairment indicator of the assets in Chengdu. At 31 December 2013, the directors of the Company assessed the recoverable amounts of Chengdu Production Plant, mainly based on quotes provided by suppliers, being independent third parties, which were further adjusted by applying certain discounts based on the nature and conditions of respective assets, which approximated to the fair values less costs to sale. An impairment loss of approximately HK$808,363,000 (2012: nil), being the excess of the carrying value of the Chengdu Production Plant at the year end over the corresponding recoverable amount, has been recognised in the profit or loss for the year ended 31 December 2013.

At 31 December 2013, the Group is in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of HK$2,629,206,000.

At 31 December 2013, the carrying value of plant and machinery includes an amount of HK$1,001,409,000 (2012: HK$742,795,000) in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS

	2013 **HK$'000**	2012 HK$'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC:		
Medium-term lease	**117,907**	148,030
Analysed for reporting purposes as:		
Non-current asset	**114,275**	144,488
Current asset	**3,632**	3,542
	117,907	148,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. PREPAID LEASE PAYMENTS *(Continued)*

Details of the reclassification of prepaid lease payments to investment properties during the year ended 31 December 2013 are set out in note 19.

19. INVESTMENT PROPERTIES

	HK$'000
At 1 January 2013	–
Addition upon transfer from prepaid lease payments account	347,601
Additional premium	617,454
Fair value change	1,355,261
At 31 December 2013	2,320,316

As detailed in notes 5 and note 17, the Chengdu Lands amounting to approximately HK$28,749,000 were transferred during the financial year ended 31 December 2013 from "prepaid lease payments as owner-occupied properties for industrial use" to "investment properties for commercial/residential development" in the financial statements and measured at fair value.

The fair value of the Chengdu Lands as at the date of transfer was measured by reference to a valuation carried out by Roma Appraisals Limited ("ROMA"), an independent qualified professional valuer listed on the Hong Kong Stock Exchange which is not connected with the Group and is a member of the Hong Kong institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was measured on the basis of state following the Conversion, using direct comparison approach assuming sales of the properties in their then state and making references to comparable sales transactions of land for industrial use as available in the relevant markets and adjusted to reflect the conditions and locations of the subject properties, amounting to approximately HK$347,601,000 and a revaluation surplus of approximately HK$318,852,000 and associated deferred taxation amounting to approximately HK$196,884,000 (note 30) were recognised in "revaluation reserve" in equity upon the Conversion.

Pursuant to the contract dated 27 December 2013 (the "Contracts") between the Group and relevant government authority, the completion of the Change of Land Use became effective on 27 December 2013. The Contracts set out the exact amount of premium to be paid, the premium payment schedule, the exact total site area of the Chengdu Lands after the Change of Land Use and the relevant penalty clauses if the Group cannot start the property development within a specified period of time. The directors are of the view, after taking into account the relevant facts and circumstances, that the Contracts became effective and binding on both the Group and relevant government authority since 27 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. INVESTMENT PROPERTIES *(Continued)*

As a result, the Group has the obligation to settle the land premium payable of approximately HK$617,454,000 (equivalent to RMB484,050,000) to relevant government authorities within the specified period of time starting from 27 December 2013 and will be subject to penalty if the Group cannot start the property development within a specified period of time starting from 27 December 2013 pursuant to the terms of the Contracts.

On 31 December 2013, the Chengdu Lands were revalued taking into consideration the coming into effect of the Change of Land Use at approximately HK$2,320,316,000. The valuation was performed by ROMA, using fair value model, and resulted in a fair value gain of approximately HK$1,355,261,000. and an associated deferred tax charge of approximately HK$713,179,000 (note 30) being recognised in the profit and loss for the year ended 31 December 2013.

In light of the cessation of operations of the Chengdu Production Plant, the Group has been granted a financial subsidy in an aggregate amount of approximately HK$397,738,000 (equivalent to approximately RMB311,804,000). Such financial subsidy has not been recognised in the consolidated financial statements for the year ended 31 December 2013 as the Group has not received such grants as at 31 December 2013 and up to the date of approval of the consolidated financial statements.

Subsequent to year ended 31 December 2013, the Group made land premium payment of approximately HK$25,910,000 (equivalent to RMB20,312,000) to respective authority according to the Contracts and obtained two land use right certificates indicating that the period for which the lands could be used for commercial and residential purposes would expire on 27 December 2053 and 2083, respectively.

