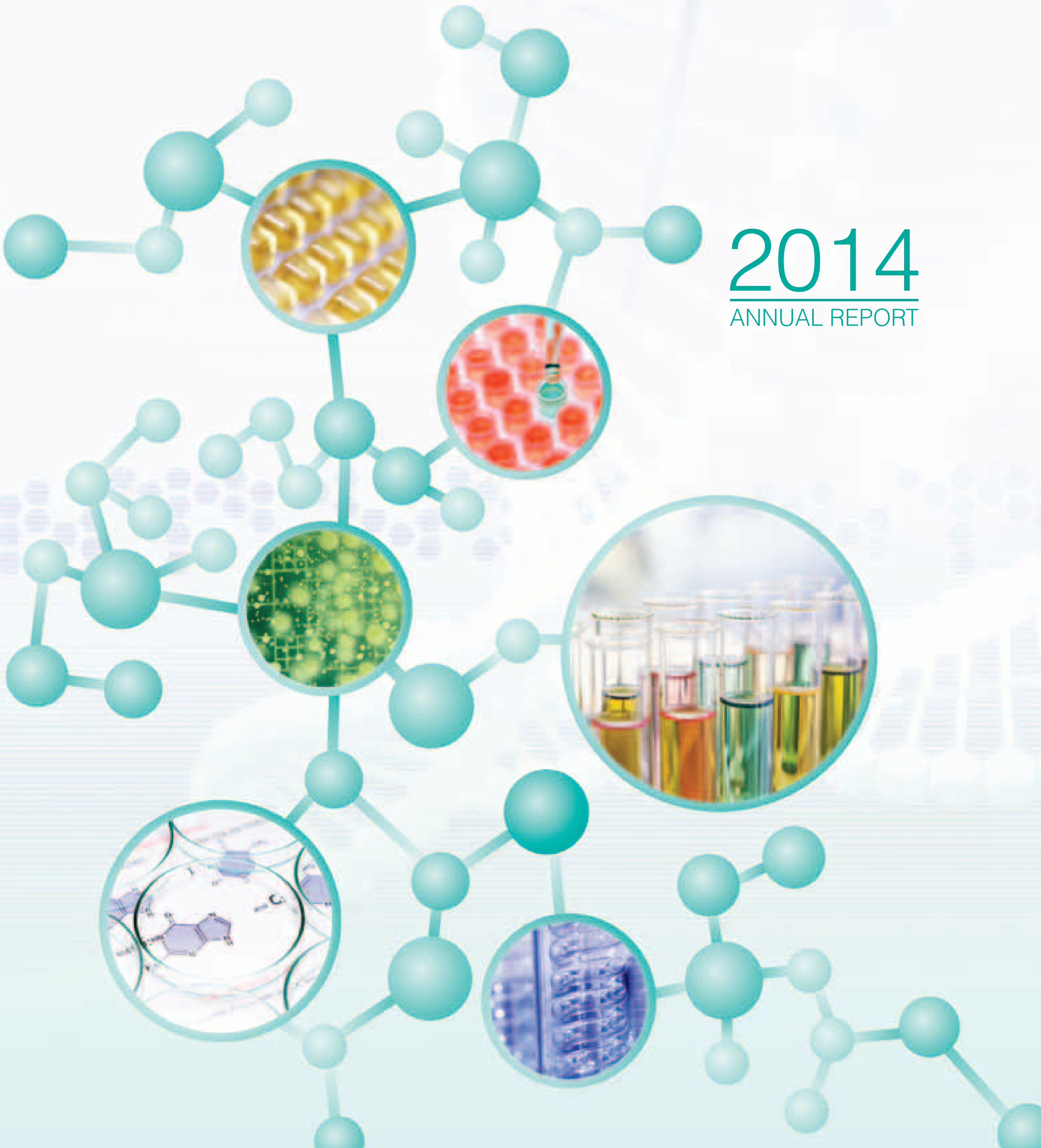
石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code: 1093)

