石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code: 1093)

2013 ANNUAL REPORT

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman and CEO)*
FENG Zhenying
CHAK Kin Man
PAN Weidong
ZHAO John Huan
WANG Shunlong
WANG Huaiyu
LU Jianmin
WANG Zhenguo
WANG Jinxu (appointed on 10 June 2013)

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
HUO Zhenxing
QI Moujia
GUO Shichang (resigned on 19 March 2014)
CHAN Siu Keung, Leonard
WANG Bo
ZHANG Fawang

COMMITTEES

Audit Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

Nomination Committee:
CAI Dongchen *(Chairman)*
QI Moujia
CHAN Siu Keung, Leonard

Remuneration Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

CHAK Kin Man
PAN Weidong

REGISTERED OFFICE

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
The Bank of East Asia, Limited
Wing Hang Bank Limited
Taipei Fubon Bank
Bank of China (BOC)
The Hebei Banking Corporation Limited
The Export-Import Bank of China
China Everbright Bank Co., Ltd.
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
Shanghai Pudong Development Bank Co., Ltd

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK CODE

1093

WEBSITE

www.irasia.com/listco/hk/cspc

Chairman's Statement

OVERVIEW

In 2013, China has shown a slowdown in its overall economic growth. In addition, overcapacity and other negative impact brought about by the economic stimulation policies have also emerged. These changes in the external economic environment have led to increasing competition in the pharmaceutical industry. On the other hand, they have also provided opportunities for the Group to develop and transform its business. The Group will continue to actively develop the new drug business, promote product internationalisation and consolidate the competitiveness of its bulk drug business, with the objective of ensuring sustainable growth of the Group.

BUILDING OF PROFESSIONAL SALES AND MARKETING TO ACCELERATE THE GROUP'S TRANSFORMATION

The Group continuously strived to expedite its strategic transformation by enhancing its organisational structure, integrating corporate resources, and devoting resources to the innovative drug business. Building on its existing bulk drug division and finished drug division, the Group has newly established the oncology drug division with a view to actively expand its presence in the oncology drug business.

Furthermore, the Group continued to enhance its sales management and strengthen the academic promotion of new drugs. In order to further expand its coverage in the end-users market, the Group also put concerted efforts in hospital development, academic promotion and marketing of pharmaceutical products.

INTERNATIONAL COOPERATION

Through exchanges and cooperations in research with overseas enterprises, the Group was able to keep abreast of the requirements of and changes in the international pharmaceutical regulations and the market trend. In particular, the Group has set up a specialised research and development team in the United States (the "U.S."). Currently, the first batch of generic drugs of the Group that have obtained approvals under Abbreviated New Drug Application ("ANDA") in the U.S. include "tramadol hydrochloride tablet", "metformin hydrochloride slow-release tablet" and "donepezil hydrochloride tablet".

RESEARCH AND DEVELOPMENT

The Group will continue to invest more resources in research and development. In the coming years, it is expected that a number of innovative drugs will be launched upon receiving relevant production approvals, including rE4 and DBPR108 (Class I new drug, diabetes drug); pinocembrin (Class I new drug, acute stroke drug); levamlodipine maleate atorvastatin calcium tablet (Class I new drug, high blood pressure and lipid drug); baicalein tablet (Class I new drug, viral influenza drug); and SKLB1028 (oncology drug), building a solid foundation for the continuous growth of the Group. As regards product internationalisation, the Group will continue to apply for international registrations in order to expand its sales to the high-end overseas markets and to increase its competitiveness in the domestic market. It is expected that the Group will have 3 to 4 generic drug products receiving ANDA approvals from the U.S. FDA each year starting from 2014.

Chairman's Statement

OUTLOOK

Industry Outlook

With the further ageing of population, progress of national urbanisation and increase in people's income level in China, the demand for pharmaceutical products in China is expected to further increase over the coming decade. It is also expected that government policies will continue to support enterprises with increasing efforts in innovation and increase funding for medical insurance. With the implementation of the new GMP standard, the industry will also be consolidated further. Being a major pharmaceutical enterprise in China, the Group will grasp this opportunity and strive to achieve better development in 2014.

Group's Business Outlook

Innovative Drug Business

The Group will continue to pursue the strategy of expanding and strengthening the innovative drug business. With its increasingly well-developed market network, expanding professional marketing team, and good product efficacy and quality, the innovative drug business is expected to continue to achieve rapid growth in the coming years and increase its contribution to the Group.

Common Generic Drug Business

The Group will continue to conduct in-depth study of China's policies, refine its product portfolio and strengthen its sales team. Coupled with the effective sales channels and strategies, it is expected that the common generic drug business will continue to achieve steady growth in 2014.

Bulk Drug Business

In respect of the bulk drug business, the Group will continue its efforts in technological upgrades and production costs reduction in order to maintain its leading position in the industry. Currently, the Group has received the U.S. FDA approvals for 6 bulk drugs and 5 bulk drug production workshops. The Group will also continue its efforts in high-end quality certification and product quality enhancement. After several years of intense competition, the bulk drug market is showing a steadily upward trend. With the Group's leading position in this industry, the bulk drug business of the Group is expected to achieve improvement in 2014. The Group will also continue to closely monitor changes in the market competition landscape and timely adjust its operating strategies.

CAI Dongchen
Chairman

Hong Kong, 24 March 2014

Management Discussion and Analysis

2013 was the first complete year after the Group has achieved successful business transformation with the acquisition of the innovative drug business. Over the past year, the Group implemented innovative strategies with improvements achieved in the aspects of management, research and development and marketing. In particular, the innovative drug business has attained substantial growth. For the year ended 31 December 2013, the Group recorded sales revenue of approximately HK$9,949 million and profit attributable to shareholders of approximately HK$973 million.

FINISHED DRUG BUSINESS

Innovative Drug Products

During the year, the innovative drug business of the Group maintained strong growth momentum, with continuous expansion of market share and a stronger presence in the high-end market. Sales revenue of the innovative drug business for the year reached HK$1,921 million, representing a 49% growth over last year.

Following is an overview of the Group's major innovative drug products:

"NBP"

"NBP" series is a Class I new drug in China and is also a patent-protected exclusive product. Its major ingredient is butylphthalide, and the drug is mainly used for the treatment of acute ischemic stroke. Its soft capsule and injection forms were launched in 2005 and 2010, respectively. This product was awarded the State Science and Technology Progress Award (Second Class) in 2009, and the "NBP" brand was honoured as a China's Well-known Trademark in 2013.

"Oulaining"

"Oulaining" series is available in the forms of capsule and lyophilized powder injection. Its major ingredient is oxiracetam, and the drug is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. "Oulaining" lyophilized powder injection is currently an exclusive preparation form in China, and was awarded the Hebei Province Science and Technology Progress Award (First Class) in 2013.

"Xuanning"

"Xuanning" series is available in the forms of tablet and dispersible tablet. Its major ingredient is maleate levamlodipine, and the drug is mainly used for the treatment of hypertension. The product was awarded the State Technological Invention Award (Second Class) in 2013.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Duomeisu", "Jinyouli" and "Ailineng"

The oncology new drugs portfolio of the Group is gradually building up its scale, with the existing portfolio including "Duomeisu", "Jinyouli" and "Ailineng". "Duomeisu" (Doxorubicin hydrochloride liposome injection) is a new anthracycline used as a first-line chemotherapy drug for the treatment of lymphoma, multiple myeloma, ovarian cancer and breast cancer. "Jinyouli" (PEG-rhG-CSF injection) is the first long-acting growth factor drug in China and is used for the prevention of leucopenia and infection induced by chemotherapy. "Ailineng" (Elemene injection) is a drug mainly used for the treatment of nerve glioma and brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. Its unique liquid injection form has obtained patent in China. These products are currently at market introduction phase. In addition, the Group has a number of oncology drugs under research and development, of which "imatinib mesylate tablet" and "bortezomib injection" have already applied for production approval.

Common Generic Drug Products

In 2013, the Group rigorously fought against the unfavourable impact of the policies of restricted use of antibiotics and essential drug tenders. The Group further enhanced its sales strategies for common generic drugs, refined its product portfolio and expanded its sales channels. Both the lower-tier medical market and non-prescription drug market recorded a satisfactory growth and showed a trend of continuous improvement. This business segment is expected to generate stable profit growth for the Group.

BULK DRUG BUSINESS

Antibiotics

The antibiotics business has picked up a steady and upward trend subsequent to the previous stage of intense competition in 2013. The Group attained continuous decline in the production costs through technological upgrades, reinforced internal management and energy-saving measures, maintaining its leading position in the industry. In addition, the Group disposed part of its penicillin intermediate and bulk drug business in the first half of 2013 to improve the resource allocation of its antibiotics business. The business achieved a turnaround in 2013 resulting from effective measures taken by the Group and an improving market environment.

Vitamin C

In 2013, overcapacity of vitamin C lingered and competition in the market remained intense. However, after a long period of competition, the market showed signs of differentiation under which some competitors experienced suspended or limited production. Leveraging on its advantages in scale, quality and production costs, the Group continued to maintain its absolute competitiveness in the industry. However, this business still recorded a loss in 2013 due to fierce competition in product prices.

Caffeine and Others

The production cost of this business was lower as compared to that of last year, attributable to continued technological innovations. The Group has also enhanced the product sales structure of this business by reducing the sales of non-major products. Despite a decline in the overall sales revenue compared to last year, the return was improved.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT

The Group continued to capitalise on its technological advantages in the realm of drug research and development. Currently, the Group has over 170 products under research and development, with a focus on the therapeutic areas of anti-infective, cardio-cerebrovascular, diabetes, neurology and oncology. Among those products, 12 are Class I new drugs and 37 are Class III new drugs.

The Group will continue to increase its resources devoted to research and development as well as registration and approval application. During the year, the Group has obtained 3 ANDA approved drugs. In addition, 7 drugs or raw materials, and 2 supplement products of the Group have obtained production approvals in China. The research and development of a number of Class I new drugs has also achieved phased progress. In addition, 3 Class 1.1 new drugs are expected to apply for clinical trial this year. It is expected that the Group will have 1 to 2 Class I new drugs and 3 to 5 Class III new drugs approved for market launch each year after 2015.

FINANCIAL REVIEW

Liquidity and Financial Position

In 2013, the Group's operating activities continued to generate a healthy level of cash inflow. Debtor turnover period (ratio of the balance of trade receivables to sales, inclusive of value added tax for sales in China) improved to 63 days *(Note)*. Inventory turnover period (ratio of inventory balance to cost of sales) also slightly shortened to 105 days *(Note)*. Current ratio of the Group improved from 1.1 a year earlier to 1.7 as at 31 December 2013. Capital expenditure in relation to the additions of production facilities amounted to HK$491 million for the current year.

The financial position of the Group remained healthy. As at 31 December 2013, total bank balances and cash amounted to HK$1,271 million and total bank borrowings amounted to HK$1,340 million. Of the total bank borrowings, HK$660 million will be repayable within one year and the remaining HK$680 million repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total bank borrowings net of bank balances and cash over total equity) further decreased to 1%.

43% of the Group's bank borrowings are denominated in Hong Kong dollars, 7% in US dollars and the remaining 50% in Renminbi. The Group's revenue is mainly denominated either in Renminbi or in US dollars. The Group has been monitoring closely the currency movement and will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary.

Note: The related figures exclude sales and cost of sales attributable to CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd and CSPS Cenway (Tianjin) Pharmaceutical Co., Ltd, which were disposed of during the current year.

Disposal of Subsidiaries

In order to achieve better resource allocation, the Group has disposed of its equity interests in CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd and CSPS Cenway (Tianjin) Pharmaceutical Co., Ltd during the year. An aggregate gain of approximately HK$154 million was derived from these disposals.

FINANCIAL REVIEW *(continued)*

Contingent Liabilities

The Company and CSPC Weisheng Pharmaceutical (Shijiazhuang) Co. Ltd. ("Weisheng", a wholly owned subsidiary of the Company) are named as, among others, defendants in a number of antitrust complaints filed in the United States of America ("United States"). These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. The plaintiffs brought these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antirust, unfair trade and consumer protection statutes, seeking damages and other relief.

On 15 March 2013, the Company, Weisheng, the direct purchaser class and injunctive class in the direct purchaser action entered into a settlement agreement. The settlement will resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. The settlement, in the amount of US$22.5 million, is payable in two installments. The first US$20 million has been paid by the Company and Weisheng on 21 April 2013. The remaining US$2.5 million will be paid within 365 days after the court's final approval of the settlement. Plaintiffs' attorney fees and settlement administration fees are to be paid out of the settlement fund. On 16 October 2013, the court granted approval of the settlement and dismissed the Company and Weisheng as to the direct purchaser action.

On 13 November 2013, the Company, Weisheng and the putative indirect purchaser class in the indirect purchaser actions entered into a settlement agreement for US$2.2 million to fully and finally resolve all the claims in the indirect purchaser actions. Plaintiffs' attorney fees and settlement administration fees are to be paid out of the settlement fund. The settlement amount of US$2.2 million has been paid by the Company and Weisheng on 9 January 2014. The court preliminarily approved the settlement on 16 January 2014. In accordance with the court order, the plaintiffs will file a motion for final approval of the settlement by 25 April 2014. The court will hold a final approval hearing on 16 May 2014 to determine if the settlement is fair, reasonable and adequate.

Despite the Company's management believes that the Company and Weisheng are not liable for the claims asserted and that they have good and valid defenses thereto, the Company and Weisheng have nevertheless agreed to the settlements to (i) avoid the risk of an adverse jury verdict and treble damage award against the Company and Weisheng; (ii) avoid further expense, inconvenience, and the distraction of burdensome and protracted appeals in relation to the complaints; (iii) obtain the releases, orders, and judgment contemplated by the settlements; and (iv) put to rest with finality all claims that have been asserted against the Company and Weisheng in the complaints.

Adequate provision for the above settlement amounts have already been made in the Company's consolidated financial statements.

Employees

As at 31 December 2013, the Group had about 10,390 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Results of Robust Sun Holdings Limited and its Subsidiaries (the "Robust Sun Group") for the Year Ended 31 December 2013

For the year ended 31 December 2013, the Robust Sun Group recorded a profit after tax which exceeded HK$800 million. Therefore, no adjustment to the principal amount of the Tranche II Convertible Bonds is required in accordance with the terms of the Convertible Bonds as set out in the circular of the Company dated 27 September 2012.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in the bulk drug business in order to achieve long-term sustainable growth.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standards of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2013 except the deviations from code provisions A.2.1 and C.1.2 as set out below.

BOARD OF DIRECTORS

As at 31 December 2013, the Board comprises ten executive directors, one non-executive director and six independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 20 to 23 of this annual report.

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board.

On 19 March 2014, Mr. Guo Shichang resigned as an independent non-executive director. Following the resignation of Mr. Guo, the composition of the Board comprises ten executive directors, one non-executive director and five independent non-executive directors. The number of independent non-executive directors on the Board represents less than one-third of the members of the Board as required under rule 3.10A of the Listing Rules.

The Company is endeavoring to identify a suitable candidate to act as an independent non-executive director to meet the requirement set out in rule 3.10A of the Listing Rules as soon as practicable and will make further announcement as and when appropriate.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

Corporate Governance Report

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2013. Individual attendance of each director at the regular board meetings and committee meetings in 2013 is set out below:

	Number of meetings attended/held			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Cai Dongchen *(Chairman and CEO)*	4/4			2/2
Feng Zhenying	3/4			
Chak Kin Man	4/4			
Pan Weidong	4/4			
Zhao John Huan	3/4			
Wang Shunlong	4/4			
Wang Huaiyu	4/4			
Lu Jianmin	4/4			
Wang Zhenguo	4/4			
Wang Jinxu (appointed on 10 June 2013)	2/2			
Non-Executive Director:				
Lee Ka Sze, Carmelo	4/4	4/4	3/3	
Independent Non-Executive Directors:				
Huo Zhenxing	4/4	4/4	3/3	
Qi Moujia	4/4			2/2
Guo Shichang (resigned on 19 March 2014)	4/4			
Chan Siu Keung, Leonard	4/4	4/4	3/3	2/2
Wang Bo	4/4			
Zhang Fawang	3/4			

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of two years to three years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

BOARD DIVERSITY POLICY

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

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

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

REMUNERATION COMMITTEE

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

The remuneration of the directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

Three meetings were held in 2013 to consider and make recommendations to the Board on the remuneration of directors of the Company.

NOMINATION COMMITTEE

The Nomination Committee of the Company is responsible for making recommendations to the Board on the appointment of directors regarding the qualification and competency of the candidates, so as to ensure that all nominations are fair and transparent. The committee comprises three members, namely Mr. Cai Dongchen (Chairman), Mr. Qi Moujia and Mr. Chan Siu Keung, Leonard.

Two meetings were held in 2013 to review the appointment of a new executive director, the structure, size and composition of the Board, assess the independence of independent non-executive directors and review the re-election of the retiring directors at the forthcoming 2014 annual general meeting.