Carrying value of investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
Leasehold lands in Chengdu, PRC	Level 3	Direct comparison method	The transaction price, using direct market comparable of similar properties ranged between RMB2,125 to RMB2,500 per square meter and taking into account of individual factors such as location and condition in the relevant market	The higher the transaction price of properties in similar locality, the higher the fair value.	If the unit price of similar property is 5% higher/lower, while all the other adjustment were held constant, the carrying value of the Chengdu Lands will increase/ decrease by approximately HK$116,016,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. GOODWILL

	HK$'000
COST	
Exchange adjustments	30
At 1 January 2012	3,740
At 31 December 2012	**3,770**
Exchange adjustments	**96**
At 31 December 2013	**3,866**

For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to two individual cash-generating units (CGUs), including one subsidiary which operates in the bulk medicine segment and one subsidiary which operates in the finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2013 **HK$'000**	2012 HK$'000
Bulk medicine	**987**	962
Finished products	**2,879**	2,808
	3,866	3,770

Based on the impairment testing of goodwill at the end of the reporting period, the management of the Group considered that there are no impairment of any of its CGUs containing goodwill with indefinite useful lives.

The recoverable amounts of the relevant CGUs have been determined on the basis of value in use calculations. The value in use calculations use cash flow projections which are based on approved financial budgets covering a 5-year period and discount rate of 14.3% (2012: 14.3%). Cash flows beyond the 5-year period have been extrapolated using zero growth rate. The key assumption is budgeted gross margin based on the past performance and the Group's expectation for the market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2012	24,973
Exchange adjustments	223
Addition	1,880
At 31 December 2012	**27,076**
Exchange adjustments	**1,512**
Addition	**59,257**
At 31 December 2013	**87,845**
AMORTISATION	
Exchange adjustments	200
At 1 January 2012	22,670
Charge for the year	1,432
At 31 December 2012	**24,302**
Exchange adjustments	**648**
Charge for the year	**2,221**
At 31 December 2013	**27,171**
CARRYING AMOUNTS	
At 31 December 2013	**60,674**
At 31 December 2012	2,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. INTANGIBLE ASSETS *(Continued)*

Intangible assets comprise:

a. An amount of HK$27,076,000, being development costs incurred in obtaining licences for manufacturing finished products granted by the relevant PRC authorities. The licenses granted allowing the Group to apply the relevant technical know-how to manufacture finished products for five years from the date of granting relevant licenses. The costs of intangible assets are therefore amortised over the useful lives of five years.

b. An amount of HK$59,257,000, prepaid in prior years, being externally acquired technical know-how in identifying processes for manufacturing finished products and protocols for fermentation/purification methodology. No amortisation of these costs has been recognised in the current year as all these technologies are either under development stage for integration with the Group's existing production process or in the registration process.

c. Licenses with cost of HK$21,349,000 (2012: HK$21,349,000) which have been fully amortised at the end of the reporting period and the licenses have expired.

22. AVAILABLE-FOR-SALE INVESTMENT

	2013	2012
	HK$'000	HK$'000
Unlisted investment at cost	**–**	23,417
Less: Impairment loss recognised	**–**	(23,417)
	–	–

The above unlisted investment represents an investment in unlisted equity securities issued by a private entity incorporated in the United States. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The directors conducted a review of the investee company's operating results and financial position in previous years and determined the investment should be fully impaired. Accordingly, impairment loss of HK$23,417,000 was recognised in previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. INVENTORIES

	2013 HK$'000	2012 HK$'000
Raw materials	**338,650**	381,131
Work in progress	**157,603**	423,996
Finished goods	**775,602**	1,008,482
	1,271,855	1,813,609

24. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2013 HK$'000	2012 HK$'000
Trade and bills receivables	**2,751,998**	2,183,560
Value added tax receivables	**286,076**	306,123
Other receivables, deposits and prepayments	**273,636**	420,216
Less: allowance for doubtful receivables	**(21,057)**	(13,110)
	3,290,653	2,896,789

The Group normally allows a credit period of between 30 days and 120 days to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

24. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of allowance for doubtful receivables, at the end of the reporting period:

	2013	2012
	HK$'000	HK$'000
Trade receivables		
0 to 30 days	**607,924**	545,606
31 to 60 days	**393,976**	379,839
61 to 90 days	**198,875**	161,392
91 to 120 days	**46,645**	59,461
121 to 180 days	**41,075**	24,570
Over 180 days	**11,052**	21,530
	1,299,547	1,192,398
Bills receivables		
0 to 30 days	**248,973**	78,869
31 to 60 days	**253,352**	146,205
61 to 90 days	**279,729**	126,045
91 to 120 days	**380,413**	212,707
121 to 180 days	**280,262**	425,651
Over 180 days	**2,360**	618
	1,445,089	990,095

67% (2012: 64%) of the trade and bills receivables that are neither past due nor impaired have either been subsequently settled or there have not been a significant change in credit quality and the amounts are still recoverable based on historical experience.

Included in the Group's trade and bills receivable are debtors with a carrying amount of HK$235,050,000 (2012: HK$186,514,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and has been subsequently settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

24. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Ageing of trade and bills receivables which are past due but not impaired

	2013	2012
	HK$'000	HK$'000
61-90 days	**133,918**	80,335
91-120 days	**46,645**	59,461
121-180 days	**41,075**	24,570
Over 180 days	**13,412**	22,148
	235,050	186,514

In determining the recoverability of trade and bills and other receivables, the Group considers any change in the credit quality of the trade and bills receivables, and other receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Movement in the allowance for doubtful debts

	2013	2012
	HK$'000	HK$'000
Balance at beginning of the year	**13,110**	17,788
Exchange adjustments	**437**	89
Impairment losses recognised on receivables	**8,357**	1,714
Impairment losses reversed	**(847)**	(6,481)
Balance at end of the year	**21,057**	13,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

24. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Movement in the allowance for doubtful debts *(Continued)*

At 31 December 2013, trade and other receivables balance totalling HK$21,057,000 (2012: HK$13,110,000) were individually determined to be impaired, which related to customers that were in financial difficulties or the management considered the recoverability is highly unlikely based on historical payment pattern. The management assessed that the full amount of the trade and other receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

As at 31 December 2013, the Group had HK$1,368,669,000 (2012: HK$1,087,216,000) of bills receivables discounted to several banks with full recourse by providing a credit guarantee over the expected losses of those receivables, of which HK$220,637,000 (2012: HK$61,216,000) bills receivables were issued by the Group's debtors, and the remaining HK$1,148,032,000 (2012: HK$1,026,000,000) were issued by certain subsidiaries of the Company. Accordingly, the Group continues to recognise the full carrying amount of the Group's receivables and has recognised the cash received on such discount as a secured borrowing (see note 29). In addition, as at 31 December 2013, the Group continued to recognised bills receivables of HK$573,756,000 (2012: HK$444,914,000) issued by the Group's debtors endorsed to the Group's creditors (see note 27).

Included in the Group's trade and bills receivables are trade receivables with a carrying amount of HK$410,880,000 (2012: HK$351,013,000) which are denominated in United States dollars and HK$2,000,000 (2012: HK$4,613,000) which are denominated in Euro, being foreign currencies of the respective group entities.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2013 **HK$'000**	2012 HK$'000
Foreign currency forward contracts – assets	**7,917**	4,426
Foreign currency forward contracts – liabilities	**(7,364)**	(4,669)
	553	(243)

The Group had entered into several USD foreign currency forward contracts with banks and financial institutions to reduce its exposure to currency fluctuation risk of settlement from trade receivables that are denominated in USD. These derivatives were not accounted for under hedge accounting. At the end of the reporting period, the Group had outstanding foreign currency forward contracts with notional amount in aggregate of USD143,500,000 (equivalent to HK$1,119,300,000) (2012: USD96,560,000 (equivalent to HK$753,168,000)). The contracts subject to net settlement at each maturity date and were measured at fair value at the end of the reporting period. The major terms of these foreign currency forward contracts were as follows:

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For the year ended 31 December 2013

25. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31 December 2013

Notional amount	Maturity date	Exchange rate
USD26,500,000	Settlement in specific date in each month throughout to 21 December 2015	RMB6.13/USD1 to RMB6.37/USD1
USD117,000,000	Between 24 January 2014 to 22 September 2014	RMB6.29/USD1 to RMB6.40/USD1

31 December 2012

Notional amount	Maturity date	Exchange rate
USD58,000,000	Between 8 February 2013 to 20 December 2013	RMB6.30/USD1 to RMB6.40/USD1

The fair value of derivative financial instruments has been arrived at on the basis of a valuation carried out as at the end of the reporting period by banks and financial institutions.