2014 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

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
CHAN Siu Keung, Leonard
WANG Bo
LO Yuk Lam
YU Jinming
CHEN Shilin

COMMITTEES

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

Nomination Committee:
CAI Dongchen *(Chairman)*
CHAN Siu Keung, Leonard
LO Yuk Lam

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

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
OCBC Wing Hang Bank Limited
Taipei Fubon Bank
Bank of China Limited
The Bank of Hebei Co., Ltd.
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

Financial Highlights

	2014 HK$'000	2013 HK$'000	Change
Revenue *(Note 1)*	**10,955,077**	9,949,103	+10.1%
Profit attributable to shareholders before gain on disposal of subsidiaries and share-based payment expense	**1,321,122**	946,769	+39.5%
Gain on disposal of subsidiaries *(Note 2)*	**511**	154,228	
Share-based payment expense *(Note 3)*	**(53,187)**	(128,246)	
Profit attributable to shareholders	**1,268,446**	972,751	+30.4%
Earnings per share			
— Basic	**HK21.47 cents**	HK17.49 cents	+22.8%
— Diluted	**HK21.26 cents**	HK16.54 cents	+28.5%
Final dividend per share	**HK10 cents**	HK8 cents	+25.0%

Notes:

1. The 2013 comparative comprises sales revenue of approximately HK$410,850,000 attributable to CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. ("NMG Zhongrun"), CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd. ("Tianjin Cenway") and their subsidiaries, which were principally engaged in the manufacture of bulk antibiotic products. The equity interests in NMG Zhongrun and Tianjin Cenway have been disposed of by the Company in June 2013 and September 2013 respectively. The 2013 comparative will become approximately HK$9,538,253,000 if revenue attributable to these companies which have been disposed of in 2013 is not accounted for. On this basis, revenue of the current year has increased 14.9%.

2. The gain of HK$511,000 for the current year arises from the disposal of the Group's 20% equity interest in Siping City Fine Chemicals Product Co., Ltd. in November 2014. The 2013 comparative comprises the gain of HK$154,228,000 arising from the disposal of the Group's equity interests in NMG Zhongrun in June 2013 and Tianjin Cenway in September 2013.

3. The share-based payment expense of HK$53,187,000 (2013: HK$128,246,000) represents the amount of expense recognised for the year in connection with the share options granted by the Company in April 2013.

Chairman's Statement

OVERVIEW

In 2014, the global economy saw a tough recovery with increasing uncertainties, economic growth remained weak. Despite the changes in the global landscape, the Chinese economy maintained a relatively strong growth momentum with fundamentals remaining unchanged. Economic policies in China have been adjusted in order to promote transformation and upgrades, eliminate old and excess production capacities and accelerate the development of emerging industries. Overall economy remained strong with economic growth smoothly transiting from policy-driven to organic-driven. These changes in the external economic environment have provided opportunities for the Group to develop and transform its business. In order to ensure sustainable growth, the Group will continue to actively engage in the development of new drugs, promote overseas expansion and strengthen its leading position in the bulk drug business.

Along with the continued expansion of the economy and the increase in scale of the urban cities in China, there has been a new round of hospital expansion. This round of hospital expansion is mainly represented by the tier-3 general hospitals, focusing on the construction of modern ward buildings, establishment of sub-hospitals and branches in the new urban areas, and establishment of healthcare centers in the communities. In terms of medical services, expansion in oncology diagnosis and treatment is one of the most important directions. This development enables the general hospitals to have an expanding coverage and improving service standard for their oncology treatment services.