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

Four meetings were held in 2013. At the meetings, the committee discussed and reviewed the following matters:

1. the 2012 annual results, annual report and results announcement;

2. the external auditor's report to the Audit Committee in respect of the 2012 annual audit;

3. the quarterly results for the three months ended 31 March 2013 and results announcement;

4. the 2013 interim results, interim report and results announcement;

5. the external auditor's report to the Audit Committee in respect of the 2013 interim review;

6. the quarterly results for the nine months ended 30 September 2013 and results announcement; and

7. the performance of the external auditor and its remuneration.

DIRECTORS' SECURITIES TRANSACTIONS

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

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to directors will be arranged whenever necessary.

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

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

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

3. site visit.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review has covered all material controls, including financial, operational and compliance controls and risk management functions. In addition, the review has considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function and their training programmes and budget. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

1. develop and review the Company's policies and practices on corporate governance and make recommendations;

2. review and monitor the training and continuous professional development of directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$3,700,000 for audit services and HK$949,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and continuing connected transactions.

FINANCIAL REPORTING

The Directors' responsibilities for the financial statements are set out on page 32 and the responsibilities of the external auditor are set out on page 32 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Code C.1.2 of the Code stipulates that the management should provide all directors with monthly updates. During 2013, there was occasional delay in providing members of the board with the monthly updates. The management has rectified this situation and is committed to fully complying with the code from 2014 onwards.

COMPANY SECRETARY

The Company Secretary, Mr. Lee Ka Sze, Carmelo, is a practicing solicitor in Hong Kong. He is currently a partner of Messrs. Woo, Kwan, Lee & Lo. Mr. Lee is not a full time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lee is Mr. Chak Kin Man, an executive director of the Company. During 2013, Mr. Lee has confirmed that he has taken no less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

The objective of communications with shareholder is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

In order to enable shareholders to exercise their rights in an informed manner, and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders may at any time send their enquiries and concerns to the Company via the Company's website. Shareholders may also make enquiries with the Board at the general meetings of the Company.

GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to Section 566 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which takes effect on 3 March 2014, shareholder(s) representing at least 5 per cent of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting.

The request:

(a) must state the general nature of the business to be dealt with at the meeting;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(c) may consist of several documents in like form;

(d) may be sent in hard copy form or electronic form; and

(e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

PUTTING FORWARD PROPOSAL AT ANNUAL GENERAL MEETING ("AGM")

Pursuant to Section 615 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which takes effect on 3 March 2014, shareholder(s) can make a request to circulate a resolution for an AGM if they represent–

(a) at least 2.5 per cent of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or

(b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request –

(a) may be sent in hard copy form or electronic form;

(b) must identify the resolution of which notice is to be given;

(c) must be authenticated by the person or persons making it; and

(d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The procedures for shareholders to propose a person for election as a director have been uploaded to the Company's website.

Corporate Governance Report

2013 GENERAL MEETINGS

At the 2013 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee, Remuneration Committee and Nomination Committee has attended the 2013 annual general meeting to ensure effective communication with shareholders. In addition, the Company held two extraordinary general meetings in 2013. The one held on 21 February 2013 was to consider and approve the change of the Company's name and the other one held on 23 May 2013 was to consider and approve the grant of options to Mr. Cai Dongchen (Chairman and CEO of the Company). The chairman of the Audit Committee and Remuneration Committee has attended both meetings. The attendance record of the Directors at the general meetings is set out below:

Directors	**General meeting attended/held**
Executive Directors:	
Cai Dongchen *(Chairman and CEO)*	1/3
Feng Zhenying	0/3
Chak Kin Man	3/3
Pan Weidong	0/3
Zhao John Huan	0/3
Wang Shunlong	2/3
Wang Huaiyu	0/3
Lu Jianmin	0/3
Wang Zhenguo	0/3
Wang Jinxu (appointed on 10 June 2013)	0/3
Non-Executive Director:	
Lee Ka Sze, Carmelo	3/3
Independent Non-Executive Directors:	
Huo Zhenxing	0/3
Qi Moujia	0/3
Guo Shichang (resigned on 19 March 2014)	0/3
Chan Siu Keung, Leonard	3/3
Wang Bo	0/3
Zhang Fawang	0/3

CONSTITUTIONAL DOCUMENTS

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

Directors' Report

The board of directors (the "Board") is pleased to present this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and joint venture are set out in notes 45 and 21 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 34.

The Board recommends the payment of a final dividend of HK8 cents per share in respect of the year ended 31 December 2013. Subject to approval by the shareholders at the forthcoming annual general meeting, payment of the final dividend will be made on or around 10 June 2014 to shareholders of the Company whose name appear on the register of members of the Company on 28 May 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 15 May 2014 to Tuesday, 20 May 2014, both days inclusive, during which period no transfer of shares Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Tuesday, 20 May 2014, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 14 May 2014.

The register of members of the Company will be closed from Tuesday, 27 May 2014 to Wednesday, 28 May 2014, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 26 May 2014.

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2013 amounted to approximately HK$604,765,000 (2012: HK$388,261,000).

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately HK$491,167,000. Details of the movements in fixed assets of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the share capital and the share option scheme of the Company are set out in notes 33 and 35 to the consolidated financial statements, respectively.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS

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

Executive directors:

Cai Dongchen *(Chairman and CEO)*
Feng Zhenying
Chak Kin Man
Pan Weidong
Zhao John Huan
Wang Shunlong
Wang Huaiyu
Lu Jianmin
Wang Zhenguo
Wang Jinxu (appointed on 10 June 2013)

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing
Qi Moujia
Guo Shichang (resigned on 19 March 2014)
Chan Siu Keung, Leonard
Wang Bo
Zhang Fawang

DIRECTORS *(continued)*

In accordance with Article 92 of the Company's Articles of Association, Mr. Wang Jinxu retires at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Feng Zhenying, Wang Zhenguo, Lee Ka Sze, Carmelo, Huo Zhenxing, Qi Moujia and Chan Siu Keung, Leonard retire by rotation at the forthcoming annual general meeting. All the retiring directors are eligible and offer themselves for re-election except for Mr. Huo Zhenxing and Mr. Qi Moujia who do not offer themselves for re-election due to retirement and shall retire at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 60, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. He is also the chairman of the Nomination Committee of the Company and a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry. Mr. Cai is a deputy of the 12th National People's Congress of the People's Republic of China (the "PRC").

FENG Zhenying

Mr. Feng, aged 58, was appointed as an executive director of the Company in 2003. He is also a director of certain subsidiaries of the Group. He graduated from Hebei Chemical College and has extensive technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 48, was appointed as an executive director of the Company in 2005. He is also a director of certain subsidiaries of the Group. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance and accounting.

PAN Weidong

Mr. Pan, aged 44, was appointed as an executive director of the Company in 2006. He is also a director of certain subsidiaries of the Group. He graduated from Shijiazhuang Post College and has extensive experience in finance and accounting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

ZHAO John Huan

Mr. Zhao, aged 52, was appointed as an executive director of the Company in 2008. He holds a MBA degree from Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. Mr. Zhao has extensive experience in senior management positions at several companies in the United States and the PRC. Mr. Zhao is currently a vice president of Legend Holdings Corporation and the CEO of Hony Capital. He is also the substantial shareholder of the Company.

Mr. Zhao is also a non-executive director of China Glass Holdings Limited (listed on The Stock Exchange of Hong Kong Limited), a non-executive director of Chinasoft International Limited (listed on The Stock Exchange of Hong Kong Limited), a non-executive director of Lenovo Group Limited (listed on The Stock Exchange of Hong Kong Limited), a non-executive director of Wumart Stores, Inc. (listed on The Stock Exchange of Hong Kong Limited).

WANG Shunlong

Mr. Wang, aged 49, was appointed as an executive director of the Company in 2008. He holds a doctorate degree in engineering from Tsinghua University and has spent three years as a visiting researcher at Eindhoven University of Technology in the Netherlands. Mr. Wang has extensive experience in corporate management and investment planning. Mr. Wang is currently a managing director of Hony Capital.

Mr. Wang is also a non-executive director of Consun Pharmaceutical Group Limited (listed on The Stock Exchange of Hong Kong Limited).

WANG Huaiyu

Mr. Wang, aged 51, was appointed as an executive director of the Company in 2010. He is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LU Jianmin

Mr. Lu, aged 55, was appointed as an executive director of the Company in 2010. Mr. Lu has extensive technical and management experience in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang, aged 44, was appointed as an executive director of the Company in 2012. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

WANG Jinxu

Mr. Wang, aged 43, was appointed as an executive director of the Company in 2013. Mr. Wang joined the Group in 1999 and is currently a senior vice president of the Group responsible for products research, development and production commercialisation. Mr. Wang holds a bachelor's degree in chemistry from Hebei University, a master's degree in chemical engineering from Hebei University of Technology and a doctorate in chemical engineering from Tianjin University, and has more than 15 years of technical and management experience in the pharmaceutical industry.

LEE Ka Sze, Carmelo

Mr. Lee, aged 53, was appointed as a non-executive director in 1996, re-designated as an independent non-executive director in 1998 and further re-designated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee and the Company Secretary of the Company. Mr. Lee holds a bachelor of laws degree from The University of Hong Kong. He is a practising solicitor and a partner of Woo, Kwan, Lee & Lo. Mr. Lee is currently the chairman of the Listing Committee of The Stock Exchange of Hong Kong Limited and a member of the SFC (HKEC) Committee.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, Yugang International Limited, Y.T. Realty Group Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited, and an independent non-executive director of KWG Property Holding Limited, Ping An Insurance (Group) Company of China, Ltd. and Esprit Holdings Limited. All of the above companies are listed on The Stock Exchange of Hong Kong Limited.

HUO Zhenxing

Mr. Huo, aged 78, was appointed as an independent non-executive director of the Company in 1994. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 81, was appointed as an independent non-executive director of the Company in 1996. He is also a member of the Nomination Committee of the Company. He was the deputy commissioner and commissioner of the State Drug Administration of China (now known as the State Food and Drug Administration of China) during 1978-1982 and 1982-1994, respectively.

Mr. Qi is also an independent director of 3SBio, Inc. (listed on NASDAQ).

GUO Shichang

Mr. Guo, aged 72, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government in the PRC from 1993 to 2002.

Mr. Guo is also an independent director of North China Pharmaceutical Company Limited (listed on the Shanghai Stock Exchange).

Mr. Guo resigned as independent non-executive director of the Company with effect from 19 March 2014 due to retirement.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

CHAN Siu Keung, Leonard

Mr. Chan, aged 56, was appointed as an independent non-executive director of the Company in 2004. He is also the chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

Mr. Chan is also an executive director of Tern Properties Company Limited (listed on The Stock Exchange of Hong Kong Limited).

WANG Bo

Mr. Wang, aged 53, was appointed as an independent non-executive director of the Company in 2012. He is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd.. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. He is currently the vice-chairman of Chinese Pharmaceutical Enterprises Association and China National Association of Pharmaceutical and Medical Equipment Technical Market.

Mr. Wang is also currently an independent director of Jiangsu Wuzhong Industrial Co., Ltd. (listed on Shanghai Stock Exchange), Hainan Shuangcheng Pharmaceutical Co., Ltd. (listed on Shenzhen Stock Exchange), Guangxi Liuzhou Pharmaceutical Co., Ltd. and Mudanjiang Youbo Pharmaceutical Co. Ltd..

Mr. Wang resigned as an independent non-executive director of Winteam Pharmaceutical Group Ltd. (listed on The Stock Exchange of Hong Kong Limited) with effect from 28 February 2013.

ZHANG Fawang

Mr. Zhang, aged 59, was appointed as an independent non-executive director of the Company in 2012. He was formerly the vice-mayor of Shijiazhuang City, Hebei Province. Mr. Zhang holds a bachelor degree in Chinese from Hebei University.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the connected transactions and continuing connected transactions of the Group during the year are set out in the section below headed "Connected Transactions and Continuing Connected Transactions".

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no contracts of significance to which the Company, or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares under the Convertible Bonds	Number of underlying shares under the share options held *(Note i)*	Total	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	7,438,000	—	80,000,000	87,438,000	1.57%
Feng Zhenying	Beneficial owner	—	—	3,000,000	3,000,000	0.054%
Chak Kin Man	Beneficial owner	4,000	—	3,000,000	3,004,000	0.054%
Pan Weidong	Beneficial owner	—	—	10,000,000	10,000,000	0.18%
Zhao John Huan	Interest of controlled corporation	4,062,308,403 *(Note ii)*	321,661,732 *(Note ii)*	—	4,383,970,135	78.48%
Wang Huaiyu	Beneficial owner	—	—	15,000,000	15,000,000	0.27%
Lu Jianmin	Beneficial owner	—	—	10,000,000	10,000,000	0.18%
Wang Zhenguo	Beneficial owner	—	—	3,000,000	3,000,000	0.054%
Wang Jinxu	Beneficial owner	—	—	3,000,000	3,000,000	0.054%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Long Positions *(Continued)*

Notes:

(i) The share options were granted pursuant to the share option scheme of the Company as set out in the section below headed "Share Option Scheme".

(ii) Mr. Zhao John Huan is deemed to be interested in 4,062,308,403 shares and 321,661,732 shares underlying the Convertible Bonds through Hony Managing Partners Limited ("HMPL"), which is wholly owned by Mr. Zhao John Huan. HMPL owns 80% of Hony Capital Management Limited, which wholly owns Hony Capital Fund III GP Limited ("HCFL"). HCFL controls Hony Capital Fund III GP, L.P., which controls Hony Capital Fund III, L.P. ("HCFLP"). HCFLP wholly owns March Rise Limited, which owns 75% of Massive Top Limited ("MTL"). MTL wholly owns Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), Massive Giant Group Limited ("MGGL") and Joyful Horizon Limited ("JHL"). SPG (through its direct and indirect wholly owned subsidiaries), MGGL and JHL hold an aggregate of 4,062,308,403 shares. In addition, JHL holds 321,661,732 shares underlying the Convertible Bonds which represent such number of underlying shares which will be issued to JHL upon conversion at an adjusted conversion price of HK$2.0855.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2013.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of shareholder	Capacity	Number of issued ordinary shares held	Number of underlying shares under the Convertible Bonds	Total	Percentage of the issued share capital of the Company
Zhao John Huan	Interest of controlled corporation	4,062,308,403 *(Note i)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
Hony Managing Partners Limited	Interest of controlled corporation	4,062,308,403 *(Note i)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
Hony Capital Management Limited	Interest of controlled corporation	4,062,308,403 *(Note i & ii)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
Hony Capital Fund III GP Limited	Interest of controlled corporation	4,062,308,403 *(Note i)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
Hony Capital Fund III GP, L.P.	Interest of controlled corporation	4,062,308,403 *(Note i)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
Hony Capital Fund III, L.P.	Interest of controlled corporation	4,062,308,403 *(Note i)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
March Rise Limited	Interest of controlled corporation	4,062,308,403 *(Note i)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
Massive Top Limited	Interest of controlled corporation	4,062,308,403 *(Note i)*	321,661,732 *(Note i)*	4,383,970,135	78.48%
Joyful Horizon Limited	Beneficial owner	3,126,920,010 *(Note i)*	321,661,732 *(Note i)*	3,448,581,742	61.73%
Massive Giant Group Limited	Beneficial owner	783,482,393 *(Note i)*	—	783,482,393	14.02%

SUBSTANTIAL SHAREHOLDERS *(continued)*

Name of shareholder	Capacity	Number of issued ordinary shares held	Number of underlying shares under the Convertible Bonds	Total	Percentage of the issued share capital of the Company
Hang Seng Bank Trustee International Limited	Trustee	283,618,000	—	283,618,000	5.07%
Cheah Company Limited	Interest of controlled corporation	283,618,000	—	283,618,000	5.07%
Cheah Capital Management Limited	Interest of controlled corporation	283,618,000	—	283,618,000	5.07%
Value Partners Group Limited	Interest of controlled corporation	283,618,000	—	283,618,000	5.07%
Cheah Cheng Hye	Founder of a trust	283,618,000	—	283,618,000	5.07%
To Hau Yin	Interest of spouse	283,618,000	—	283,618,000	5.07%

Note:

(i) Mr. Zhao John Huan is deemed to be interested in 4,062,308,403 shares and 321,661,732 shares underlying the Convertible Bonds through Hony Managing Partners Limited ("HMPL"), which is wholly owned by Mr. Zhao John Huan. HMPL owns 80% of Hony Capital Management Limited, which wholly owns Hony Capital Fund III GP Limited ("HCFL"). HCFL controls Hony Capital Fund III GP, L.P., which controls Hony Capital Fund III, L.P. ("HCFLP"). HCFLP wholly owns March Rise Limited, which owns 75% of Massive Top Limited ("MTL"). MTL wholly owns Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), Massive Giant Group Limited ("MGGL") and Joyful Horizon Limited ("JHL"). SPG (through its direct and indirect wholly owned subsidiaries), MGGL and JHL hold an aggregate of 4,062,308,403 shares. In addition, JHL holds 321,661,732 shares underlying the Convertible Bonds which represent such number of underlying shares which will be issued to JHL upon conversion at an adjusted conversion price of HK$2.0855.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2013.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2013, the Group has entered into certain connected transactions which constituted connected transactions and/or continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Connected Transactions

1. On 25 June 2013, CSPC NBP Pharmaceutical Co., Ltd. ("NBP"), a wholly-owned subsidiary of the Company, entered into an agreement with SPG and China Charmaine Pharmaceutical Company Limited ("CCPCL") to acquire 100% equity interest in CSPC Baike (Yantai) Biopharmaceutical Co., Ltd. at a total consideration of RMB106,000,000. Details of this transaction were set out in the announcement of the Company dated 25 June 2013.