26. PLEDGED BANK DEPOSITS AND BANK BALANCES

The pledged deposits have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see note 36). The range of effective interest rates of the pledged deposits at 31 December 2013 is 0.5% to 3% (2012: 0.5% to 3.3%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The range of effective interest rates of the bank balances at 31 December 2013 is 0.001% to 2.6% (2012: 0.001% to 1.15%) per annum.

Included in the Group's bank balances are bank balances with a carrying amount of HK$133,792,000 (2012: HK$9,325,000) which are denominated in USD and HK$2,082,000 (2012: HK$5,000) which are denominated in Euro, being foreign currencies of the respective group entities.

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

27. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days of trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	2013	2012
	HK$'000	HK$'000
Trade payables		
0 to 90 days	**962,289**	692,371
91 to 180 days	**45,015**	547,085
Over 180 days	**33,258**	29,865
	1,040,562	1,269,321
Bills payables		
0 to 90 days	**710,500**	277,191
91 to 180 days	**187,380**	262,033
	897,880	539,224
Other payables and accruals	**530,308**	346,357
Deferred income in respect of government grants	**147,999**	137,595
Payables in respect of the acquisition of property, plant and equipment	**1,147,861**	1,124,119
Premium payable for change of use of land in Chengdu *(note 19)*	**617,454**	–
	4,382,064	3,416,616
Less: Amount due within one year shown under current Liabilities	**(4,274,793)**	(3,312,789)
Amount shown under non-current liabilities	**107,271**	103,827

Included in the trade payables and other payables above are HK$551,736,000 and HK$22,020,000 (2012: HK$351,792,000 and HK$93,122,000), respectively that will be settled by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period (see note 24).

Included in the Group's other payables and accruals for the year ended 31 December 2013 are payables with a carrying amount of HK$39,067,000 (2012: nil) which are denominated in United States dollars, being a foreign currency of the respective group entities.

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For the year ended 31 December 2013

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum leases payments	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**602,725**	275,610	**549,357**	238,950
In more than one year but not more than two years	**496,393**	275,610	**424,713**	254,722
In more than two years but not more than five years	**249,781**	171,912	**244,432**	167,228
	1,348,899	723,132	**1,218,502**	660,900
Less: future finance charges	**(82,326)**	(62,232)	**N/A**	N/A
Present value of lease obligations	**1,266,573**	660,900	**1,218,502**	660,900
Less: Amount due from settlement within one year (shown under current liabilities)			**(549,357)**	(238,950)
Amount due for settlement after one year			**669,145**	421,950

During the year ended 31 December 2013, an indirect wholly-owned subsidiary of the Company entered into lease agreements ("Lease Agreements") to fund its expansion of production capacity. Pursuant to the Lease Agreements, the subsidiary would sell its existing plant and machinery to finance lease companies, which in turn, leased back the plant and machinery to the subsidiary at a pre-determined quarterly rental payment for a term of 3 years. At the end of certain leases, the subsidiary has the option to purchase the plant and machinery at RMB1.It is the Group's policy to lease certain of its property, plant and equipment under finance leases. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.23% to 5.93% per annum.

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For the year ended 31 December 2013

29. BORROWINGS

	2013	2012
	HK$'000	HK$'000
Bank loans	**4,237,151**	2,955,823
Discounted bills with recourse *(note 24)*	**1,368,669**	1,087,216
Bonds	**773,779**	756,339
Bank overdrafts, secured	**–**	124,095
	6,379,599	4,923,473
Analysed as:		
Secured	**3,502,347**	2,442,144
Unsecured	**2,877,252**	2,481,329
	6,379,599	4,923,473
Carrying amount repayable within one year	**4,242,367**	2,067,786
Carrying amount repayable more than one year, but not exceeding two years	**593,720**	411,987
Carrying amount repayable more than two years but not more than five years	**787,520**	189,000
Carrying amount of bank loans that contain a repayment on demand clause:		
Repayable within one year from the end of reporting period*	**514,794**	1,673,024
Not repayable within one year from the end of reporting period but shown under current liabilities*	**241,198**	581,676
	6,379,599	4,923,473
Less: Amount due within one year shown under current liabilities	**(4,998,359)**	(4,322,486)
Amount shown under non-current liabilities	**1,381,240**	600,987