INDUSTRY OUTLOOK

With the accelerated ageing of population, progress of urbanisation policies and increase in people's income level, the demand for pharmaceutical products in China is expected to have a continuous increase. The prevalence rate of hypertension and dementia has been steadily rising over the years due to continuing growth of China's ageing population. With these two massive patient groups, there is a great market potential for the Group's "Xuanning" and "Oulaining" products. On the other hand, the prevalence rate of cancer and corresponding demand for treatment are also increasing over the years, mainly due to ageing, urbanization, industrialization and changes in life-style and dietary habits. The expansion of hospitals, expansion of the medical reimbursement scope and higher affordability of patients will ensure that the demand for medical treatments is more able to be met.

GROUP'S BUSINESS OUTLOOK

Innovative Drug Business

The Group will continue to implement the market strategy of "market differentiation, professional marketing and brand building". In addition, the Group will follow closely the national and provincial medical insurance and tender policies in order to seize policy opportunities and minimize risks. With its increasingly mature sales network, expanding professional sales team, and exceptional product efficacy and quality, the Group's innovative drug business is expected to achieve rapid growth in the coming years and increase its contribution to the Group.

GROUP'S BUSINESS OUTLOOK *(continued)*

Common Generic Drug Business

The Group will conduct in-depth study on policies in relation to essential drugs and low-priced drugs. Leveraging on its quality, brand, product chain and other competitive advantages, the Group will actively participate in tenders and extend its focus of tenders to the county level. Low-priced drugs will be an important driver of profit growth for the common generic drug business in the future. In addition, the common generic drug business will implement professional marketing plans for the specialty drugs and promote the professional knowledge of specialty drugs in the lower-tier medical institutions. The Group will also strengthen its sales force and network development, and will establish strategic partnerships with end-market operators covering the lower-tier market network. It is expected that the common generic drug business will continue to achieve steady growth in 2015.

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 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, and will continue to closely monitor changes in the market and timely adjust its operating strategies. After several years of intense competition, the bulk drug market is showing a steadily upward trend. With its leading position in the industry, the bulk drug business of the Group is expected to continue to achieve steady growth in 2015.

CAI Dongchen
Chairman

Hong Kong, 24 March 2015

Management Discussion and Analysis

RESULTS

In 2014, the Group recorded sales revenue of approximately HK$10,955 million, representing an increase of 10.1% over last year, and profit attributable to shareholders of approximately HK$1,268 million, representing an increase of 30.4% over last year.

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 and coverage in the high-end market. With the continuous efforts put in academic-based promotion, the innovative drug business maintained a rapid growth in sales. For the current year, sales revenue reached approximately HK$2,784 million, representing a 44.9% growth over last year. It is expected that many provinces and cities in China will initiate tender process in 2015. The Group will strive to ensure that its innovative drug products can win the tenders at reasonable prices in order to expand market coverage and to drive rapid and sustainable growth. The Group will also further improve its expert network and increase its efforts in academic-based promotion, so as to strengthen the market position of its innovative drug products in the respective therapeutic sector.

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 has been awarded the State Science and Technology Progress Award (Second Class) and Golden Award for Outstanding Chinese Patented Invention. It was also awarded the China Grand Awards for Industry in 2014. "NBP" is a recommended drug in the "Guidelines for Cerebrovascular Disease Prevention and Treatment in China" and "Guidelines for Acute Ischemic Stroke Treatment in China 2010". Currently, "NBP" is one of the fastest growing products for the treatment of acute ischemic stroke and is also a blockbuster innovative drug of the Group.

"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 has been awarded the Hebei Province Science and Technology Progress Award (First Class). "Oulaining" has grown into a leading brand of oxiracetam.

"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 has been awarded the State Technological Invention Award (Second Class). After years of market development, "Xuanning" has grown into a major brand among hypertension drugs in China.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Duomeisu", "Jinyouli", "Ailineng" and "Nuolining"

The existing oncology drug products of the Group include "Duomeisu", "Jinyouli", "Ailineng" and "Nuolining".