2. On 25 June 2013, the Company entered into an agreement with CCPCL to acquire 45% equity interest in CSPC Huasheng Pharmaceutical Co., Ltd. at a consideration of HK$13,000,000. Details of this transaction were set out in the announcement of the Company dated 25 June 2013.

Both SPG and CCPCL are wholly-owned subsidiaries of Massive Top Limited, which is a controlling shareholder of the Company, and are therefore connected persons of the Company under the Listing Rules.

Continuing Connected Transactions

Name of company	**Nature of transactions**	**Transaction amount**
		HKD'000
SPG and its subsidiaries	Purchase of pharmaceutical products *(note a)*	176,150
	Sales of pharmaceutical products *(note a)*	2,685
	Rental expenses *(note b)*	5,153
	Rental expenses *(note c)*	775
	Rental expenses *(note d)*	1,656
Guangdong Titan Pharmaceutical Co. Ltd. ("Guangdong Titan")	Sale of intermediate products *(note e)*	108,800
	Sales of pharmaceutical products *(note f)*	8,561

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Notes:

(a) On 1 November 2012, CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo"), CSPC Yinhu Pharmaceutical Co., Ltd. ("Yinhu"), CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd., CSPC Ouyi Pharmaceutical Co., Ltd., NBP and CSPC XNW Pharmaceutical Joint Stock Company Limited ("XNW"), all being subsidiaries of the Company, entered into a Mutual Supply Framework Agreement with SPG in relation to the purchase and sales of pharmaceutical product for a term of three years from 1 November 2012 to 31 October 2015.

(b) On 25 June 2013, Zhongnuo entered into three lease agreements with SPG to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2013 with an aggregate rental of RMB9,974,600 per annum. Details of these transactions are set out in the announcement of the Company dated 25 June 2013.

(c) On 25 June 2013, XNW entered into a lease agreement with Hebei Shengxue Glucose Limited Liability Company, a non-wholly-owned subsidiary of SPG, to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2013 with a rental of RMB1,501,200 per annum. Details of this transaction are set out in the announcement of the Company dated 25 June 2013.

(d) On 20 July 2002, Zhongnuo entered into an agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised to RMB138,033 on 1 August 2011 for a term of three years.

(e) On 3 May 2012, Siping City Fine Chemicals Product Co., Ltd. ("Siping"), a non-wholly owned subsidiary of the Company, entered into an agreement with Guangdong Titan in relation to the sales of pharmaceutical intermediate products for a term of three years from 3 May 2012 to 30 April 2015.

(f) On 10 September 2012, Zhongnuo entered into an agreement with Guangdong Titan in relation to the sales of antibiotics products for a term of three years from 10 September 2012 to 9 September 2015.

Guangdong Titan is a wholly-owned subsidiary of a substantial shareholder of Siping and is therefore a connected person of the Company under the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to carry out assurance procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

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

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

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

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 35 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

				Number of Share Options					
Category	**Date of grant**	**Exercise price** *(HK$)*	**Exercisable period**	**As at 1 January 2013**	**Granted**	**Exercised**	**Cancelled**	**Lapsed**	**As at 31 December 2013**
Directors									
Cai Dongchen	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	80,000,000	—	—	—	80,000,000
Feng Zhenying	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	3,000,000	—	—	—	3,000,000
Chak Kin Man	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	3,000,000	—	—	—	3,000,000
Pan Weidong	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	10,000,000	—	—	—	10,000,000
Wang Huaiyu	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	15,000,000	—	—	—	15,000,000
Lu Jianmin	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	10,000,000	—	—	—	10,000,000
Wang Zhenguo	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	3,000,000	—	—	—	3,000,000
Wang Jinxu	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	3,000,000	—	—	—	3,000,000
Employees									
In aggregate	17 April 2013	3.98	17 April 2014 — 16 April 2023	—	23,000,000	—	—	—	23,000,000
Total				—	150,000,000	—	—	—	150,000,000

The closing price of the Company's shares immediately before the date of grant of the options was HK$3.98.

SHARE OPTION SCHEME *(continued)*

As at the date of this report, a total of 3,812,466 shares, representing 0.07% of the issued shares of the Company are available for grant under the share option scheme of the Company.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2013.

AUDITOR

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

On behalf of the Board
CAI Dongchen
Chairman

Hong Kong, 24 March 2014

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 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
Revenue	9	**9,949,103**	4,146,444
Cost of sales		**(6,816,042)**	(2,341,104)
Gross profit		**3,133,061**	1,805,340
Other income		**211,402**	38,693
Selling and distribution expenses		**(1,300,739)**	(757,297)
Administrative expenses		**(620,291)**	(235,363)
Other expenses		**(243,455)**	(87,797)
Operating profit		**1,179,978**	763,576
Finance costs	10	**(72,537)**	(60,090)
Share of result of a jointly venture	21	**(14,045)**	(3,981)
Gain on disposal of subsidiaries	41	**154,228**	—
Recognition of fair values of financial guarantee contracts issued		**—**	(5,130)
Amortisation of financial guarantee liabilities		**—**	18,485
Changes in fair value of convertible bonds	34	**—**	(222,739)
Gain on bargain purchase	40	**—**	1,810,702
Profit before tax	11	**1,247,624**	2,300,823
Income tax expenses	12	**(258,324)**	(131,975)
Profit for the year		**989,300**	2,168,848
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**150,299**	34,658
Share of exchange differences of a joint venture		**(337)**	(94)
Other comprehensive income for the year, net of income tax		**149,962**	34,564
Total comprehensive income for the year		**1,139,262**	2,203,412

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Profit for the year attributable to:			
Owners of the Company		**972,751**	2,162,235
Non-controlling interests		**16,549**	6,613
		989,300	2,168,848
Total comprehensive income attributable to:			
Owners of the Company		**1,120,755**	2,194,755
Non-controlling interests		**18,507**	8,657
		1,139,262	2,203,412
		HK cents	*HK cents*
Earnings per share			
Basic	15	**17.49**	147.78
Diluted	15	**16.54**	52.04

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	17	**4,961,171**	6,134,372
Prepaid lease payments	18	**547,754**	536,340
Goodwill	19	**128,438**	102,716
Other intangible assets	20	**127,597**	23,146
Interest in a joint venture	21	**18,038**	32,420
Available-for-sale investment		**1,705**	1,705
Deferred tax assets	31	**43,071**	58,160
		5,827,774	6,888,859
Current assets			
Inventories	22	**1,855,188**	2,022,406
Trade and other receivables	23	**2,029,961**	2,373,229
Bills receivables	24	**982,437**	738,490
Trade receivables due from related companies	25(i)	**122,137**	88,417
Amounts due from related companies	25(i)	**—**	14,388
Amount due from a joint venture	25(ii)	**91,519**	63,919
Prepaid lease payments	18	**16,909**	14,750
Tax recoverable		**226**	16,674
Held for trading investments		**438**	527
Derivative financial instruments		**3,428**	623
Restricted bank deposits	27	**82,779**	26,452
Bank balances and cash	27	**1,187,751**	1,449,977
		6,372,773	6,809,852
Current liabilities			
Trade and other payables	28	**2,257,200**	2,718,093
Bills payables	29	**273,397**	730,326
Trade payables due to related companies	25(i)	**47,607**	544
Trade payables due to a joint venture	25(ii)	**2,007**	5,360
Amounts due to related companies	25(i)	**475,179**	722,794
Tax liabilities		**77,116**	39,345
Provision for litigation	42	**45,999**	206,700
Unsecured bank loans	30	**659,946**	1,816,883
		3,838,451	6,240,045

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Net current assets		**2,534,322**	569,807
Total assets less current liabilities		**8,362,096**	7,458,666
Non-current liabilities			
Deferred tax liabilities	31	**33,117**	47,307
Unsecured bank loans	30	**680,120**	499,345
Government grants	32	**52,059**	39,646
Amount due to a related company	25(i)	**—**	108,623
		765,296	694,921
Net assets		**7,596,800**	6,763,745
Capital and reserves			
Share capital	33	**558,636**	272,542
Reserves		**6,893,984**	6,314,218
Equity attributable to owners of the Company		**7,452,620**	6,586,760
Non-controlling interests		**144,180**	176,985
Total equity		**7,596,800**	6,763,745

The consolidated financial statements on pages 34 to 129 were approved and authorised for issue by the Board of Directors on 24 March 2014 and are signed on its behalf by:

CAI Dongchen
Director

CHAK Kin Man
Director

Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	17	**80**	20
Investments in subsidiaries	36	**9,813,085**	9,792,453
Amount due from a subsidiary	26	**359,643**	359,640
		10,172,808	10,152,113
Current assets			
Other receivables		**4,877**	7,472
Amounts due from subsidiaries	26	**1,900,417**	1,439,563
Bank balances and cash	27	**72,897**	240,406
Derivative financial instruments		**3,428**	331
		1,981,619	1,687,772
Current liabilities			
Other payables		**25,634**	60,749
Amount due to a subsidiary	26	**578,196**	541,236
Amounts due to related companies	25(i)	**292,445**	37,673
Tax liabilities		**31,175**	—
Unsecured bank loans	30	**203,280**	638,000
		1,130,730	1,277,658
Net current assets		**850,889**	410,114
Total assets less current liabilities		**11,023,697**	10,562,227
Non-current liabilities			
Unsecured bank loans	30	**470,120**	353,400
Net assets		**10,553,577**	10,208,827
Capital and reserves			
Share capital	33	**558,636**	272,542
Reserves	37	**9,994,941**	9,936,285
Total equity		**10,553,577**	10,208,827

CAI Dongchen	**CHAK Kin Man**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Equity attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 *(note a)*	Statutory reserve HK$'000 *(note b)*	Capital contribution reserve HK$'000 *(note c)*	Convertible bonds HK$'000 *(note 34)*	Share options reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012	152,977	1,116,727	(800,906)	53,403	129,742	–	–	85,157	212,279	949,379	11,573	960,952
Profit for the year	–	–	–	–	–	–	–	–	2,162,235	2,162,235	6,613	2,168,848
Other comprehensive income for the year	–	–	–	–	–	–	–	32,520	–	32,520	2,044	34,564
Total comprehensive income for the year	–	–	–	–	–	–	–	32,520	2,162,235	2,194,755	8,657	2,203,412
Dividends recognised as distribution *(note 16)*	–	–	–	–	–	–	–	–	(300,400)	(300,400)	(975)	(301,375)
Capital injection *(note d)*	–	–	845,994	–	–	–	–	–	–	845,994	–	845,994
Imputed interest from amounts due to related parties	–	–	–	–	14,649	–	–	–	–	14,649	–	14,649
Adjustments arising on group reorganisation *(note e)*	–	–	(530,526)	–	(98,827)	–	–	–	–	(629,353)	–	(629,353)
Adjustments arising from the reverse acquisition *(note 40)*	119,565	2,152,179	(5,038,291)	–	–	561,041	–	–	–	(2,205,506)	157,730	(2,047,776)
Reclassification of convertible bonds from liability to equity *(note 34)*	–	–	–	–	–	5,717,242	–	–	–	5,717,242	–	5,717,242
Transfer to statutory reserve	–	–	–	60,603	–	–	–	–	(60,603)	–	–	–
At 31 December 2012 and 1 January 2013	**272,542**	**3,268,906**	**(5,523,729)**	**114,006**	**45,564**	**6,278,283**	**–**	**117,677**	**2,013,511**	**6,586,760**	**176,985**	**6,763,745**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**972,751**	**972,751**	**16,549**	**989,300**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**148,004**	**–**	**148,004**	**1,958**	**149,962**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**148,004**	**972,751**	**1,120,755**	**18,507**	**1,139,262**
Dividends recognised as distribution *(note 16)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(382,542)**	**(382,542)**	**(18,977)**	**(401,519)**
Conversion of convertible bonds *(note 34)*	**286,094**	**5,431,148**	**–**	**–**	**–**	**(5,717,242)**	**–**	**–**	**–**	**–**	**–**	**–**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**–**	**–**	**–**	**–**	**128,246**	**–**	**–**	**128,246**	**–**	**128,246**
Transfer to statutory reserve	**–**	**–**	**–**	**130,988**	**–**	**–**	**–**	**–**	**(130,988)**	**–**	**–**	**–**
Acquisition of subsidiaries *(note 40)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,057**	**5,057**
Acquisition of additional interest in a subsidiary *(note f)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(599)**	**(599)**	**(12,401)**	**(13,000)**
Disposal of subsidiaries *(note 41)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,044)**	**2,044**	**–**	**(24,991)**	**(24,991)**
At 31 December 2013	**558,636**	**8,700,054**	**(5,523,729)**	**244,994**	**45,564**	**561,041**	**128,246**	**263,637**	**2,474,177**	**7,452,620**	**144,180**	**7,596,800**

Notes:

(a) The balance in other reserve as at 1 January 2012 represents the difference between the share capital and share premium amounts of the Company and those of the entities comprising the Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group"). The balance in other reserve as at 1 January 2013 and 31 December 2013 also included an amount of HK$5,038,291,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of HK$3,288,998,000 and the fair value of the consideration paid by the Company of HK$8,327,289,000 in the Acquisition (as defined in note 2).

(b) The statutory reserves were appropriated from the profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(c) The balance in capital contribution reserve represents the deemed contribution by Shijiazhuang Pharmaceutical Group Company Limited ("SPG") which comprise (1) the difference between the carrying amounts of the net assets of entities comprising the Robust Sun Group and the consideration paid to SPG and its subsidiaries during group reorganisation under the Robust Sun Group and (2) the imputed interest arising on loan from SPG (see note 25 for details).

(d) The amount represents capital injection by SPG and Joyful Horizon Limited to the Robust Sun Group prior to the Acquisition (as defined in note 2).

(e) As part of the Group Reorganisation (as defined in note 3), there are series of acquisitions and disposal of interests in subsidiaries between the group companies and SPG. The net amount payable by the Group to SPG and China Charmaine Pharmaceutical Company Limited ("China Charmaine") amounting to approximately HK$629,353,000 was treated as reserves.

(f) On 25 June 2013, the Group entered into an equity transfer agreement with China Charmine to acquire additional 45% equity interest in CSPC Huasheng Pharmaceutical Co., Ltd ("Huasheng"), a non-wholly owned subsidiary of the Company. The transaction was completed on 22 August 2013. Upon completion of this acquisition, Huasheng became a wholly-owned subsidiary of the Company. Accordingly, the difference of HK$599,000 between the carrying amounts of net assets attributable to the additional interest acquired at the date of acquisition and the fair value of consideration paid by the Company of HK$13,000,000 for this acquisition was debited to accumulated profits.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**1,247,624**	2,300,823
Adjustments for:			
Amortisation of intangible assets		**11,525**	472
Amortisation of prepaid lease payments		**14,227**	5,050
Amortisation of financial guarantee liabilities		**—**	(18,485)
Depreciation of property, plant and equipment		**630,530**	185,795
Share-based payment expenses		**128,246**	—
Finance costs		**65,133**	55,970
Changes in fair value of convertible bonds		**—**	222,739
Gain on bargain purchase		**—**	(1,810,702)
Gain on disposal of subsidiaries		**(154,228)**	—
Government grants		**(139,179)**	(4,559)
Loss (gain) on disposal/write-off of property, plant and equipment		**11,505**	(2,385)
Loss (gain) on fair value change of held for trading investments		**101**	(37)
Net impairment loss on trade receivables		**190**	203
Write down of inventories		**15,000**	—
Interest income		**(5,994)**	(7,837)
Imputed interest on amount due to a related company		**7,404**	4,120
Recognition of fair values of financial guarantee contracts issued		**—**	5,130
Share of result of a joint venture		**14,045**	3,981
Operating cash flows before movements in working capital		**1,846,129**	940,278
Increase in inventories		**(36,160)**	(345,927)
Increase in trade and other receivables		**(168,722)**	(29,767)
Increase in bills receivables		**(301,904)**	(88,102)
(Increase) decrease in trade receivables due from related companies		**(31,055)**	42,670
Increase in derivative financial instruments		**(2,805)**	(270)
Increase (decrease) in trade and other payables		**217,849**	(83,711)
(Decrease) increase in bills payables		**(431,912)**	144,574
Increase (decrease) in trade payables due to related companies		**46,448**	(40,840)
(Decrease) increase in trade payables due to a joint venture		**(3,446)**	5,360
Increase in government grants		**130,960**	115,881
Decrease in provision for litigation		**(161,925)**	—
Cash generated from operations		**1,103,457**	660,146
Income tax paid		**(222,741)**	(106,056)
Interest paid		**(65,853)**	(56,012)
NET CASH FROM OPERATING ACTIVITIES		**814,863**	498,078

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(597,115)**	(204,204)
Acquisition of subsidiaries	40	**(127,927)**	701,161
Placement of restricted bank deposits		**(65,808)**	(5,235)
Prepaid lease payments paid		**(32,911)**	—
Advance to a joint venture		**(26,280)**	(6,377)
Purchase of intangible assets		**(17,315)**	(7,315)
Acquisition of additional interest in a subsidiary		**(13,000)**	—
Repayment from former subsidiaries	41	**1,065,731**	—
Disposal of subsidiaries	41	**384,037**	—
Proceeds on disposal of property, plant and equipment		**33,448**	4,755
Repayment from (advances to) related companies		**14,570**	(232,505)
Interest received		**5,994**	7,837
Withdrawal of restricted bank deposits		**720**	3,628
NET CASH FROM INVESTING ACTIVITIES		**624,144**	261,745
FINANCING ACTIVITIES			
Repayment of bank loans		**(2,266,736)**	(536,384)
Dividend paid		**(382,542)**	(408,296)
(Repayment to) advances from related companies		**(380,181)**	17,146
Dividend paid to non-controlling interests		**(18,977)**	(975)
New bank loans raised		**1,319,165**	459,259
Proceed from capital injection		**—**	845,994
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(1,729,271)**	376,744
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(290,264)**	1,136,567
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,449,977**	310,423
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**28,038**	2,987
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,187,751**	1,449,977

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. As at 31 December 2013, Hony Capital Fund III L.P. ("Hony Capital"), through its subsidiaries, indirectly controls more than 50% of the Company's shares.