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are analysed as follows:

Interest rate

	2013	2012
	HK$'000	HK$'000
People's Bank of China lending rate – floating rate	**2,677,548**	1,037,247
Fixed rate	**2,207,709**	2,397,116
Hong Kong Interbank Offered Rate plus 1% to 2.5%	**1,494,342**	1,489,110
	6,379,599	4,923,473

The range of effective interest rates of the floating rate borrowings at 31 December 2013 is 2.09% to 8.28% (2012: 2.10% to 8.50%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2013 is 6.15% to 6.40% (2012: 6.02% to 9.85%) per annum.

During the year ended 31 December 2013, an indirectly owned subsidiary of the Company issued a fixed rate bonds of HK$773,339,000, equivalent to RMB600,000,000 (2012: HK$756,339,000, equivalent to RMB600,0000,000) which is unsecured, carrying fixed coupon rate of 6.90% (2012: 4.87%) per annum and payable at the maturity date of the bonds which is in October 2014. The bonds issued at par, carries effective interest rate of 7.33% (2012: 6.02%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. DEFERRED TAXATION

The followings are the deferred tax assets (liabilities) recognised and movements thereon for the current and prior years:

	Fair value change on investment properties HK$'000	Accelerated (tax) accounting depreciation HK$'000	Unrealised profit on inventories HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1 January 2012	–	17,528	6,795	(75,841)	(51,518)
Exchange adjustments	–	301	–	–	301
Credit (charge) to profit or loss for the year	–	6,697	890	(4,493)	3,094
Reallocated to current tax	–	–	–	15,435	15,435
At 31 December 2012	**–**	**24,526**	**7,685**	**(64,899)**	**(32,688)**
Exchange adjustments	**–**	**669**	**21**	**246**	**936**
Credit (charge) to profit or loss for the year	**(713,179)**	**(16,728)**	**1,738**	**(32,422)**	**(760,591)**
Charged to other comprehensive income	**(196,884)**	**–**	**–**	**–**	**(196,884)**
Reallocated to current tax		**–**	**–**	**24,006**	**24,006**
At 31 December 2013	**(910,063)**	**8,467**	**9,444**	**(73,069)**	**(965,221)**

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

	2013 HK$'000	2012 HK$'000
Deferred tax assets	**17,911**	32,211
Deferred tax liabilities	**(983,132)**	(64,899)
	(965,221)	(32,688)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. DEFERRED TAXATION *(Continued)*

The Group's unrecognized deductible temporary differences are as follows:

	2013	2012
	HK$'000	HK$'000
Tax loss carry forwards	**1,097,235**	553,731
Other deductible temporary differences	**611,433**	48,261

Included in unrecognised tax losses are losses of HK$792,230,000 (2012: HK$322,266,000) that will expire within five years. Other losses may be carried forward indefinitely.

Other deductible temporary differences primarily comprise of various impairment losses on receivables and other tangible assets incurred by the Company.

No deferred tax asset has been recognized because the amount of future taxable profit that will be available to realize such assets is unpredictable.

31. CONVERTIBLE BONDS

On 14 November 2011, the Company issued RMB denominated US$ settled 7.5% unsecured convertible bonds at par with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK$7.2 (subject to adjustments) per share at a fixed exchange rate of HK$1.00 to RMB0.8137 (the "Convertible Bonds"). An adjustment has been made to the conversion price from HK$7.2 to HK$6.4 as a result of the rights share issued during the year ended 31 December 2012. The Convertible Bonds will be settled in a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest. The Convertible Bonds are listed in the Singapore Exchange Securities Trading Limited.

The Convertible Bonds bears interest from (and including) the issued date at the rate of 7.5% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrear on 14 November and 14 May of each year, commencing with the first interest payment date falling on 14 May 2012. The Convertible Bonds will mature on 14 November 2016 (the "Maturity Date") and shall be redeemed by the Company at par on the Maturity Date.