"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. "Nuolining" (Imatinib mesylate tablet) is a tyrosine-kinase inhibitor product that can inhibit the activity of Bcr-Abl tyrosine kinase, and is used for the treatment of chronic myelocytic leukemia and malignant gastrointestinal stromal tumor. "Nuolining" is a new drug of the Group with production approval obtained in November 2014, and has been launched in March 2015.

With the progress of academic-based promotion and further enhancement of market recognition, "Duomeisu", "Jinyouli" and "Ailineng" effectively expanded their market coverage and achieved satisfying growth. In 2014, the oncology drug products contributed sales revenue of approximately HK$252 million, representing a growth of 2.3 times as compared to last year.

In addition, the Group has some other oncology drugs under research and development, among which "bortezomib injection" has been submitted for production approval, "mitoxantrone hydrochloride liposome injection" has commenced phase II clinical trial, and "paclitaxel injection (albumin-bound)" has been submitted for clinical trial. The Group expects these products will be approved for market launch in the coming years.

Common Generic Drug Products

In 2014, a new round of essential drug tenders, together with new GMP and GSP authorization in China have brought opportunities and challenges to the Group's production and operation. During the year, the Group further enhanced its sales strategies for common generic drugs, refined its product portfolio and established its sales channels. In particular, the Group cooperated with pharmacy chains in China to further explore market potentials. Meanwhile, appropriate sales partners were identified to cooperate in revitalizing selective dormant products, and certain achievements have been made. In addition, the Group's Chinese medicine soft capsule product series (including "Qingre Jiedu soft capsule（清熱解毒軟膠囊）", "Ganmao Qingre soft capsule（感冒清熱軟膠囊）", "Yin Huang soft capsule （銀黃軟膠囊）", "Xiangsha Yangwei soft capsule （香砂養胃軟膠囊）" and "Huoxiang Qushu soft capsule （藿香祛暑軟膠囊）") have formed a brand portfolio and become another strong growth momentum of the Group.

In 2014, the common generic drug business has achieved satisfactory growth in both the lower-tier medical market and non-prescription drug market, with continuous earnings improvement.

Management Discussion and Analysis

BULK DRUG BUSINESS

Antibiotics

In 2014, the antibiotics business has picked up a steady and upward trend subsequent to the previous stage of intense competition which led to production halt or reduced production by some manufacturers. The Group also continued to lower its production costs through technological upgrades, reinforced internal management and energy-saving measures, which enabled the Group to maintain its leading position in the industry. Because of an improvement in the market environment together with an enhanced product portfolio, this business has achieved a significant growth in 2014.

Vitamin C

In 2014, competition in the vitamin C market remained intense. However, after a long period of competition, the market showed signs of differentiation under which some competitors had suspended or reduced their production. Leveraging on its advantages in scale, quality and production costs, the Group continued to maintain its absolute competitiveness in the industry. In 2014, the Group's vitamin C products was ranked number one in terms of total sales and export volume in this industry. However, this business still recorded a loss for the year due to low product price.

Caffeine and Others

In 2014, both the market demand and product price of caffeine remained stable, and the Group's market share further increased. The Group also enhanced the product mix of this business by reducing the sales of non-major products. In 2014, this business continued to contribute stable profit to the Group.

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 focus on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infective. Among these products, 14 are Class I new drugs and 46 are Class III new drugs (of which 33 products are among the first three applications).

5 of the 14 Class I new drugs are under clinical trial. Of which, "recombinant glucagon-like peptide-1 receptor agonist for injection (rE4)" and "compound amlodipine and atorvastatin calcium tablet" have commenced phase III clinical trial; "pinocembrin injection" is under phase II clinical trial; "baicalein tablet" has been submitted for phase II and III clinical trial application and "DBPR-108" has obtained phase I clinical trial approval. In addition, "mitoxantrone hydrochloride liposome injection" has commenced phase II clinical trial.

Apart from these, the Group has submitted applications for 34 drugs with the China Food and Drug Administration during the year (of which, 9 are production applications and 25 are clinical trial applications). 18 of the 34 drugs are among the first three applications. During the year, the Group had obtained production approvals for 6 products in China.