Pursuant to a special resolution passed during the extraordinary general meeting of the Company on 21 February 2013, the English name of the Company was changed from China Pharmaceutical Group Limited to CSPC Pharmaceutical Group Limited and the Chinese name of the Company was changed from 中國製藥集團有限公司 to 石藥集團有限公司 with effective from 8 March 2013.

The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 45.

The functional currency of the Group is Renminbi ("RMB"), the consolidated financial statements are presented in Hong Kong dollar ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

On 17 June 2012, the Company entered into a sale and purchase agreement with Joyful Horizon Limited (the "Seller"). Pursuant to the sale and purchase agreement, the Company acquired, and the Seller sold 100% of the total issued share capital of Robust Sun, for a total consideration of HK$8,980,000,000 (the "Acquisition"). The consideration consisted of (i) HK$2,271,744,570.30 by way of allotment and issue of 1,195,655,037 new shares at an issue price of HK$1.9 per share and (ii) HK$6,708,255,429.70 by way of issue of convertible bonds ("Convertible Bonds").

The Robust Sun Group is principally engaged in the manufacture and sale of pharmaceutical products.

The Acquisition was completed on 29 October 2012, upon which the Seller received shares representing 43.87% of the enlarged share capital of the Company and Convertible Bonds of the Company which will result in the Seller holding a total of 73.83% (assuming issuance of maximum number of conversion shares) of the enlarged issued share capital of the Company. Furthermore, the Robust Sun Group's relative size (measured in terms of profit of the Robust Sun Group and the Company and its subsidiaries immediately prior to the Acquisition (the "CPG Group") for the year ended 31 December 2011 and valuation of the two groups) was significantly greater than those of the CPG Group immediately prior to the Acquisition. Under Hong Kong Financial Reporting Standard ("HKFRS") 3 "*Business Combinations*", the Acquisition was accounted for as a reverse acquisition. For accounting purpose, the Robust Sun Group was the accounting acquirer and the CPG Group (the accounting acquiree) was deemed to have been acquired by the Robust Sun Group.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The consolidated financial statements for the year ended 31 December 2012 have been prepared as a continuation of the Robust Sun Group. Accordingly, the 2012 full year results of the Robust Sun Group were accounted for in the consolidated financial statements of the Company for the year ended 31 December 2012, while only the results of the CPG Group since completion of the Acquisition on 29 October 2012 were accounted for in such consolidated financial statements of the Company.

In applying the purchase method of accounting to effect a "reverse acquisition" on completion of the Acquisition, a gain on bargain purchase of approximately HK$1,810,702,000 arose on the acquisition of the CPG Group by the Robust Sun Group, which was measured as the excess of the fair value of the identifiable assets, liabilities and contingent liabilities of the CPG Group over deemed cost of the business combination as of the acquisition date."

3. GROUP REORGANISATION OF ROBUST SUN GROUP PRIOR TO THE ACQUISITION

As at 1 January 2012, SPG, a company established in the People's Republic of China ("PRC"), was wholly owned by Massive Top Limited and its ultimate holding company was Hony Capital. SPG directly owned interest of 98.69% in CSPC XNW Pharmaceutical Joint Stock Co., Ltd. ("XNW") and 100% interest in CSPC Ouyi Pharmaceutical Co., Ltd. ("OYY"). OYY further owned interest of 100% in CSPC Ouyi Pharmaceutical Import and Export Trade Co., Ltd. ("I&E") and Shiyao Ouyi International Pharmaceutical Co., Ltd. ("OIP"), 55% in Huasheng and 75% interest in CSPC NBP Pharmaceutical Co., Ltd. ("NBP").

China Charmaine, a wholly owned subsidiary of SPG, owned the remaining interest of 25% in NBP.

In January 2012, Dragon Merit Holdings Limited ("Dragon Merit") was incorporated in Hong Kong as an investment holding company and beneficially owned by Massive Top. Further reorganization took place during April and May 2012 which involved (i) transfer of 75% equity interests in NBP from OYY to China Charmaine, as a result of which NBP became a wholly-owned subsidiary of China Charmaine; (ii) transfer of 100% equity interest in NBP to Dragon Merit from China Charmaine, as a result of which NBP became a wholly-owned subsidiary of Dragon Merit; (iii) transfer of 100% equity interest in OYY from SPG to NBP, as a result of which OYY became a wholly owned subsidiary of NBP; and (iv) transfer of 98.69% shares of XNW from SPG to NBP, as a result of which XNW became a non-wholly owned subsidiary of NBP.

On 23 May 2012, Robust Sun was incorporated as an investment holding company and its intermediate holding company is Massive Top. Shares of Dragon Merit were exchanged, on a one to one basis, for the shares of Robust Sun on 31 May 2012. As a result, Dragon Merit became wholly owned subsidiary of Robust Sun and there was no change in ultimate control or ultimate ownership interest of the entities comprising the Robust Sun Group as a result of this transaction.

3. GROUP REORGANISATION OF ROBUST SUN GROUP PRIOR TO THE ACQUISITION *(continued)*

The Robust Sun Group comprising Robust Sun and its subsidiaries resulting from the group reorganisation described above (the "Group Reorganisation") is regarded as a continuing entity.

The consolidated financial statements of the Robust Sun Group during the year ended 31 December 2012 have been prepared on the basis as if Robust Sun had always been the holding company of the Robust Sun Group using the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting under Common Control Combinations* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Robust Sun Group have been prepared as if the group structure immediately after the Group Reorganisation came into effect had been in existence since 1 January 2012, or since their respective dates of incorporation or establishment, where is a shorter period.

Details of the Group Reorganisation are set out in note 1 to section A of Accountants' Report of the Robust Sun Group included in Appendix II to the Company's circular dated 27 September 2012.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time.

Application of new and revised HKFRSs

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

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) — Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

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

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 11 Joint Arrangements

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) — Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements — joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements — jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the interest in a jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 13 Fair Value Measurement

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

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

The Directors consider that the application of HKFRS 13 in the current year has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the application of the other new or revised HKFRSs will have no material impact on the amounts reported and/or disclosures set out in these consolidated financial statements.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs issued but not yet effective

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

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]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
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]
HK(IFRIC) — Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014 with early application permitted.
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 after 1 July 2014, with limited exceptions.

Annual Improvements to HKFRSs 2010-2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Annual Improvements to HKFRSs 2010-2012 Cycle *(continued)*

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have no material impact on the consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Annual Improvements to HKFRSs 2011-2013 Cycle *(continued)*

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011-2013 Cycle* will have no material effect on the consolidated financial statements.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 Financial Instruments *(continued)*

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

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

The directors of the Company anticipate that the application of the HKFRS 9 may have impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

5. 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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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

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 the 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.

The principal accounting policies are set out below.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

- has power over the investee;
- is exposed, or has the 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 Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specially, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

Changes in the Group's ownership interests in existing subsidiaries

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries *(continued)*

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses which are not combination of entities under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

Merger accounting for business combination involving entities under common control

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

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

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

Goodwill

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

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.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. 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 the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses.

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of the joint venture exceeds its interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in a joint venture *(continued)*

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

When a group entity transacts with its joint venture of the Group (such as sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group' consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

Service income is recognised when services are provided.

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.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

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

Property, plant and equipment

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

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

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

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

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

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

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.

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

Foreign currencies

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, 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 under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of subsidiaries which are not foreign operations, all of the relevant exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to accumulated profits.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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 the grants will be received.

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

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

Equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Taxation

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest 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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying 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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Internally generated intangible assets — Research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basic as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination *(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, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised 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 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 at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories, including 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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designate as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified 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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in other income or other expenses in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 8c.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from related companies, amount due from a joint venture, amounts due from subsidiaries, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sales financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from related companies and amount due from a joint venture, 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 trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from related companies and amount due from a joint venture are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or

- on initial recognition it is a part of a portfolio of identified 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.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at FVTPL (continued)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss. The net gain or loss is included in profit or loss and excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including trade and other payables, bills payables, trade payables due to related companies, trade payables due to a joint venture, amounts due to related companies and unsecured bank loans) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis. Other than those financial liabilities classified as at FVTPL, of which the interest expenses in included in net gains or loss.

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contract issued by the Group is initially measured at their fair value and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

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

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

Provisions

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions *(continued)*

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation (if appropriate) recognised in accordance with HKAS 18 *Revenue*.

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

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

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policy

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

Acquisition method of accounting for a business combination

During the year ended 31 December 2012, the Company entered into sale and purchase agreement to acquire 100% equity interest in Robust Sun with details disclosed in note 2. The management consider facts and circumstances in identifying the accounting acquirer in a business combination effected by exchanging equity interests. Following the detailed analysis performed, it is determined that the Seller received shares representing 43.87% of the enlarged share capital of the Company and Convertible Bonds of the Company which will result in the Seller holding a total of 73.83% (assuming issuance of maximum number of conversion shares) of enlarged issued share capital of the Company and the Robust Sun Group's relative size (measured in terms of profit of the Robust Sun Group and CPG Group for the year ended 31 December 2011 and valuation) of the two groups is significantly greater than those of the Group immediately prior to the Acquisition. As a result, it is determined that the Robust Sun Group, even though it is acquired by the Company under the Acquisition, is regarded as the acquirer when applying the acquisition method of accounting and that the Acquisition is accounted for as a reverse acquisition in accordance with HKFRS 3 *Business Combinations*.

Key sources of estimation uncertainty

The following are the 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.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of goodwill was approximately HK$128,438,000 (2012: HK$102,716,000). Details of the recoverable amount calculation are disclosed in note 19.

Estimated impairment of trade receivables

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amounts of the Group's trade receivable were approximately HK$1,719,240,000 (2012: HK$1,855,516,000), net of allowance for doubtful debts of approximately HK$1,588,000 (2012: HK$1,361,000).

Fair value of derivative financial instruments and convertible bonds

Some of the Group's assets and liabilities are measured at fair value for financial reporting process as set out in note 8c. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. When Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation for financial instruments not quoted in an active market and applied appropriate valuation techniques commonly used by market practitioners.

For derivative financial instruments and convertible bonds, assumptions are made based on quoted market rates adjusted for specific features of the instruments. The estimation of fair value of convertible bonds also includes inputs that are not based on observable market data. The directors believe that the chosen valuation techniques, inputs and key assumptions as detailed in note 8c are appropriate in determining the fair value of financial instruments.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Useful lives and impairment assessment of property, plant, and equipment

At the end of each reporting period, the Group's management reviews the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimation is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where actual useful lives are expected to be shorter than expected, or will write off or write down obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2013, the carrying amounts of property, plant and equipment were approximately HK$4,961,171,000 (2012: HK$6,134,372,000). Details of the movement for property, plant and equipment are disclosed in note 17.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews the aging of the inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down inventories in that year. As at 31 December 2013, the carrying amounts of the inventories were approximately HK$1,855,188,000 (2012: HK$2,022,406,000), net of provision for inventories of approximately HK$15,000,000 (2012: nil).

7. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 30, amounts due to related companies in note 25 and Convertible Bonds in note 34, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

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

8. FINANCIAL INSTRUMENTS

8a. Categories of financial instruments

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
FVTPL — derivative financial instruments	**3,428**	623	**3,428**	331
Held for trading investments	**438**	527	**—**	—
Loans and receivables (including cash and cash equivalents)	**4,233,363**	4,321,613	**2,125,734**	1,422,755
Available-for-sale investment	**1,705**	1,705	**—**	—
Financial liabilities				
Amortised cost	**4,051,808**	6,128,148	**2,129,162**	1,423,086

8b. Financial risk management objectives and policies

The major financial instruments of the Group and the Company include available-for-sale investment, trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from related companies, amount due from a joint venture, amounts due from subsidiaries, held for trading investments, restricted bank deposits, bank balances and cash, trade and other payables, bills payables, trade payables due to related companies, trade payables to a joint venture, amounts due to related companies, unsecured bank loans and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States dollars ("USD"), and bank balances and cash denominated in USD and HK$, and the Company has raised HK$ bank loans and USD bank loans, which expose the Group and the Company to foreign currency risk.

The Group and the Company currently do not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period that are considered significant by the management are as follows:

	The Group				The Company			
	Liabilities		Assets		Liabilities		Assets	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**864,455**	828,673	**90,249**	117,693	**1,442,641**	1,184,909	**68,915**	92,238
USD	**101,400**	335,400	**567,867**	761,973	**101,400**	335,400	**7,858**	148,764

Sensitivity analysis

The Group and the Company are mainly exposed to HK$ and USD.

The following tables detail the sensitivity of the Group and the Company to a 5% (2012: 5%) increase and decrease in RMB against HK$ and USD. A 5% (2012: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2012: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2012: 5%) against the relevant currency. For a 5% (2012: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	The Group				The Company			
	HK$ Impact (i)		USD Impact (ii)		HK$ Impact (i)		USD Impact (ii)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Post-tax profit	**30,775**	28,261	**(18,542)**	(16,956)	**57,353**	45,619	**3,905**	7,792

(i) This is mainly attributable to the exposure outstanding on HK$ bank balances, amounts due to related companies and bank loans at year end.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances, derivative financial assets and bank loans at year end.

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

The Group is also exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 30 for details of these loans), which are raised from the banks in the PRC and Hong Kong.

The Group and the Company is exposed to cash flow interest rate risk primarily in relation to the floating-rate bank borrowings (see note 30 for details of these borrowings). It is the policy of the Group and the Company to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances expose the Group and the Company to cash flow interest rate risk due to the fluctuation of the prevailing interest rates. The directors of the Company consider the Group's exposure is not significant as the bank deposit interest rates have no material fluctuation during the year.

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group and the Company is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR"), London Interbank Offered Rate ("LIBOR") and benchmark interest rate of the PRC ("Benchmark Rate") arising from the Group's HK$ loans, USD loans raised by the Company and RMB loans raised by certain subsidiaries of the Company, respectively.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank borrowings. The analysis is prepared assuming the financial liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2012: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the year ended 31 December 2013 and 2012, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's and the Company's post-tax profit would decrease/increase by approximately HK$5,327,000 (2012: HK$8,153,000) and HK$2,811,000 (2012: HK$3,722,000), respectively.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in held for trading listed equity investments. The directors consider the effect of changes in equity prices on the Group is insignificant and therefore, no sensitivity analysis is presented.

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Credit risk

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

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's geographical concentration of credit risk on trade receivables, bills receivables, trade receivables due from related companies, amount due from a joint venture, amounts due from related companies, restricted bank deposits and bank balances and cash by geographical location is mainly in the PRC. The Group and the Company has no other significant concentration of credit risk with exposure spread over a number of counterparties.

The credit risk on liquid funds of the Group and the Company is limited because the counterparties are banks with good reputation.

Liquidity risk

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 operations of the Group and the Company and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenants.

The Group and the Company relies on bank borrowings as a significant source of liquidity. As at 31 December 2013, the Group and the Company have available unutilised bank loan facilities of HK$306,000,000 (2012: HK$104,000,000). Details of which are set out in note 30.