Conversion at the option of the bondholder may occur at any time between 25 December 2012 and 7 December 2016. The Company will, at the option of the bondholder, redeem all or some of the Convertible Bonds on 14 November 2013 at an amount equal to a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. CONVERTIBLE BONDS *(Continued)*

The Company may at any time after 14 November 2013 redeem all, but not some only, of the Convertible Bonds for the time being outstanding at a fixed amount of their RMB principal amount at the settlement date and paid in US$ equivalent translated at the spot rate at the settlement date, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 140% of the conversion price then in effect, translated into RMB at the fixed rate of HK$1.00 = RMB$0.8137.

The Company may at any time redeem all, but not some only, of the Convertible Bonds being outstanding at a redemption price equal to a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest to the date fixed for redemption, if prior to the date of notice at least 90% in principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Convertible Bonds contain liability component, conversion option derivative and early redemption option derivatives. The conversion option is classified as derivative because the conversion will be settled other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of the Company's own equity instruments and it gives the Company the choice over how it is settled. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option derivative, the Company's and the bond holder's early redemption option derivatives are measured at fair value with change in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option components in proportion to their relative fair values. Transaction costs amounting to approximately HK$10,867,000 relating to the conversion option and redemption option derivatives were charged to profit or loss immediately and included in other expenses. Transaction costs amounting to approximately HK$28,910,000 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.

On 12 November 2013, an aggregate principal amount of HK$883,480,000 (equivalent to approximately RMB692,600,000) was redeemed by bond holders. After partial redemption of the Convertible Bonds, Convertible Bonds in an aggregate principal amount of HK$124,243,000 (equivalent to approximately RMB97,400,000) remain outstanding with a maturity date of 14 November 2016 and have been reclassified to non-current liability subsequent to 14 November 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer on 31 December 2012 and 2013. The movement of liability component and embedded derivatives of the Convertible Bonds for the year is set out as below:

	HK$'000
At 1 January 2012	954,017
Interest charged	110,852
Gain arising on changes of fair value	(56,085)
Interest paid	(72,983)
Exchange realignment	7,630
At 31 December 2012	**943,431**
Interest charged	**105,618**
Loss arising on changes of fair value	**376**
Interest paid	**(74,279)**
Reduction upon partial redemption of principal	**(875,149)**
Exchange realignment	**14,859**
At 31 December 2013	**114,856**

At 31 December 2012 and 2013, the fair values of the embedded derivatives are calculated using the Binominal Model. Details of the inputs and assumptions of the model are as follows:

	31 December 2013	31 December 2012
Share price of the Company	**HK$2.43**	HK$3.70
Exercise price	**HK$6.40**	HK$6.40
Remaining life	**2.87 years**	3.87 years
Risk-free rate	**4.407%**	3.557%
Expected volatility	**49.41%**	41.35%
Expected dividend yield	**0%**	0%

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company as at each year end.

The effective interest rate of the liability component on initial recognition is 15.8% per annum.

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32. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2012, 31 December 2012 and 31 December 2013	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2012	1,301,500,000	13,015
Issue of shares	325,375,000	3,254
At 31 December 2012 and 31 December 2013	1,626,875,000	16,269

During the year ended 31 December 2012, the Company issued 325,375,000 rights shares at the issue price of HK$2.21 on the basis of one new share for every four ordinary shares currently held by the respective shareholder. The new shares rank pari passu with the existing shares in all respects.

33. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 25 May 2007 and will expire at the close of business on the day immediately preceding the tenth anniversary thereof. Under the scheme, the board of directors of the Company may, at their discretion, grant options to employees, including executive or non-executive directors of the Company or any of its subsidiaries business or joint venture partner, contractor, agent or representation, investor, vendor, supplier, etc. to subscribe for shares in the Company at a price not less than the highest of (i) HK$2.75; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes shall not exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

No option has been granted or agreed to be granted under the Scheme since the Scheme was set up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. OPERATING LEASES

The Group as lessee

	2013 HK$'000	2012 HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**207**	217
In the second to fifth years inclusive	**–**	55
	207	272

Operating lease payments represent rentals payable by the Group for certain items of its production plant, dormitory and offices.

Lease are negotiated for terms of one to two years and rentals are fixed throughout the lease term.