RESEARCH AND DEVELOPMENT *(continued)*

With regard to overseas research and development, the Group has submitted 2 ANDA applications in the U.S. during the year. Currently, the Group has a total of 9 drugs applying for ANDA in the U.S.. In addition, three production lines of the Group for the production of "menatetrenone capsule", "cefotaxime sodium injection" and "cefixime tablet" have passed the U.S. FDA's on-site inspection during the year. Meanwhile, the application for phase II clinical trial protocol of "butylphthalide soft capsule" has been approved by the U.S. FDA and has completed the pharmacokinetic research in human subjects as requested by the U.S. FDA.

The Group implements the innovation-driven strategy by continuously investing in research and development to enhance the drive for innovation. This ensures that the performance of the Group will continue to grow and greater contributions could be made to the shareholders and the community.

FINANCIAL REVIEW

Liquidity and Financial Position

In 2014, 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 from 63 days in 2013 to 55 days *(Note)*. Inventory turnover period (ratio of inventory balance to cost of sales) also slightly shortened from 105 days in 2013 to 102 days *(Note)*. Current ratio of the Group improved from 1.7 a year earlier to 1.8 as at 31 December 2014. Capital expenditure in relation to the additions of production facilities amounted to HK$877 million for the current year.

The financial position of the Group remained healthy and strong. As at 31 December 2014, total bank balances and cash amounted to HK$1,527 million and total bank borrowings amounted to HK$1,226 million. Of the total bank borrowings, HK$624 million will be repayable within one year and the remaining HK$602 million repayable between two to three years. Gearing ratio (calculated on the basis of the Group's total bank borrowings over total equity) was 15.0% as compared to 17.6% as at 31 December 2013.

50% of the Group's bank borrowings are denominated in Hong Kong dollars, 19% in US dollars and the remaining 31% 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 Siping City Fine Chemicals Product Co., Ltd. which ceased to be a subsidiary and became an associate of the Company upon disposal of its 20% equity interest by the Group during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

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 in relation to the exports of vitamin C to the United States and elsewhere in the world.

On 15 March 2013, the Company, Weisheng, the direct purchaser class and injunctive class in the direct purchaser action entered into a settlement agreement for US$22.5 million to resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. On 16 October 2013, the court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the direct purchaser action. The first instalment of the settlement amounting to US$20 million has been paid by the Company and Weisheng on 13 April 2013 and the remaining US$2.5 million was settled on 9 October 2014.

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. On 16 May 2014, the Court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the indirect purchase actions. The settlement amount of US$2.2 million has been paid by the Company and Weisheng on 9 January 2014.

Employees

As at 31 December 2014, the Group had about 10,565 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.

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 2014 except the deviations from code provisions A.2.1 and A.5.1 as set out below.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises ten executive directors, one non-executive director and five 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 23 to 26 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. Following the changes of independent non-executive directors on 1 June 2014, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board 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 and will make an 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 2014. Individual attendance of each director at the regular board meetings and committee meetings in 2014 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			1/1
Feng Zhenying	4/4			
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	4/4			
Non-Executive Director:				
Lee Ka Sze, Carmelo	4/4	4/4	2/2	
Independent Non-Executive Directors:				
Chan Siu Keung, Leonard	4/4	4/4	2/2	1/1
Wang Bo	4/4	3/3	1/1	
Lo Yuk Lam *(appointed on 1 June 2014)*	2/2			0/0
Yu Jinming *(appointed on 1 June 2014)*	0/2			
Chen Shilin *(appointed on 1 June 2014)*	2/2			
Zhang Fawang *(resigned on 1 June 2014)*	1/2			
Huo Zhenxing *(retired on 20 May 2014)*	1/1	1/1	1/1	
Qi Moujia *(retired on 20 May 2014)*	1/1			0/0
Guo Shichang *(resigned on 19 March 2014)*	0/0			

The Company has received an annual confirmation of independence from each of the independent non-executive directors as of the date of this report. 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.