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

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The Group

As at 31 December 2013

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2013 HK$'000
Non-derivative financial liabilities							
Trade and other payables	—	1,860,905	35,837	16,810	—	1,913,552	1,913,552
Bills payables	—	—	82,051	191,346	—	273,397	273,397
Trade payables due to related companies	—	47,607	—	—	—	47,607	47,607
Trade payables due to a joint venture	—	2,007	—	—	—	2,007	2,007
Amounts due to related companies	—	475,179	—	—	—	475,179	475,179
Unsecured bank loans							
— floating-rate	3.56	—	53,998	443,582	715,311	1,212,891	1,160,580
— fixed-rate	5.54	—	40,593	148,842	—	189,435	179,486
		2,385,698	212,479	800,580	715,311	4,114,068	4,051,808

As at 31 December 2012

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
Non-derivative financial liabilities							
Trade and other payables	—	1,571,463	216,100	456,710	—	2,244,273	2,244,273
Bills payables	—	225,124	193,077	312,125	—	730,326	730,326
Trade payables due to related companies	—	1,138	4,222	—	—	5,360	5,360
Trade payables due to a joint venture	—	—	544	—	—	544	544
Amounts due to related companies	—	722,794	—	—	108,623	831,417	831,417
Unsecured bank loans							
— floating-rate	3.93	37,696	245,772	1,295,434	521,298	2,100,200	2,000,728
— fixed-rate	4.40	—	52,870	263,473	—	316,343	315,500
		2,558,215	712,585	2,327,742	629,921	6,228,463	6,128,148

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The Company

As at 31 December 2013

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2013 HK$'000
Non-derivative financial liabilities							
Amount due to a subsidiary	—	578,195	—	—	—	578,195	578,195
Amounts due to related companies	—	292,445	—	—	—	292,445	292,445
Unsecured bank loans							
— floating-rate	2.04	53,202	—	154,220	485,875	693,297	673,400
		923,842	—	154,220	485,875	1,563,937	1,544,040

As at 31 December 2012

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2013 HK$'000
Non-derivative financial liabilities							
Amount due to a subsidiary	—	541,236	—	—	—	541,236	541,236
Amounts due to related companies	—	37,673	—	—	—	37,673	37,673
Unsecured bank loans							
— floating-rate	2.65	43,114	160,138	380,986	365,986	950,224	913,400
— fixed-rate	1.00	—	—	78,780	—	78,780	78,000
		622,023	160,138	459,766	365,986	1,607,913	1,570,309

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.

8. FINANCIAL INSTRUMENTS *(continued)*

8c. Fair value measurement of financial instruments

The fair value of the Group's financial assets that are measured at fair value on a recurring basis at the end of each reporting period are determined as set out in the following table.

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)
	31 December 2013 ***HK$'000***	31 December 2012 *HK$'000*		
Foreign currency derivatives and structured forward contract classified as derivative	**3,428**	623	Level 2	Discounted cash flow. Future cash flows are estimated based on financial instruments on forward interest rates from observable yield curves at the end of the reporting period and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Held-for-trading non-derivative financial assets comprised of equity securities listed in the PRC and classified as held for trading investment	**438**	527	Level 1	Quoted bid prices in an active market

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

The fair value hierarchy of financial instruments at the end of reporting period is as follows:

	Level 1 ***HK$'000***	**Level 2** ***HK$'000***	**Total** ***HK$'000***
2013			
Financial assets			
Derivative financial instruments	**—**	**3,428**	**3,428**
Held for trading investments	**438**	**—**	**438**
Total	**438**	**3,428**	**3,866**

	Level 1 *HK$'000*	Level 2 *HK$'000*	Total *HK$'000*
2012			
Financial assets			
Derivative financial instruments	—	623	623
Held for trading investments	527	—	527
Total	527	623	1,150

There were no transfers between Level 1 and 2 during the years.

9. REVENUE AND SEGMENT INFORMATION

	2013 HK$'000	2012 HK$'000
Sale of goods	**9,949,103**	4,146,444

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the board of directors, being chief operating decision maker ("the CODM"), in order to allocate resources to the segments and to assess their performance.

Information reported to the directors is based upon which the Group is organised. During the year, the Group changes its internal reporting structure to improve operational efficiency and subsequent to this change, the Group's reportable and operating segments for financial reporting purposes are as follows:

(a) Finished drugs

(b) Antibiotics (intermediates and bulk drugs)

(c) Vitamin C (bulk drugs)

(d) Caffeine and others (bulk drugs)

Accordingly, the comparative figures have been restated as a result of the change of segment information presented.

All reportable segments are engaged in the manufacture and sales of pharmaceutical products.

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

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

For the year ended 31 December 2013:

	Finished drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Total *HK$'000*	Segments eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	5,753,847	2,446,370	1,116,433	632,453	9,949,103	—	9,949,103
Inter-segment sales	62,766	99,108	8,347	7,053	177,274	(177,274)	—
TOTAL REVENUE	5,816,613	2,545,478	1,124,780	639,506	10,126,377	(177,274)	9,949,103
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	1,319,825	53,930	(135,986)	149,206	1,386,975		1,386,975
Unallocated income							7,720
Unallocated expenses							(214,717)
Operating profit							1,179,978
Finance costs							(72,537)
Share of result of a joint venture							(14,045)
Gain on disposal of subsidiaries							154,228
Profit before tax							1,247,624

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2012 (restated):

	Finished drugs	Antibiotics	Vitamin C	Caffeine and others	Total	Segments eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE							
External sales	2,652,487	633,684	167,308	692,965	4,146,444	—	4,146,444
Inter-segment sales	60,510	141,916	247	5,539	208,212	(208,212)	—
TOTAL REVENUE	2,712,997	775,600	167,555	698,504	4,354,656	(208,212)	4,146,444
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	737,809	(22,542)	(24,140)	90,590	781,717		781,717
Unallocated income							8,679
Unallocated expenses							(26,820)
Operating profit							763,576
Finance costs							(60,090)
Share of result of a joint venture							(3,981)
Recognition of fair values of financial guarantee contracts issued							(5,130)
Amortisation of financial guarantee liabilities							18,485
Change in fair value of convertible bonds							(222,739)
Gain on bargain purchase							1,810,702
Profit before tax							2,300,823

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 5. Segment profit (loss) represents the profit earned/loss recognised by each segment without allocation of interest income, finance costs, central administrative expenses, share of result of a joint venture, gain on disposal of subsidiaries, recognition of fair value of financial guarantee contracts issued, amortisation of financial guarantee liabilities, changes in fair value of convertible bonds and gain on bargain purchase. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

During the year, other than segment revenue and segment profit analysis presented by revenue streams were provided to the CODM for performance assessment and resources allocation, segment information about assets and liabilities was no longer regularly provided to the CODM since 2013. Accordingly, the Group has not included total assets and liabilities information as part of segment information as set out in this note.

Geographical information

The following is an analysis of the Group's revenue for the year by geographical market based on geographical location of customers:

	2013	2012
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC") (country of domicile)	7,099,136	2,961,753
Other Asian regions	1,361,914	381,071
Americas *(Note)*	664,579	450,461
Europe	665,940	262,753
Others	157,534	90,406
	9,949,103	4,146,444

Note: The majority of revenue came from sales of pharmaceutical products in the United States of America (the "United States).

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group in both years.

10. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**65,133**	55,970
Imputed interest on amount due to a related company *(note 25)*	**7,404**	4,120
	72,537	60,090

11. PROFIT BEFORE TAX

	2013	2012
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration *(note 13)*:		
Salaries, wages and other benefits	**826,729**	304,195
Contribution to retirement benefit schemes	**99,455**	43,766
Share-based payment expense (included in administrative expenses)	**128,246**	—
Total staff costs	**1,054,430**	347,961
Amortisation of intangible assets (included in cost of sales)	**11,525**	472
Amortisation of prepaid lease payments	**14,277**	5,050
Depreciation of property, plant and equipment	**630,530**	185,795
Total depreciation and amortisation	**656,332**	191,317
Auditor's remuneration *(Note ii)*	**3,700**	4,100
Government grant income *(note 32)*	**(139,179)**	(4,559)
Interest income	**(5,994)**	(7,837)
Loss (gain) on disposal/write-off of property, plant and equipment (included in other expenses/other income)	**11,505**	(2,385)
Write down of inventories	**15,000**	—
Net foreign exchange gains	**(17,506)**	(1,525)
Rental expenses	**15,461**	12,364
Research and development expenditure recognised as an expense (included in other expenses)	**212,462**	77,959

11. PROFIT BEFORE TAX *(continued)*

Notes:

(i) Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2013 and 2012.

(ii) The auditor's remuneration disclosed above included amount of approximately HK$3,417,000 of the CPG Group prior to the Acquisition which was not included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012.

12. INCOME TAX EXPENSE

	2013	2012
	HK$'000	*HK$'000*
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax ("PRC EIT")	**224,395**	128,319
— PRC withholding tax on dividends distributed by subsidiaries	**49,775**	—
	274,170	128,319
Deferred taxation *(note 31)*	**(15,846)**	3,656
	258,324	131,975

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profit under Hong Kong Profits Tax.

No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable income for both years.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation regulation of the EIT law.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Company established before 16 March 2007 is entitled to exemption from PRC Enterprise Income Tax for two years starting from its first profit-making year, followed by a 50% reduction in tax rate for the next three years. The tax relief began in 2008 and ended in 2012.

PRC EIT had been relieved by approximately HK$1,847,000 for the year ended 31 December 2013 (2012: HK$6,265,000) as a result of tax losses brought forward from pervious years.

12. INCOME TAX EXPENSE *(continued)*

Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2014.

Capital gain tax was determined at the applicable PRC withholding tax rate of 10% based on the surplus of sales proceeds from disposal of subsidiaries over investment cost of those disposed subsidiaries as set out in note 41 according to the relevant tax rule in the PRC.

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

	2013	2012
	HK$'000	*HK$'000*
Profit before tax	**1,247,624**	2,300,823
Tax at the PRC EIT rate of 25% (2012: 25%)	**311,906**	575,206
Tax effect of income not taxable for tax purpose *(note)*	**(43,575)**	(494,973)
Tax effect of expenses not deductible for tax purpose	**82,503**	110,769
Tax effect of share of results of a joint venture	**3,511**	995
Utilisation of tax losses previously not recognised	**(1,847)**	(6,265)
Tax effect of tax losses not recognised	**49,124**	18,687
Effect of tax exemption, relief and concessions granted to PRC subsidiaries	**(166,643)**	(78,662)
PRC withholding tax on dividends distributed by subsidiaries	**49,775**	—
(Reversal of) deferred tax liabilities arising on undistributed profits of PRC subsidiaries	**(25,475)**	6,812
Others	**(955)**	(594)
Tax charge for the year	**258,324**	131,975

Note: Included in the amount for the year ended 31 December 2012 mainly represented the tax effect arising from bargain purchase amounting to approximately HK$452,676,000.

Details of deferred taxation and unused tax losses are set out in note 31.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 17 (2012: 16) directors were as follows:

2013

	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Feng Zhenying HK$'000	Chak Kin Man HK$'000	Pan Weidong HK$'000	Zhao John Huan HK$'000	Wang Shunlong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000	Wang Zhenguo HK$'000	Wang Jinxu HK$'000	Lee Ka Sze, Carmelo HK$'000	Huo Zhenxing HK$'000	Qi Moujia HK$'000	Guo Shichang HK$'000	Chan Siu Keung, Leonard HK$'000	Wang Bo HK$'000	Zhang Fawang HK$'000	Total HK$'000
Fees	60	60	60	60	–	–	60	60	60	35	300	66	66	66	150	66	66	1,235
Salaries and other benefits	4,264	760	1,948	760	–	–	760	760	760	760	–	–	–	–	–	–	–	10,772
Contribution to retirement benefit schemes	434	50	180	50	–	–	50	50	50	50	–	–	–	–	–	–	–	914
Performance related incentive payment *(note (i))*	6,500	–	2,000	–	–	–	–	–	–	–	–	–	–	–	–	–	–	8,500
Share-based payment expense	68,397	2,565	2,565	8,550	–	–	12,824	8,550	2,565	2,565	–	–	–	–	–	–	–	108,581
Total emoluments	79,655	3,435	6,753	9,420	–	–	13,694	9,420	3,435	3,410	300	66	66	66	150	66	66	130,002

2012 *(note (ii))*

	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Feng Zhenying HK$'000	Chak Kin Man HK$'000	Pan Weidong HK$'000	Zhao John Huan HK$'000	Wang Shunlong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000	Wang Zhenguo HK$'000	Lee Ka Sze, Carmelo HK$'000	Huo Zhenxing HK$'000	Qi Moujia HK$'000	Guo Shichang HK$'000	Chan Siu Keung, Leonard HK$'000	Wang Bo HK$'000	Zhang Fawang HK$'000	Total HK$'000
Fees	60	60	60	60	–	–	60	60	60	300	66	66	66	150	–	–	1,068
Salaries and other benefits	4,372	286	1,954	286	–	1,151	286	286	286	–	–	–	–	–	–	–	8,907
Contribution to retirement benefit schemes	428	44	187	44	–	8	44	44	44	–	–	–	–	–	–	–	843
Performance related incentive payment *(note (i))*	3,195	750	1,250	1,000	–	–	1,000	1,300	500	–	–	–	–	–	–	–	8,995
Total emoluments	8,055	1,140	3,451	1,390	–	1,159	1,390	1,690	890	300	66	66	66	150	–	–	19,813

Notes:

(i) The performance related incentive payment is determined by the remuneration committee for the years ended 31 December 2013 and 2012 having regard to the performance of Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the directors of the company as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived any emoluments in both years.

(ii) The emoluments paid or payable to the directors prior to the Acquisition are not included in profit or loss for the year ended 31 December 2012.

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

14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group for the year ended 31 December 2013 included 5 (2012: 4) directors and the chief executive of the Company, details of their emoluments are set out in note 13 above.

For the year ended 31 December 2012, salaries and other benefits of the remaining 1 individual of the Group amounted to HK$1,460,000.

The emoluments of the five highest paid individuals of the Group prior to the Acquisition are not included in the profit for the year ended 31 December 2012.

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

15. EARNINGS PER SHARE

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

	2013	2012
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**972,751**	2,162,235
Effect of dilutive potential ordinary shares:		
Change in fair value of Convertible Bonds	**—**	222,739
Earnings for the purpose of diluted earnings per share	**972,751**	2,384,974

15. EARNINGS PER SHARE *(continued)*

	2013	2012
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,562,186**	1,463,155
Effect of dilutive potential ordinary shares:		
Tranche I Bonds (as defined in note 34) as if converted	**—**	2,808,107
Tranche II Bonds (as defined in note 34) as if converted	**317,247**	312,012
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,879,433**	4,583,274

During the year ended 31 December 2012, the weighted average numbers of ordinary shares for the purpose of calculating basic earnings per share have been retrospectively adjusted for the effects of the recapitalisation that occurs in the reverse acquisition as detailed in note 2 and reflect the weighted average number of shares of the Company deemed to be outstanding for the period from 1 January 2012 to the acquisition date of the reverse acquisition based on the exchange ratio established in the Acquisition and the Company's weighted average number of ordinary shares after the completion of the Acquisition on 29 October 2012 up to 31 December 2012.

The Tranche I Bonds share similar characteristics of ordinary shares of the Company and accordingly treated as outstanding and included in the 2013 calculation of basic earnings per share from the date when all necessary conditions are satisfied (i.e. the downward adjustment depending on the financial performance of the Robust Sun Group for the year ended 31 December 2012 was fixed on 1 January 2013).

The computation of diluted earnings per share in 2013 does not assume the exercise of the Company's share options because the adjusted exercise price of those options was higher than the average market price for shares from the date of grant of the options to end of the reporting period.

16. DIVIDEND

	2013	2012
	HK$'000	*HK$'000*
Dividends recognised as distribution:		
By the Company during the year		
2012 Final, paid — HK10 cents (2012: Nil) per share	**382,542**	—
By the Robust Sun Group prior to the Acquisition *(Note)*	—	301,375
Less: Dividend paid to non-controlling interest	—	(975)
	382,542	300,400

Note: The rates of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of this report.

The directors recommend the payment of a final dividend of HK8 cents (2012: HK10 cents) per share in respect of the year ended 31 December 2013. Subject to approval by the shareholders in the forthcoming annual general meeting, the proposed final dividend will be paid on or around 10 June 2014 to shareholders of the Company whose names appear on the register of members of the Company on 28 May 2014.

17. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings in the PRC *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
COST						
At 1 January 2012	326,314	450,204	27,804	—	377,308	1,181,630
Exchange adjustments	6,560	9,107	672	—	1,349	17,688
Additions	590	42,356	3,532	208	364,047	410,733
Acquisition of CPG Group *(note 40)*	1,887,220	2,504,719	54,929	27,633	513,683	4,988,184
Transfers	254,809	451,921	28,074	—	(734,804)	—
Disposals/write-off	(3,443)	(70,004)	(4,976)	(230)	—	(78,653)
At 31 December 2012	**2,472,050**	**3,388,303**	**110,035**	**27,611**	**521,583**	**6,519,582**
Exchange adjustments	**57,675**	**82,551**	**3,072**	**689**	**12,368**	**156,355**
Additions	**7,824**	**104,714**	**6,643**	**3,505**	**368,481**	**491,167**
Acquisition of subsidiaries *(note 40)*	**13,114**	**8,362**	**2,606**	**—**	**96,232**	**120,314**
Transfers	**127,064**	**354,230**	**14,337**	**—**	**(495,631)**	**—**
Disposals/write-off	**—**	**(113,636)**	**(243)**	**(1,626)**	**—**	**(115,505)**
Disposal of subsidiaries *(note 41)*	**(595,006)**	**(712,015)**	**(3,681)**	**(3,333)**	**(44,632)**	**(1,358,667)**
At 31 December 2013	**2,082,721**	**3,112,509**	**132,769**	**26,846**	**458,401**	**5,813,246**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2012	70,531	193,978	7,745	—	—	272,254
Exchange adjustments	1,090	2,245	109	—	—	3,444
Provided for the year	44,060	132,583	7,350	1,802	—	185,795
Eliminated on disposals/write-off	(3,443)	(68,122)	(4,612)	(106)	—	(76,283)
At 31 December 2012	**112,238**	**260,684**	**10,592**	**1,696**	**—**	**385,210**
Exchange adjustments	**4,694**	**11,209**	**648**	**157**	**—**	**16,708**
Provided for the year	**148,641**	**441,567**	**29,868**	**10,454**	**—**	**630,530**
Eliminated on disposals/write-off	**—**	**(69,088)**	**(217)**	**(1,247)**	**—**	**(70,552)**
Eliminated on disposal of subsidiaries *(note 41)*	**(27,024)**	**(80,267)**	**(1,422)**	**(1,108)**	**—**	**(109,821)**
At 31 December 2013	**238,549**	**564,105**	**39,469**	**9,952**	**—**	**852,075**
CARRYING VALUES						
At 31 December 2013	**1,844,172**	**2,548,404**	**93,300**	**16,894**	**458,401**	**4,961,171**
At 31 December 2012	2,359,812	3,127,619	99,443	25,915	521,583	6,134,372

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

THE GROUP *(continued)*

At 31 December 2013, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to approximately HK$167,406,000 (2012: HK$155,756,000). In the opinion of the directors, as the buildings are currently in use and generate economic benefits to the Group, there is no impairment of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

THE COMPANY

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST			
At 1 January 2012 and 31 December 2012	**1,403**	**1,005**	**2,408**
Addition	**78**	**—**	**78**
At 31 December 2013	**1,481**	**1,005**	**2,486**
DEPRECIATION			
At 1 January 2012	1,350	1,005	2,355
Provided for the year	33	—	33
At 31 December 2012	**1,383**	**1,005**	**2,388**
Provided for the year	**18**	**—**	**18**
At 31 December 2013	**1,401**	**1,005**	**2,406**
CARRYING VALUES			
At 31 December 2013	**80**	**—**	**80**
At 31 December 2012	20	—	20

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

THE COMPANY *(continued)*

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

Buildings in the PRC	Over the shorter of the relevant lease, or 20 to 25 years
Plant and machinery	5%-10%
Furniture, fixtures and office equipment	20%-33.33%
Motor vehicles	20%

18. PREPAID LEASE PAYMENTS

	2013	2012
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**16,909**	14,750
Non-current asset	**547,754**	536,340
	564,663	551,090

Prepaid lease payments comprise medium-term leasehold land in the PRC.

19. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1 January 2012	101,448
Exchange adjustments	1,268
At 31 December 2012	**102,716**
Exchange adjustments	**3,245**
Arising on acquisition of subsidiaries *(note 40)*	**22,477**
At 31 December 2013	**128,438**

19. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL *(continued)*

For the purpose of impairment testing, goodwill has been allocated to the following cash-generating units:

	2013	2012
	HK$'000	*HK$'000*
OYY and its subsidiaries (the "OYY Group")	**105,350**	102,716
Baike Group (as defined in note 40)	**23,088**	—
	128,438	102,716

During the years ended 31 December 2013 and 2012, management of the Group determines that there is no impairment of the above-mentioned cash-generating units containing the goodwill.

The recoverable amounts of OYY Group and Baike Group have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. Both value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. The rates used to discount the projected cash flows of OYY Group and Baike Group are 12% and 19% per annum, respectively. Both sets of cash flows beyond the 5-year period are extrapolated based on past trends of pricing cycle of the Group's pharmaceutical products. Another key assumption for both value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amount of OYY Group and Baike Group to exceed the aggregate recoverable amount of these units.

20. OTHER INTANGIBLE ASSETS

THE GROUP

	License and patent	**Development costs**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2012	2,012	10,957	12,969
Exchange adjustments	25	93	118
Addition	—	7,315	7,315
Acquisition of CPG Group *(note 40)*	—	10,246	10,246
At 31 December 2012	**2,037**	**28,611**	**30,648**
Exchange adjustments	**1,293**	**898**	**2,191**
Addition	**—**	**17,315**	**17,315**
Acquisition of subsidiaries *(note 40)*	**96,725**	**—**	**96,725**
Disposal of subsidiaries *(note 41)*	**—**	**(1,232)**	**(1,232)**
At 31 December 2013	**100,055**	**45,592**	**145,647**
AMORTISATION AND IMPAIRMENT			
At 1 January 2012	120	6,861	6,981
Exchange adjustments	4	45	49
Provided for the year	202	270	472
At 31 December 2012	**326**	**7,176**	**7,502**
Exchange adjustments	**52**	**203**	**255**
Provided for the year	**3,421**	**8,104**	**11,525**
Eliminated on disposal of subsidiaries *(note 41)*	**—**	**(1,232)**	**(1,232)**
At 31 December 2013	**3,799**	**14,251**	**18,050**
CARRYING VALUES			
At 31 December 2013	**96,256**	**31,341**	**127,597**
At 31 December 2012	1,711	21,435	23,146

20. OTHER INTANGIBLE ASSETS *(continued)*

Development costs mainly represents cost internally generated or techniques and formulae acquired from third parties for the development of products and production technology. The Group's license and patent were mainly purchased as part of the business combination during the year.

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

License and patent	3 to 10 years
Development costs	5 to 10 years

21. INTEREST IN A JOINT VENTURE

	2013	2012
	HK$'000	*HK$'000*
Cost of unlisted investment in a joint venture	**36,495**	36,495
Share of post-acquisition losses	**(18,026)**	(3,981)
Exchange adjustments	**(431)**	(94)
	18,038	32,420

At 31 December 2013 and 2012, the Group held 50% of the registered capital and voting rights of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

	2013	2012
	HK$'000	*HK$'000*
Current assets	**117,679**	159,323
Non-current assets	**179,900**	202,160
Current liabilities	**(251,195)**	(283,720)
Non-current liabilities	**(10,308)**	(12,923)

21. INTEREST IN A JOINT VENTURE *(continued)*

The above amounts of assets and liabilities include the following:

	2013	2012
	HK$'000	*HK$'000*
Cash and cash equivalents	**21,832**	10,045
Current financial liabilities (excluding trade and other payables and provisions)	**(57,692)**	—
Revenue	**294,468**	54,609
Loss for the year	**28,090**	7,962
Other comprehensive expenses for the year	**674**	188
Total comprehensive expenses for the year	**28,764**	8,150

The above loss for the year includes the following:

	2013	2012
	HK$'000	*HK$'000*
Depreciation and amortisation	**31,296**	4,064
Interest income	**(78)**	(20)
Finance costs	**6,342**	840
Income tax expense	**(2,708)**	2,786

21. INTEREST IN A JOINT VENTURE *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Huarong recognised in the consolidated financial statements:

	2013	2012
	HK$'000	*HK$'000*
Net assets of Huarong	**36,076**	64,840
Proportion of the Group's ownership interest in Huarong	**50%**	50%
Carrying amount of the Group's interest in Huarong	**18,038**	32,420

22. INVENTORIES

	2013	2012
	HK$'000	*HK$'000*
Raw materials	**399,989**	513,649
Work in progress	**204,011**	323,233
Finished goods	**1,251,188**	1,185,524
	1,855,188	2,022,406

23. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**1,720,828**	1,856,877
Less: allowance for doubtful debts	**(1,588)**	(1,361)
	1,719,240	1,855,516
Prepayment for purchase of raw material	**126,911**	172,951
Utility deposits	**12,846**	87,837
Other tax recoverable	**62,879**	147,764
Others	**108,085**	109,161
	2,029,961	2,373,229

23. TRADE AND OTHER RECEIVABLES *(continued)*

The Group allows a general credit period of up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2013	2012
	HK$'000	*HK$'000*
0 to 90 days	**1,484,861**	1,563,311
91 to 180 days	**174,391**	244,782
181 to 365 days	**11,377**	44,815
Over 365 days	**48,611**	2,608
	1,719,240	1,855,516

No impairment loss is provided for the trade receivables that aged within 90 days because these receivables are within the credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and experience.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$234,379,000 (2012: HK$292,205,000) which are past due (i.e. aged over 90 days) as at the reporting date for which the Group has not provided for impairment loss as the amounts are still considered recoverable and of good credit quality. The Group does not hold any collateral over these balances. The average age of these receivable is 120 days.

Ageing of trade receivables which are past due but not impaired

	2013	2012
	HK$'000	*HK$'000*
91 to 180 days	**174,391**	244,782
181 to 365 days	**11,377**	44,815
Over 365 days	**48,611**	2,608
	234,379	292,205

23. TRADE AND OTHER RECEIVABLES *(continued)*

Movements in the allowance for doubtful debts

	2013	2012
	HK$'000	*HK$'000*
Balance at beginning of the year	**1,361**	1,141
Impairment loss recognised on trade receivables	**190**	217
Impairment losses reversed	**—**	(14)
Exchange adjustments	**37**	17
Balance at end of the year	**1,588**	1,361

As at 31 December 2013, the Group's trade receivables denominated in USD is approximately HK$515,623,000 (2012: HK$527,403,000).

24. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2012: 180 days) and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

25. RELATED PARTIES DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Apart from other arrangements with related parties in both years as disclosed in note 40, the Group had also entered into the following transactions. The significant transactions with these companies during the year, and have balances with them at the end of the reporting period, are as follows:

(i) Related companies

Name of company	Nature of transactions/balances	2013	2012
		HK$'000	*HK$'000*
The Group			
SPG and its subsidiaries and associates *(note a)*	Purchase of raw materials	**276,796**	1,578
	Sale of finished drugs products	**257,570**	67,855
	Interest income received	—	4,444
	Dividend paid	—	301,375
	Rental expense	**9,602**	341
	Balance due from/to the SPG Group		
	— trade receivables aged 0-90 days	**77,284**	51,326
	— trade payables aged 0-90 days	**47,607**	544
	— other receivables *(note c)*	—	14,388
	— other payables — current *(note d)*	**468,425**	716,209
	— other payables — non current *(note d)*	—	108,623
	— dividend payable	**6,754**	6,585
CPG Group *(note b)*	Purchase of raw materials	—	20,011
	Sale of finished drug products	—	90
	Consumable expenses	—	1,500
Huarong, a joint venture *(note e)*	Purchase of raw materials	—	9,812

25. RELATED PARTIES DISCLOSURES *(continued)*

(i) Related companies *(continued)*

Name of company	Nature of transactions/balances	2013	2012
		HK$'000	*HK$'000*
Guangdong Titan Pharmaceutical Co., Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of the non-controlling interest of a subsidiary	Sale of finished goods	**120,769**	31,644
	Balance due from Guangdong Titan		
	— trade receivables aged 0-90 days	**44,853**	37,091
Total	Balance due from/to		
	— trade receivables	**122,137**	88,417
	— trade payables	**47,607**	544
	— other receivables *(note c)*	**—**	14,388
	— other payables — current *(note d)*	**468,425**	716,209
	— other payables — non current *(note d)*	**—**	108,623
	— dividend payables	**6,754**	6,585
The Company			
SPG and its subsidiaries	Balance due to		
	— other payables *(note c)*	**292,445**	37,673

As at 31 December 2013, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of approximately HK$346,154,000 (2012: HK$950,000,000) granted to the Group. As at 31 December 2013, the extent of utilisation by the Group amounted to approximately HK$346,154,000 (2012: HK$950,000,000).

During the year ended 31 December 2012, the Group provided guarantees to banks in respect of credit facilities granted to SPG and other third parties. The fair values of financial guarantee contracts upon initial recognition were calculated using the default risk method and based on certain key assumptions on credit strength of the borrowers and default rate. All guarantees given to banks in prior years were released in August 2012.

25. RELATED PARTIES DISCLOSURES *(continued)*

(ii) A joint venture

Name of company	Nature of transactions/balances	2013 HK$'000	2012 HK$'000
Huarong, a joint venture *(Note e)*	Purchase of raw materials	**10,407**	5,069
	Provision of utility services by the Group	**47,138**	8,617
	Sales of raw materials	**7,220**	—
	Sales of others	**215**	—
	Balance due from/to Huarong		
	— other receivables *(note c)*	**91,519**	63,919
	— trade payables aged 0 – 90 days	**2,007**	5,360

note a: SPG was an intermediate holding company of Robust Sun Group subsidiaries prior to May 2012 while it became a fellow subsidiary of the Robust Sun Group after the Group Reorganisation as described in note 3.

note b: The Company was a related party of the Robust Sun Group in which Hony Capital has equity stake prior to October 2012 while the Company became the holding company of the Robust Sun Group after the Acquisition as described in note 40.

note c: Amounts are unsecured, non-interest bearing and repayable on demand.

note d: Amounts are unsecured, non-interest bearing and repayable on demand except that on 31 May 2012, SPG agreed to change the maturity of a balance of RMB97,705,193 (equivalent to approximately HK$104,503,000) to 31 May 2014. Accordingly, the balance is presented as non-current amount due to a related party as at 31 December 2012 and classified as current liability as at 31 December 2013. Imputed interest is computed using the prevailing market interest rate of 6.56% per annum for comparable long term borrowings on 31 May 2012. The discount as at 31 May 2012 amounting to approximately HK$14,649,000 was recorded as a capital contribution in the consolidated statement of changes in equity. During the year ended 31 December 2013, imputed interest on amount due to SPG of approximately HK$7,404,000 (2012: HK$4,120,000) is recorded as finance costs in the consolidated statement of profit or loss and other comprehensive income.

note e: Huarong is a joint venture of the CPG Group prior to October 2012 while it became a joint venture of the Group after the Acquisition as described in note 40.

During the year, the Group entered into certain connected transactions as defined in the Listing Rules. The Company's independent non-executive directors have reviewed these transactions. Details of the Group's connected transactions are disclosed under paragraph "Connected Transactions" in the Directors' Report.

25. RELATED PARTIES DISCLOSURES *(continued)*

(iii) Compensation of Key Management Personnel

In addition, the remuneration of key management personnel of the Group during the year is as follows:

	2013	2012
	HK$'000	*HK$'000*
Short-term benefits	**20,507**	2,139
Post-employment benefits	**914**	146
Share-based payment expenses	**108,581**	—
	130,002	2,285

26. AMOUNTS DUE FROM/TO SUBSIDIARIES

Except for an amount of approximately HK$359,643,000 (2012: HK$359,640,000) due from a subsidiary which are not recoverable in the next twelve months from the end of the reporting period, the remaining amounts are unsecured, interest-free and recoverable (repayable) on demand.

27. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.64% (2012: 0.01% to 1.67%) per annum.

As at 31 December 2013 and 2012, restricted bank deposits represent deposits required to be placed in banks for securing short term banking facilities and are classified as current assets. The restricted bank deposits will be released upon settlement of relevant short term bank facilities.

The bank balances and restricted bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	The Group		**The Company**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**90,249**	117,693	**68,202**	91,585
USD	**52,244**	239,336	**4,436**	148,433

28. TRADE AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**935,534**	1,171,731
Customer deposits and advance from customers	**280,999**	203,338
Other tax payables	**37,313**	71,602
Consultation fee payable	**764**	15,053
Freight and utilities charges payable	**27,727**	26,599
Construction cost and acquisition of property, plant and equipment payable	**548,376**	753,382
Government grants *(note 32)*	**182,235**	167,868
Staff welfare payable	**141,077**	216,535
Selling expense payable	**73,000**	69,924
Others	**30,175**	22,061
	2,257,200	2,718,093

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

	2013	2012
	HK$'000	*HK$'000*
0 to 90 days	**658,963**	763,369
91 to 180 days	**78,391**	72,837
More than 180 days	**198,180**	335,525
	935,534	1,171,731

The general credit period on purchases of goods is up to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

29. BILLS PAYABLES

All bills payables of the Group are aged within 180 days (2012: 180 days) and not yet due at the end of the reporting period.

30. UNSECURED BANK LOANS

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured				
— floating-rate HK$ bank loans	**572,000**	791,000	**572,000**	606,000
— floating-rate USD bank loans	**101,400**	257,400	**101,400**	257,400
— floating-rate RMB bank loans	**487,180**	952,328	**—**	50,000
— fixed-rate USD bank loans	**—**	78,000	**—**	78,000
— fixed-rate RMB bank loans	**179,486**	237,500	**—**	—
	1,340,066	2,316,228	**673,400**	991,400
The above borrowings are repayable as follows:				
Within one year	**659,946**	1,816,883	**203,280**	638,000
More than one year, but not more than two years	**383,120**	378,225	**173,120**	232,280
More than two years, but not more than five years	**297,000**	121,120	**297,000**	121,120
	1,340,066	2,316,228	**673,400**	991,400
Less: Amounts due within one year shown under current liabilities	**(659,946)**	(1,816,883)	**(203,280)**	(638,000)
Amounts shown under non-current liabilities	**680,120**	499,345	**470,120**	353,400

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

Effective interest rate:	**2013**	2012
Floating-rate HK$ bank loans	**1.78% to 3.13% per annum**	1.89% to 5.53% per annum
Floating-rate USD bank loans	**2.98% to 3.23% per annum**	2.74% to 3.23% per annum
Floating-rate RMB bank loans	**4.2% to 6.56% per annum**	2.6% to 6.56% per annum
Fixed-rate USD bank loans	**—**	1% per annum
Fixed-rate RMB bank loans	**3.25% to 5.70% per annum**	3.25% to 5.24% per annum

30. UNSECURED BANK LOANS *(continued)*

The floating-rate of HK$, USD and RMB bank loans are subject to interest at HIBOR plus a spread, LIBOR plus a spread and PRC Benchmark Rate plus a spread, respectively.