35. CAPITAL COMMITMENTS

	2013 HK$'000	2012 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**990,844**	1,557,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. PLEDGE OF ASSETS

Other than deposits made to finance lease companies disclosed elsewhere in the consolidated financial statements, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	2013	2012
	HK$'000	HK$'000
Property, plant and equipment	**172,128**	1,708,939
Land use rights	**34,965**	97,677
Bills receivables	**1,368,669**	1,087,216
Pledged bank deposits	**886,824**	1,246,403

37. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's basic salary with the maximum contribution of HK$1,250 per month (HK$1,000 per month prior to 1 June 2013). The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of HK$664,000 (2012: HK$541,000) are charged to profit or loss.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of HK$78,545,000 (2012: HK$70,706,000) are charged to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

38. GOVERNMENT GRANTS

Incentive subsidies of HK$5,889,000 (2012: HK$13,991,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$40,728,000 (2012: HK$33,768,000) which are provided by the PRC government authorities for the purpose of financing the relevant expenses for new products development. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to the profit or loss of HK$12,141,000 (2012: HK$6,138,000).

For the year ended 31 December 2013, government subsidies of HK$8,811,000 (2012: HK$93,242,000) were received by the Group to subsidise the acquisition of property, plant and machinery and prepaid lease payments. The amount has been treated as deferred income and is transferred to income over the useful lives of the relevant assets. As at 31 December 2013, an amount of HK$107,271,000 (2012: HK$103,827,000) were included in non-current liabilities. There was no realisation of these subsidies during the year ended 31 December 2013 and 2012.

39. RELATED PARTY DISCLOSURES

Compensation to key management personnel represents directors' remuneration has been disclosed in note 12.

40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/financial (liabilities)	Fair value as at 31 December 2013 HK$'000	Fair value as at 31 December 2012 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Foreign currency forward contracts classified as financial instruments accounted for as fair value through profit or loss ("FVTPL") in the consolidated statement of financial position	**Assets – HK$7,917 and Liabilities – HK$7,364**	Assets – HK$4,426 and Liabilities – HK$4,669	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Embedded derivative components of the Convertible Bond classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**HK$16,088**	HK$206,311	Level 3	Binomial Pricing Model Binomial Pricing Model is employed in deriving the fair value of the Convertible Bond. The value of the embedded derivatives component is the difference between the value of the Convertible Bond and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – company specific discounted rate (the "Rate")	– the higher the dividend yield, the lower the fair value – the higher the Rate, the lower the fair value

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40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

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

There is no transfer between the different levels of the fair value hierarchy for the period.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Company determines the fair value by reference to the valuation carried out as of the end of reporting period by banks and financial institutions for foreign currency forward contracts whereas for the embedded derivative component of the Convertible Bond, a third party qualified valuer was engaged by the Group to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

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41. LIST OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a)		Principal activities and place of operation
			2013	2012	
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
Bowden Trading Limited	Samoa	US$1,000	**100%**	100%	Trademark holdings Hong Kong
The United Laboratories, Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holdings and manufacturing and sale of pharmaceutical products Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive

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41. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(note a)* 2013	2012	Principal activities and place of operation
聯邦製藥(成都)有限公司 *(note b)*	PRC	RMB400,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
珠海康知樂醫藥有限公司 *(note c)*	PRC	RMB250,000,000	**100%**	100%	Inactive
珠海聯邦製藥股份有限公司 *(note d)*	PRC	RMB1,142,496,000	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海樂邦製藥有限公司 *(note b)*	PRC	RMB12,825,182	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海市萬邦製藥有限公司 *(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

41. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(note a)* 2013	2012	Principal activities and place of operation
珠海樂康醫藥有限公司 *(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣東開平金億膠囊有限公司 *(note b)*	PRC	RMB31,249,864	**100%**	100%	Manufacturing and sale of soft capsules casings PRC
中山金億食品有限公司 *(note b)*	PRC	RMB8,014,500	**100%**	100%	Investment holdings PRC
珠海市金德福企業策劃有限公司 *(note c)*	PRC	RMB15,000,000	**100%**	100%	Investment holdings PRC
聯邦製藥(內蒙古)有限公司 *(note b)*	PRC	2013: RMB1,870,000,000 (2012: RMB1,495,000,000)	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
內蒙古光大聯豐生物科技有限公司 *(note c)*	PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertilizer PRC
聯邦製藥(中國)有限公司	PRC	RMB90,080,000	**100%**	n/a	Investment holdings PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

41. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(note a)* 2013	2012	Principal activities and place of operation
Zhuhai United Laboratories FZE *(note e)*	United Arab Emirates	AED1,000,000	**n/a**	100%	Trading of pharmaceutical products United Arab Emirates
Zhuhai United Laboratories (India) Private Limited *(note f)*	India	RUPEE100,000	**100%**	100%	Trading of pharmaceutical products India
Zhuhai United Laboratories Europe Import & Export Europe GmBh *(note g)*	Germany	EUR25,000	**100%**	100%	Trading of pharmaceutical products Germany

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited, all subsidiaries are indirectly held by the Company.

(b) A wholly foreign-owned enterprise established in the PRC.

(c) A company established in the PRC with limited liability.

(d) A joint stock limited liability company established in the PRC.

(e) A wholly foreign-owned enterprise established in the United Arab Emirates during the year ended 31 December 2012 and dissolved during the year ended 31 December 2013 at an insignificant loss.

(f) A wholly foreign-owned enterprise established in India during the year ended 31 December 2012.

(g) A wholly foreign-owned enterprise established in Germany during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

42. COMPARATIVE FIGURES

To conform with the presentation of current year's financial statements, deferred income of assets related government grants amounting to approximately HK$103,827,000 in the consolidated statement of financial position as at 31 December 2012 has been reclassified from current liability to non-current liability.

43. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company at the end of the reporting period:

	2013	2012
	HK$'000	HK$'000
Assets and liabilities		
Investments in a subsidiary	**114,151**	1
Loan to a subsidiary	**1,271,019**	1,298,985
Amounts due from subsidiaries	**3,088,964**	3,121,840
Other receivables and prepayments	**1,002**	752
Derivative financial instruments	**7,107**	3,160
Bank balances and cash	**165,471**	259,762
Total assets	**4,647,714**	4,684,500
Other payables and accrued changes	**9,598**	7,435
Amount due to a subsidiary	**275,551**	275,551
Derivative financial instruments	**6,228**	3,003
Borrowings	**–**	25,000
Convertible bonds	**114,856**	943,431
Long term loan	**787,520**	–
Total liabilities	**1,193,753**	1,254,420
Total assets less liabilities	**3,453,961**	3,430,080
Capital and reserves		
Share capital	**16,269**	16,269
Reserves	**3,437,692**	3,413,811
	3,453,961	3,430,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(b) Reserves

	Share capital	Share premium	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2012	13,015	1,959,061	659,679	2,631,755
Issue of new shares upon rights issue	3,254	715,825	–	719,079
Expenses incurred in connection with rights issue	–	(18,592)	–	(18,592)
Profit and total comprehensive income for the year	–	–	97,838	97,838
As at 31 December 2012	**16,269**	**2,656,294**	**757,517**	**3,430,080**
Profit and total comprehensive income for the year	**–**	**–**	**23,881**	**23,881**
As at 31 December 2013	**16,269**	**2,656,294**	**781,398**	**3,453,961**

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	4,643,177	6,502,817	6,405,039	7,021,624	**7,648,443**
Profit before taxation	693,370	1,163,280	183,189	248,313	**901,348**
Taxation	(151,927)	(189,123)	(78,916)	(86,336)	**(853,311)**
Profit for the year attributable to owners of the Company	541,443	974,157	104,273	161,977	**48,037**

ASSETS AND LIABILITIES

	As at 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	7,459,996	9,607,894	11,864,905	16,141,703	**19,600,216**
Total liabilities	(4,266,969)	(4,497,952)	(6,688,284)	(10,047,014)	**13,118,387**
Equity attributable to owners of the Company	3,193,027	5,109,942	5,176,621	6,094,689	**6,481,829**

SUMMARY OF INVESTMENT PROPERTIES

Address	**Tenture**	**Existing use**
South Portion of No.8 Mu Dan Main Road, Pengzhou City, Cheungdu City, Sichuan Province, The PRC	The land use rights of the property have been granted for respective terms of 70 years for residential use and 40 years for commercial use.	To be re-developed.