There is no financial, business, family or other material/relevant relationship between Board members.

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.

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 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.

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. Wang Bo. During the year, Mr. Wang Bo was appointed as a member of the Remuneration Committee and Mr. Huo Zhenxing ceased to be a member of the Remuneration Committee upon his retirement as an independent non-executive director of the Company.

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.

Two meetings were held in 2014 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. Chan Siu Keung, Leonard and Mr. Lo Yuk Lam. During the year, Mr. Lo Yuk Lam was appointed as a member of the Nomination Committee and Mr. Qi Moujia ceased to be a member of the Nomination Committee upon his retirement as an independent non-executive director of the Company.

One meeting was held in 2014 to review the appointment of new independent non-executive directors, the structure, size and composition of the Board and assess the independence of independent non-executive directors.

Code provision A.5.1 of the Code stipulates that the nomination committee should comprise a majority of independent non-executive directors. Since the retirement of Mr. Qi Moujia as an independent non-executive director on 20 May 2014, the number of independent non-executive directors of the Nomination Committee of the Company has fallen below a majority required by code provision A.5.1. Following the appointment of Mr. Lo Yuk Lam as a new independent non-executive director and a member of the nomination committee of the Company with effect from 1 June 2014, the Company has complied with the code provision from the same date.

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. Wang Bo. During the year, Mr. Wang Bo was appointed as a member of the Audit Committee and Mr. Huo Zhenxing ceased to be a member of the Audit Committee upon his retirement as an independent non-executive director of the Company.

Four meetings were held in 2014. At the meetings, the committee discussed and reviewed the following matters:

1. the 2013 annual results, annual report and results announcement;

2. the external auditor's report to the Audit Committee in respect of the 2013 annual audit;

3. the quarterly results for the three months ended 31 March 2014 and results announcement;

4. the 2014 interim results, interim report and results announcement;

5. the external auditor's report to the Audit Committee in respect of the 2014 interim review;

6. the quarterly results for the nine months ended 30 September 2014 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 2014.

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.

Details of the participation in continuous professional development by the existing directors during the year are summarized in the table below.

	Attending and/or giving talk at training course/ seminar/forum conference	Reading regulatory update or materials relevant to the Company or its business
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	✓	✓
Non-Executive Director:		
Lee Ka Sze, Carmelo	✓	✓
Independent Non-Executive Directors:		
Chan Siu Keung, Leonard	✓	✓
Wang Bo	✓	✓
Lo Yuk Lam	✓	✓
Yu Jinming	✓	✓
Chen Shilin	✓	✓

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$3,600,000 for audit services and HK$850,000 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 34 and the responsibilities of the external auditor are set out on page 34 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.

COMPANY SECRETARY

The Company Secretary, Mr. Lee Ka Sze, Carmelo, is a practicing solicitor in Hong Kong. Mr. Lee is currently a partner of Messrs. Woo, Kwan, Lee & Lo and 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 2014, 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), 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), 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.

2014 GENERAL MEETINGS

At the 2014 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 2014 annual general meeting to ensure effective communication with shareholders. The attendance record of the directors at the 2014 general meeting is set out below:

	General meeting attended/held
Directors	
Executive Directors:	
Cai Dongchen *(Chairman and CEO)*	1/1
Feng Zhenying	0/1
Chak Kin Man	1/1
Pan Weidong	0/1
Zhao John Huan	0/1
Wang Shunlong	1/1
Wang Huaiyu	0/1
Lu Jianmin	0/1
Wang Zhenguo	0/1
Wang Jinxu	0/1
Non-Executive Director:	
Lee Ka Sze, Carmelo	1/1
Independent Non-Executive Directors:	
Chan Siu Keung, Leonard	1/1
Wang Bo	0/1
Lo Yuk Lam *(appointed on 1 June 2014)*	0/0
Yu Jinming *(appointed on 1 June 2014)*	0/0
Chen Shilin *(appointed on 1 June 2014)*	0/0
Zhang Fawang *(resigned on 1 June 2014)*	0/1
Huo Zhenxing *(retired on 20 May 2014)*	0/1
Qi Moujia *(retired on 20 May 2014)*	0/1
Guo Shichang *(resigned on 19 March 2014)*	0/0