The Group's bank loans that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**572,000**	791,000	**572,000**	606,000
USD	**101,400**	335,400	**101,400**	335,400

At the end of the reporting period, the Group had the following undrawn loan facilities:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Floating-rate HK$ bank loans	**150,000**	104,000	**150,000**	104,000
Floating-rate USD bank loans	**156,000**	—	**156,000**	—
	306,000	104,000	**306,000**	104,000

As at 31 December 2013, SPG and its subsidiaries gave guarantee of approximately HK$346,154,000 (2012: HK$950,000,000) to secure borrowings of the Group.

31. DEFERRED TAXATION

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

	2013	2012
	HK$'000	*HK$'000*
Deferred tax asset	**43,071**	58,160
Deferred tax liability	**(33,117)**	(47,307)
	9,954	10,853

31. DEFERRED TAXATION *(continued)*

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year are as follows:

	Inventories	Properties, plant and equipments	Prepaid lease payment	Other intangible assets	Tax loss	Undistributed profit of subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012	—	—	—	—	1,493	—	1,493
Credit (charge) to profit or loss	5,426	512	(22)	(1,300)	(1,460)	(6,812)	(3,656)
Acquisition of CPG Group *(note 40)*	22,134	(25,859)	(885)	38,696	—	(20,936)	13,150
Exchange adjustments	—	—	—	—	—	(134)	(134)
At 31 December 2012	**27,560**	**(25,347)**	**(907)**	**37,396**	**33**	**(27,882)**	**10,853**
Credit (charge) to profit or loss	**814**	**4,091**	**155**	**(14,655)**	**(34)**	**25,475**	**15,846**
Acquisition of subsidiaries *(note 40)*	**—**	**5,050**	**1,171**	**(13,754)**	**—**	**—**	**(7,533)**
Disposal of subsidiaries *(note 41)*	**—**	**(2,984)**	**(3,151)**	**(3,017)**	**—**	**—**	**(9,152)**
Exchange adjustments	**686**	**(579)**	**(48)**	**535**	**1**	**(655)**	**(60)**
At 31 December 2013	**29,060**	**(19,769)**	**(2,780)**	**6,505**	**—**	**(3,062)**	**9,954**

At the end of the reporting period, the Group has unused tax losses of approximately HK$235,259,000 (2012: HK$46,284,000) available for offset against future profits. As at 31 December 2012, a deferred tax asset has been recognised in respect of HK$133,000 (2013: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$235,259,000 (2012: HK$46,151,000) due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2017.

The unused tax losses will be expired as follow:

	2013	2012
	HK$'000	*HK$'000*
2015	**—**	133
2016	**38,896**	46,151
2017	**196,363**	—
	235,259	46,284

31. DEFERRED TAXATION *(continued)*

Under the EIT Law of PRC, withholding tax is imposed on dividends distributed in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable. No deferred taxation has been provided for the undistributed profits as at 1 January 2012 as the PRC subsidiaries were held by entities which were PRC tax residents.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$2,323,201,000 (31 December 2012: HK$1,433,916,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant deferred taxation for the year or at the end of the reporting period.

32. GOVERNMENT GRANTS

	2013	2012
	HK$'000	*HK$'000*
Current (included in other payables in note 28)		
— Acquisition of property, plant and equipment *(note a)*	**6,467**	740
— Other subsidies *(note b)*	**175,768**	167,128
	182,235	167,868
Non-current		
— Acquisition of property, plant and equipment *(note a)*	**52,059**	39,646
	226,804	207,514

Notes:

a. Government grants include cash subsidies received from PRC government by the Group which were specific for the purchase of plant and machineries. The Group has complied with the conditions attaching to the grants as at the end of the reporting periods and transferred to profit or loss over the useful lives of the related assets. During the year, the Group recognised income of approximately HK$5,412,000 (2012: HK$731,000).

b. Other subsidies are generally provided in relation to development of pharmaceutical products or improvement of production efficiency. Since the Group has not complied with the conditions attaching to certain of grants at the end of the reporting period and the grants are refundable in accordance with contract terms, amounts are included as payables. During the year, the Group recognised income of approximately HK$133,767,000 (2012: HK$3,828,000).

33. SHARE CAPITAL

Under a reverse acquisition in 2012 as detailed in note 2, the amount of share capital and share premium in the consolidated statement of financial position has been retrospectively adjusted to reflect the legal capital of the Company.

THE COMPANY

	Number of shares		Share capital	
	2013	2012	**2013**	2012
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised				
At beginning of year	**30,000,000**	3,000,000	**3,000,000**	300,000
Increase on 19 October 2012	**—**	27,000,000	**—**	2,700,000
At end of year	**30,000,000**	30,000,000	**3,000,000**	3,000,000
Issued and fully paid				
At beginning of year	**2,725,422**	1,529,767	**272,542**	152,977
Issued as part of consideration for the acquisition of the issued share capital of the Robust Sun Group	**—**	1,195,655	**—**	119,565
Conversion of convertible bonds *(note 34)*	**2,860,935**	—	**286,094**	—
At end of year	**5,586,357**	2,725,422	**558,636**	272,542

34. CONVERTIBLE BONDS

On 29 October 2012, the Company issued two tranches of Convertible Bonds with respective principal amounts of US$774,029,472.70 (equivalent to HK$6,037,429,887.06) ("Tranche I Bonds") and US$86,003,274.70 (equivalent to HK$670,825,542.66) ("Tranche II Bonds") to the Seller upon completion of the Acquisition.

The Convertible Bonds are non-redeemable and non-interest bearing, and are convertible into the Company's ordinary shares at a conversion price of HK$2.15 subject to anti-dilution adjustments. The principal amount of the Convertible Bonds is subject to downward adjustment depending on the financial performance of the Robust Sun Group for the year ended 31 December 2012 and year ended 31 December 2013 (or 31 December 2014 in certain circumstances). The number of shares that will ultimately be issued by the Company to the Seller will vary depending on the profitability of the Robust Sun Group for these financial years.

34. CONVERTIBLE BONDS *(continued)*

For the year ended 31 December 2012, if the net profit of the Robust Sun Group is less than HK$600 million, the principal amount of the Tranche I Bonds will be reduced by the formula: the principal amount of the Tranche I Bonds times the fraction of the actual net profit of the Robust Sun Group during the year ended 31 December 2012 and HK$600 million. For the year ended 31 December 2013 (or 31 December 2014 in certain circumstance), if the net profit of the Robust Sun Group is less than HK$800 million, the Tranche II Bonds shall be deemed to be cancelled.

The initial maturity date is on 29 October 2017 or to be extended to 29 October 2018 if the Convertible Bonds cannot convert due to Minimum Public Float Limitation (defined below) at the initial maturity date. All outstanding Convertible Bonds on the initial maturity date will be mandatorily converted at the conversion price applicable at that time except if it fails to meet the Minimum Public Float Limitation. If any outstanding convertible bonds remain unconverted at the close of business on the extended maturity date, whether by reason of the minimum Public Float requirement or otherwise, all such unconverted Convertible bonds shall deemed to be cancelled and bondholders shall not be entitled to any consideration, remedy or compensation whatsoever with respect to such cancellation.

Tranche I Bonds become convertible only after the announcement of the Company's consolidated financial results for the year ended 31 December 2012 while Tranche II Bonds become convertible only after the announcement of the Company's consolidated financial results for the year ended 31 December 2013, or if applicable, for the year ending 31 December 2014.

Minimum Public Float Limitation refers to the conversion rights attached to the Convertible Bonds are subject to a further requirement that the public float of the Company must at all times comply with the requirements of Rule 8.08 of the Listing Rules. If the conversion of any Convertible bonds would cause the public float of the Company to fall below 25% of its total issued share capital, the aggregate principal amount of the Convertible Bonds to be converted shall be reduced by such amount as necessary for the public float of the Company to comply with Rule 8.08 of the Listing Rules.

In accordance with HKAS 32 *Financial Instruments: Presentation* paragraph 18, the substance of the contractual terms of a financial instrument, rather than its legal form, governs its classification on the issuer's statement of financial positions. In general, debt element is the contractual obligation by the issuer to deliver cash or other financial assets, while the equity element is represented by the holder's right to receive an equity return in the form of dividends, if declared.

Although the Convertible Bonds do not contain contractual obligation for the issuer to deliver cash or other financial assets, the Tranche I Bonds failed the "fixed-for-fixed" requirement in HKAS 32 paragraph 11 as at the date of issuance as the Company may be obliged to deliver a variable number of its ordinary shares because of the downward adjustment depending on the financial performance of the Robust Sun Group for the year ended 31 December 2012. Tranche II Bonds will be converted either in full or nil and there is no future adjustment on the conversion ratio. Accordingly, the Tranche II Bonds were classified as equity at the date of issuance while the Tranche I Bonds were classified as financial liabilities at fair value through profit and loss of the Group at the date of issuance and no separate amounts of the debt and equity components were arrived at when determining the fair values of the Convertible Bonds at the date of issuance.

34. CONVERTIBLE BONDS *(continued)*

Based on the net profit of Robust Sun Group for the year ended 31 December 2012, there is no downward adjustments of Tranche I Bonds and the respective bonds were derecognised as financial liabilities at fair value through profit and loss and its carrying amount as at 31 December 2012, represented by its fair value as at that date, was re-classified to equity.

The fair values of the Convertible Bonds at 29 October 2012 and 31 December 2012 have been arrived at on the basis of a valuation carried out on that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent qualified valuer not connected to the Group. The fair values of the Convertible Bonds are determined based on the value of converted shares less discount of the period that holder cannot exercise the Convertible Bonds calculated under ATM Put.

The fair values of the Convertible Bonds are estimated using the following inputs:

Tranche I Bonds

Valuation date	29 October 2012	31 December 2012
Principal Amount	HK$6,037,429,887	HK$6,037,429,887
Conversion Price	HK$2.15	HK$2.15
No of shares to be converted	2,808,106,924	2,808,106,924
Closing market price of the Company at the valuation date	HK$2.15	HK$2.23
Diluted share price	N/A	HK$2.19

For the calculation of discount for period holder cannot exercise the Convertible Bonds

Share price used in ATM Put	HK$2.15	HK$2.19
Exercise Price	HK$2.15	HK$2.15
Risk free rate	0.12%	0.05%
Dividend Yield	0%	0%
Implied Volatility	35%	35%
Starting date of the conversion	31 March 2013	31 March 2013
Fair value of the Convertible Bonds	HK$5,494,502,806	HK$5,717,241,828

Tranche II Bonds

Valuation date	29 October 2012
Principal Amount	HK$670,825,543
Conversion Price	HK$2.15
No of shares to be converted	312,011,880
Closing market price of the Company at the valuation date	HK$2.15
Diluted share price	N/A

34. CONVERTIBLE BONDS *(continued)*

For the calculation of discount for period holder cannot exercise the Convertible Bonds

Share price used in ATM Put	HK$2.15
Exercise Price	HK$2.15
Risk free rate	0.18%
Dividend Yield	0%
Implied Volatility	35%
Starting date of the conversion	31 March 2014
Fair value of the Convertible Bonds	HK$561,041,476

The risk free rate used is referred to the yield of the Hong Kong Monetary Authority Exchange Fund Bills and Notes. The closing market price of the Company, dividend yield and implied volatility are reference to the published information by Bloomberg.

The starting date of the conversion of the Convertible Bonds is determined to be the last day of March of 2013 and 2014 for Tranche I Bonds and Tranche II Bonds, respectively, as this is the last day of announcing the Company's consolidated financial results for the years ended 31 December 2012 and 2013 in accordance with the Listing Rules.

The movement of the Convertible Bonds is set out below:

	Tranche I Bonds *HK$'000*	Tranche II Bonds *HK$'000*	Total *HK$'000*
Convertible Bonds issued on 29 October 2012	5,494,503	561,041	6,055,544
Change in fair value recognised in profit and loss	222,739	—	222,739
At 31 December 2012	5,717,242	561,041	6,278,283
Conversion to ordinary shares	(5,717,242)	—	(5,717,242)
At 31 December 2013	—	561,041	561,041

During the year, the convertible bonds holder exercised part of its convertible rights and converted the Tranche I Bonds into 1,100,000,000 shares and 1,760,934,973 shares of the Company on 13 May 2013 and 17 October 2013, respectively.

In accordance with the terms and conditions of the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted from HK$2.15 per share to HK$2.0855 per share since 17 June 2013 upon payment of the final dividend for the year ended 31 December 2012.

35. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

On 17 April 2013, the Company granted a total of 150,000,000 options to its directors and eligible employees. The options granted will fully vest on the first anniversary of the date of grant. The closing price of the Company's shares on 17 April 2013, the date of grant, was HK$3.98. The fair values of the options determined at the date of grant using the Binomial model were approximately HK$181,433,000.

The following assumptions were used to calculate the fair values of share options:

Date of Grant	17 April 2013
Grant date share price	HK$3.98
Exercise price	HK$3.98
Expected life	7.5 years
Expected volatility	35.392%
Dividend yield	2.57%
Risk-free interest rate	0.905%

35. SHARE OPTION SCHEME *(continued)*

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting period, the Group will revise its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share options reserve.

36. INVESTMENTS IN SUBSIDIARIES

	2013 ***HK$'000***	2012 *HK$'000*
Unlisted investments, at cost	**9,813,085**	9,792,453

Particulars of the Company's subsidiaries as at 31 December 2013 and 2012 are set out in note 45.

37. RESERVES OF THE COMPANY

	Share premium *HK$'000*	**Capital redemption reserve** *HK$'000*	**Convertible bonds** *HK$'000*	**Share option reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2012	1,116,727	835	—	—	299,712	1,417,274
Profit for the year	—	—	—	—	88,549	88,549
Issue of new shares	2,152,179	—	—	—	—	2,152,179
Issue of convertible bonds	—	—	561,041	—	—	561,041
Transfer of convertible bonds from liability components to equity components	—	—	5,717,242	—	—	5,717,242
At 31 December 2012	**3,268,906**	**835**	**6,278,283**	**—**	**388,261**	**9,936,285**
Final dividend for the year ended 31 December 2012	**—**	**—**	**—**	**—**	**(382,542)**	**(382,542)**
Profit for the year	**—**	**—**	**—**	**—**	**599,046**	**599,046**
Conversion of convertible bonds	**5,431,148**	**—**	**(5,717,242)**	**—**	**—**	**(286,094)**
Recognition of equity-settled share-based payment expense	**—**	**—**	**—**	**128,246**	**—**	**128,246**
At 31 December 2013	**8,700,054**	**835**	**561,041**	**128,246**	**604,765**	**9,994,941**

38. OPERATING LEASE COMMITMENTS

The Group as lessee

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of warehouse and motor vehicles	**15,461**	12,364

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**23,551**	6,022	**2,281**	2,175
In the second to fifth year inclusive	**38,965**	2,330	**8,000**	552
	62,516	8,352	**10,281**	2,727

Operating lease payments represent rentals payable by the Group and the Company for certain of its warehouses and motor vehicles. Leases are negotiated and rentals are fixed for terms of one to five years.

39. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**312,326**	167,760
Other commitment *(note)*	**104,367**	128,963

Note: Amount refers to commitment arising from research and development projects.

The Company had no capital commitments at the end of the reporting period.

40. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2013

On 25 June 2013, the Group entered into a sale and purchase agreement with SPG and China Charmaine to acquire the entire equity interest in CSPC Baike (Yantai) Biopharmaceutical Co., Ltd. ("Baike Yantai") and its 94.16% owned subsidiary, CSPC Baike (Shandong) Biopharmaceutical Co., Ltd. ("Baike Shandong") (collectively referred to as "Baike Group") for a cash consideration of RMB106,000,000 (equivalent to approximately HK$133,858,000).

This acquisition was completed on 22 August 2013 and accounted for using the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was approximately approximately HK$18,508,000. Baike Group is engaged in manufacture and sale of two oncology drugs and was acquired so as to further strengthen the Group's innovative drug business and its product portfolio.

Consideration transferred

	HK$'000
Cash	133,858

Acquisition-related costs amounting to approximately HK$177,000 were excluded from the consideration transferred and were recognised as an expense in the current year, within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	120,314
Prepaid lease payments	20,092
Intangible assets	96,725
Inventories	9,689
Trade and other receivables	10,242
Bills receivables	316
Bank balances and cash	5,931
Trade and other payable	(139,338)
Deferred tax liabilities	(7,533)
Total net assets acquired	116,438

40. ACQUISITION OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2013 *(continued)*

The fair values of trade and other receivables at the date of acquisition amounted to approximately HK$10,242,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$29,598,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK$19,356,000.

The fair values of property, plant and equipment, prepaid lease payments and intangible assets were estimated by applying depreciated replacement cost approach, market approach (with reference to recent market prices for similar land in similar locations) and income approach, respectively.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	133,858
Plus: non-controlling interests (5.84% in Baike Shandong)	5,057
Less: net assets acquired	(116,438)
	22,477

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

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

Non-controlling interests

The non-controlling interests in Baike Group recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets of Baike Group and amounted to approximately HK$5,057,000.

Net cash outflow on acquisition of Baike Group

	HK$'000
Cash consideration paid	133,858
Less: bank balances and cash acquired	(5,931)
	127,927

Baike Group did not have any significant contribution to the Group's revenue or results for the year ended 31 December 2013.

40. ACQUISITION OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2012

The Company acquired 100% of the equity interest in Robust Sun Group and the Acquisition was completed on 29 October 2012. As set out in note 2, the Acquisition was accounted for as a reverse acquisition, under which the Robust Sun Group was treated as the acquirer and the CPG Group was deemed to have been acquired by Robust Sun.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	4,988,184
Prepaid lease payments — non current	410,617
Intangible assets	10,246
Interest in a joint venture	36,495
Available-for-sale investments	1,705
Deferred tax assets	56,285
Inventories	1,371,989
Trade and other receivables	1,873,929
Bills receivables	537,830
Prepaid lease payments — current	11,276
Tax recoverable	20,404
Trade receivables due from a connected company	38,102
Trade receivables due from related companies	49,574
Amount due from a joint venture	57,542
Derivative financial assets	353
Restricted bank deposits	20,523
Bank balances and cash	701,161
Trade and other payables	(1,918,964)
Government grant payable	(58,634)
Provision for litigation	(206,700)
Bills payables	(571,801)
Amounts due to related companies	(77,588)
Tax liabilities	(8,610)
Unsecured bank loans	(2,043,353)
Deferred tax liabilities	(43,135)
Total net assets acquired	5,257,430
Less: non-controlling interests	(157,730)
	5,099,700

Cash inflow arising on acquisition

Bank balances and cash acquired	701,161

40. ACQUISITION OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2012 *(continued)*

The fair values of trade and other receivables at the date of acquisition amounted to approximately HK$1,873,929,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$1,889,312,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK$15,383,000.

The fair values of property, plant and equipment, prepaid lease payments and intangible assets were estimated by applying depreciated replacement cost approach, market approach (with reference to recent market prices for similar land in similar locations) and income approach, respectively.

The recognition by the Robust Sun Group of gain on bargain purchase by the CPG Group, arising from the Acquisitions, is follows:

	HK$'000
Fair value of the net identifiable assets and liabilities less non-controlling interests	5,099,700
Less: Fair value of deemed consideration *(note)*	(3,288,998)
Gain on bargain purchase of the CPG Group	1,810,702

Note: The deemed consideration for the acquisition of the CPG Group amounted to approximately HK$3,288,998,000, representing the fair value of the 1,529,766,661 ordinary shares of the Company in issue immediately prior to the Acquisition. The fair value of the ordinary shares of the Company was determined by reference to the published closing market price of HK$2.15 per share at the date of the Acquisition i.e. 29 October 2012.

Gain on bargain purchase arising from the Acquisition represents the difference between the deemed consideration as determined by the market capitalisation of CPG and the net fair value of assets and liabilities of the CPG Group acquired as estimated by valuation techniques as mention above. The bargain purchase is recognised as a gain in the consolidated statement of profit or loss and other comprehensive income and arose during the reverse acquisition due to the fact that as at the date of the reverse acquisition, the shares of CPG were traded at a significant discount to the fair value of its consolidated net identifiable assets and liabilities.

Included in the profit for the year ended 31 December 2012 is approximately HK$272,814,000 attributable to the additional business generated by the CPG Group. Revenue for the year ended 31 December 2012 includes approximately HK$1,040,097,000 generated from the CPG Group.

40. ACQUISITION OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2012 *(continued)*

Had the acquisition been completed on 1 January 2012, total group revenue for the year would have been approximately HK$9,634,829,000, and profit for the year ended 31 December 2012 would have been approximately HK$1,678,825,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had the CPG Group been acquired at the beginning of the current year, the directors have calculated depreciation and amortisation of property, plant and equipment, prepaid lease payments and other intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

41. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of the following subsidiaries:

(a) On 4 June 2013, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest in CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. ("NMG Zhongrun") and its subsidiaries (collectively referred to as "NMG Zhongrun Group") for a cash consideration of RMB288,000,000 (equivalent to approximately HK$364,557,000). The disposal was completed on 18 June 2013 on which date the Group lost control over the NMG Zhongrun Group.

(b) On 25 September 2013, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 90% equity interest in CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd. ("Tianjin Cenway") and its subsidiary (collectively referred to as "Tianjin Cenway Group") for a cash consideration of RMB120,000,000 (equivalent to approximately HK$151,899,000).

The NMG Zhongrun Group and Tianjin Cenway Group are principally engaged in the manufacture and sales of penicillin intermediates and bulk drugs, cephalosporin intermediates which is included in Antibiotics segment as disclosed in note 9. After the disposals, the Group still continues to carry out the manufacture and sale of antibiotics products in other subsidiaries, which was hence not classified as discontinued operations within the scope of HKFRS 5 *Non-current Assets Held for Sales and Discontinued Operations*.

41. DISPOSAL OF SUBSIDIARIES *(continued)*

The net assets at the date of disposal were as follows:

	NMG Zhongrun Group	Tianjin Cenway Group	Total
	HK$'000	*HK$'000*	*HK$'000*
Analysis of assets and liabilities over which control was lost			
Property, plant and equipment	1,059,463	189,383	1,248,846
Prepaid lease payments	11,790	27,535	39,325
Inventories	191,383	55,769	247,152
Trade and other receivables	523,878	53,903	577,781
Bill receivables	77,171	2,886	80,057
Tax recoverable	—	2,332	2,332
Deferred tax assets	6,407	2,745	9,152
Restricted bank deposits	6,329	3,165	9,494
Bank balances and cash	88,792	43,627	132,419
Trade and other payable *(Note)*	(1,632,986)	(234,469)	(1,867,455)
Bill payables	(37,721)	—	(37,721)
Tax liabilities	(365)	—	(365)
Unsecured bank loans	(37,975)	(15,823)	(53,798)
Net assets disposed of	256,166	131,053	387,219

Note: Intragroup balances due from NMG Zhongrun Group and Tianjin Cenway Group to the Group amounting to approximately HK$887,845,000 and HK$177,886,000, respectively, were included in trade and other payables and settled in December 2013.

41. DISPOSAL OF SUBSIDIARIES *(continued)*

	HK$'000
Gain on disposal of subsidiaries:	
Consideration received and receivable	516,456
Net assets disposed of	(387,219)
Non-controlling interests	24,991
Gain on disposal	154,228
Net cash inflow arising on disposal:	
Cash consideration	516,456
Less: bank balances and cash disposed of	(132,419)
	384,037

During the year, NMG Zhongrun Group and Tianjin Cenway Group did not have any significant contribution to the results and cash flows of the Group during the period prior to the disposals.

42. CONTINGENT LIABILITIES

The Company and CSPC Weisheng Pharmaceutical (Shijiazhuang) Co. Ltd. ("Weisheng", a wholly owned subsidiary of the Company) are named as, among others, defendants in a number of antitrust complaints failed in the United States. These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. The plaintiffs brought these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes seeking damages and other relief.

Details of the development of complaints served on the Company in prior years are set out in the Group's consolidated financial statements for the year ended 31 December 2012.

On 15 March 2013, the Company, Weisheng, the direct purchaser class and injunctive class in the direct purchaser action entered into a settlement agreement. The settlement will resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. The settlement, in the amount of US$22.5 million, is payable in two installments. The first US$20 million has been paid by the Company and Weisheng on 21 April 2013. The remaining US$2.5 million will be paid within 365 days after the court's final approval of the settlement. Plaintiffs' attorney fees and settlement administration fees are to be paid out of the settlement fund. On 16 October 2013, the court granted approval of the settlement and dismissed the Company and Weisheng as to the direct purchase action.

42. CONTINGENT LIABILITIES *(continued)*

On 13 November 2013, the Company, Weisheng and the putative indirect purchaser class in the indirect purchase actions entered into a settlement agreement for US$2.2 million to fully and finally resolve all the claims in the indirect purchaser actions. Plaintiffs' attorney fees and settlement administration fees are to be paid out of the settlement fund. The settlement amount of US$2.2 million has been paid by the Company and Weisheng on 9 January 2014. The court preliminarily approved the settlement on January 16, 2014. In accordance with the court order, the plaintiffs will file a motion for final approval of the settlement by 25 April 2014. The court will hold a final approval hearing on May 16, 2014 to determine if the settlement is fair, reasonable and adequate.

Despite the Company's management believes that the Company and Weisheng are not liable for the claims asserted and that they have good and valid defenses thereto, the Company and Weisheng have nevertheless agreed to the settlements to (i) avoid the risk of an adverse jury verdict and treble damage award against the Company and Weisheng; (ii) avoid further expense, inconvenience, and the distraction of burdensome and protracted appeals in relation to the complaints; (iii) obtain the releases, orders, and judgment contemplated by the settlements; and (iv) put to rest with finality all claims that have been asserted against the Company and Weisheng in the complaints.

The Company considered the provision of approximately US$5.9 million (equivalent to approximately HK$46.0 million) is adequate for the above remaining settlement amounts and the related legal costs.

43. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK$89,677,000 (2012: HK$43,766,000), of which HK$826,000 (2012: HK$194,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

44. EVENTS AFTER THE REPORTING PERIOD

On 29 January 2014, the Company entered into an equity transfer arrangement with China Charmaine in relation to acquisition of additional 21.43% equity interest in Unigene Biotechnology Company Limited ("Unigene"), a non wholly-owned subsidiary of the Company, for the total consideration of US$800,000 (equivalent to approximately HK$6,240,000). The transaction was completed on 19 March 2014. Upon completion of this acquisition, Unigene will become a wholly-owned subsidiary of the Company.

As at the date of approval for issuance of these consolidated financial statements, the initial accounting for the acquisition has not yet been completed and the directors of the Company are still in the process of assessing the financial impact of the acquisition.

45. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2013	2012	**2013**	2012	
China Pharmaceutical Group Limited (formerly known as Golden Wing Limited)	Hong Kong	Limited liability	HK$3	**100**	100	**—**	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability	HK$2	**100**	100	**—**	—	Investment holding
Weisheng	The PRC	Foreign investment enterprise with limited liability	US$27,345,500	**100**	100	**—**	—	Manufacture and sale of pharmaceutical products
CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd	The PRC	Sino-foreign equity joint venture	RMB906,300,300	**88.82**	88.82	**10.57**	10.57	Manufacturing and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	**100**	100	**—**	—	Provision of pharmaceutical research and development services
Zhongrun Huanbao	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	**—**	—	**99.29**	99.29	Sewage treatment
Yinhu	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000	**—**	—	**90**	90	Manufacture and sale of pharmaceutical products
Siping	The PRC	Sino-foreign equity joint venture	RMB39,529,435	**40**	40	**19.86**	19.86	Manufacture and sale of pharmaceutical products
Unigene	The PRC	Sino-foreign equity joint venture	US$7,000,000	**78.57**	78.57	**—**	—	Provision of pharmaceutical research and development services
CSPC Zhongcheng Pharmaceutical Logistic Company Limited	The PRC	Sino-foreign equity joint venture	RMB50,000,000	**—**	—	**98.3**	98.3	Storage, sourcing and distribution
CSPC Zhongnuo Pharmaceutical Import and Export Trading Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB1,000,000	**—**	—	**100**	100	Sale of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB45,000,000	**—**	—	**100**	100	Manufacture and sale of pharmaceutical products
CSPC Medsolution (Ghana) Limited	Ghana	Foreign investment enterprise with limited liability	GH$437,400	**—**	—	**100**	100	Sales of pharmaceutical products
Robust Sun	The BVI	Limited liability	US$2	**100**	100	**—**	—	Investment holding
Dragon Merit	Hong Kong	Limited liability	HK$1	**—**	—	**100**	100	Investment holding
NBP*	The PRC	Foreign investment enterprise with limited liability	RMB380,000,000	**50**	—	**50**	100	Manufacture and sales of pharmaceutical products

45. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company Directly % 2013	Directly % 2012	Indirectly % 2013	Indirectly % 2012	Principal activity
OYY	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000	–	–	100	100	Manufacture and sales of pharmaceutical products
I&E	The PRC	Foreign investment enterprise with limited liability	RMB100,000	–	–	100	100	Trading of pharmaceutical products
XNW	The PRC	Sino-foreign equity joint venture	RMB150,000,000	–	–	98.69	98.69	Manufacture and sales of pharmaceutical products
Huasheng**	The PRC	Sino-foreign equity joint venture	RMB4,000,000	–	–	100	55	Manufacture and sales of pharmaceutical products
OIP	The PRC	Foreign investment enterprise with limited liability	RMB50,000,000	–	–	100	100	Inactive
Acquired in 2013:								
Baike Yantai	The PRC	Sino-foreign equity joint venture	RMB 100,000,000	30	–	70	–	Investment and property holding
Baike Shandong	The PRC	Foreign investment enterprises with limited liability	RMB 161,547,580	–	–	94.16	–	Manufacture and sales of pharmaceutical product
Disposed in 2013:								
NMG Zhongrun	The PRC	Foreign investment enterprise with limited liability	RMB287,626,000	–	100	–	–	Manufacture and sale of pharmaceutical products
CSPC (Inner Mongolia) Zhongkang Sugar Products Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB33,000,000	–	–	–	100	Manufacture and sale of pharmaceutical products
Tianjin Cenway	The PRC	Foreign investment enterprise with limited liability	RMB155,000,000	–	–	–	89.36	Manufacture and sale of pharmaceutical products
CSPC Cenway (Inner Mongolia) Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB40,000,000	–	–	–	94.57	Manufacture and sale of pharmaceutical products
Beijing Cenway Pharmaceutical Technology Research Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	–	–	–	89.36	Provision of pharmaceutical research and development services

* During the year, the Company injected additional capital of RMB190,000,000 into NBP and accordingly, hold 50% direct equity interest in NBP.

** In August 2013, the Group's shareholding in Huasheng increased from 55% to 100% upon acquisition of additional interest in Huasheng.

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

Financial Summary

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)	*(Note)*	*(Note)*		
Results					
Revenue	1,296,275	1,757,586	2,407,445	4,146,444	**9,949,103**
Cost of sales	(770,909)	(1,038,193)	(1,370,535)	(2,341,104)	**(6,816,042)**
Gross profit	525,366	719,393	1,036,910	1,805,340	**3,133,061**
Other income	19,022	23,437	28,010	38,693	**211,402**
Selling and distribution expenses	(243,072)	(334,677)	(452,844)	(757,297)	**(1,300,739)**
Administrative expenses	(102,374)	(139,368)	(138,325)	(235,363)	**(620,291)**
Other expenses	(32,959)	(40,131)	(31,140)	(87,797)	**(243,455)**
Operating profit	165,983	228,654	442,611	763,576	**1,179,978**
Finance costs	(12,086)	(12,336)	(21,705)	(60,090)	**(72,537)**
Share of result of a joint venture	—	—	—	(3,981)	**(14,045)**
Gain on disposal of subsidiaries	—	—	—	—	**154,228**
Recognition of fair values of financial guarantee contracts issued	—	(15,445)	(17,676)	(5,130)	**—**
Amortisation of financial guarantee liabilities	—	4,858	14,908	18,485	**—**
Share of results of associates	4,547	—	—	—	**—**
Changes in fair value of convertible bonds	—	—	—	(222,739)	**—**
Gain on bargain purchase	—	—	—	1,810,702	**—**
Profit before tax	158,444	205,731	418,138	2,300,823	**1,247,624**
Income tax expenses	(26,786)	(30,999)	(60,964)	(131,975)	**(258,324)**
Profit for the year	131,658	174,732	357,174	2,168,848	**989,300**
Profit (loss) for the year attributable to:					
Owners of the Company	132,931	174,229	355,411	2,162,235	**972,751**
Non-controlling interests	(1,273)	503	1,763	6,613	**16,549**
	131,658	174,732	357,174	2,168,848	**989,300**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
	(Note)	*(Note)*	*(Note)*		
Earnings per share					
— Basis	N/A	N/A	N/A	147.78	**17.49**
— Diluted	N/A	N/A	N/A	52.04	**16.54**

Financial Summary

	As at 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)	*(Note)*	*(Note)*		
Assets and liabilities					
Total assets	1,299,296	1,758,229	2,408,914	13,698,711	**12,200,547**
Total liabilities	716,718	1,084,997	1,447,962	6,934,966	**4,603,747**
Net assets	582,578	673,232	960,952	6,763,745	**7,596,800**
Equity attributable to owners of the Company	579,516	663,293	949,379	6,586,760	**7,452,620**
Non-controlling interests	3,062	9,939	11,573	176,985	**144,180**
Total equity	582,578	673,232	960,952	6,763,745	**7,596,800**

Note:

The summary of the consolidated results of the Group for each of the three years ended 31 December 2009, 2010 and 2011, and of the consolidated assets and liabilities as at 31 December 2009, 2010 and 2011, have been extracted from the Company's Circular dated 26 September 2012 in connection with the Acquisition set out in note 2 of the consolidated financial statement. Such summary was prepared on the merger basis as if the current structure of the Group had been in existence throughout these financial years. No earnings per share information is presented for the three year ended 31 December 2009, 2010 and 2011 as its inclusion, for the purpose of this report, is not considered meaningful.