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 2014.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries, associate and joint venture are set out in notes 43,19 and 20 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 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36.

The Board recommends the payment of a final dividend of HK10 cents per share in respect of the year ended 31 December 2014. Subject to approval by the shareholders at the forthcoming annual general meeting, payment of the final dividend will be made on or around 15 June 2015 to shareholders of the Company whose name appear on the register of members of the Company on 2 June 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 May 2015 to Tuesday, 26 May 2015, 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, 26 May 2015, 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 Tuesday, 19 May 2015.

The register of members of the Company will be closed from Monday, 1 June 2015 to Tuesday, 2 June 2015, 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 Friday, 29 May 2015.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2014 amounted to approximately HK$605,411,000 (2013: HK$604,765,000).

Directors' Report

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately HK$876,547,000. Details of the movements in fixed assets of the Group during the year are set out in note 15 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 32 and 34 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

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

CHAN Siu Keung, Leonard
WANG Bo
LO Yuk Lam (appointed on 1 June 2014)
YU Jinming (appointed on 1 June 2014)
CHEN Shilin (appointed on 1 June 2014)
ZHANG Fawang (resigned on 1 June 2014
HUO Zhenxing (retired on 20 May 2014)
QI Moujia (retired on 20 May 2014)
GUO Shichang (resigned on 19 March 2014)

DIRECTORS *(continued)*

In accordance with Article 92 of the Company's Articles of Association, Messrs. Lo Yuk Lam, Yu Jinming and Chen Shilin retires at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Pan Weidong, Chak Kin Man, Zhou John Huan, Wang Shunlong and Wang Huaiyu retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 61, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai 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 59, was appointed as an executive director of the Company in 2003. Mr. Feng is also a director of certain subsidiaries of the Group. Mr. Feng graduated from Hebei Chemical College and has extensive technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 49, was appointed as an executive director of the Company in 2005. Mr. Chak is also a director of certain subsidiaries of the Group. Mr. Chak 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. Mr. Chak holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relation.

PAN Weidong

Mr. Pan, aged 45, was appointed as an executive director of the Company in 2006. Mr. Pan is also a director of certain subsidiaries of the Group. Mr. Pan holds an EMBA degree from Tsinghua University 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. Mr. Zhao holds a MBA degree from Kellogg School of Management at Northwestern University, master's degree in science 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 director and an executive vice president of Legend Holdings Corporation and the chief executive officer of Hony Capital Limited.

Mr. Zhao is also a non-executive director of China Glass Holdings Limited (listed on The Stock Exchange of Hong Kong Limited), Chinasoft International Limited (listed on The Stock Exchange of Hong Kong Limited), Lenovo Group Limited (listed on The Stock Exchange of Hong Kong Limited) and the vice chairman of Shanghai Chengtou Holding Co., Ltd (listed on Shanghai Stock Exchange).

Mr. Zhao resigned as a non-executive director of Wumart Stores, Inc. (listed on The Stock Exchange of Hong Kong Limited) and New China Life Insurance Co., Ltd (listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange) in June 2014 and March 2015 respectively.

WANG Shunlong

Mr. Wang, aged 50, was appointed as an executive director of the Company in 2008. Mr. Wang holds a doctorate 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 Limited.

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. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LU Jianmin

Mr. Lu, aged 56, was appointed as an executive director of the Company in 2010. Mr. Lu is also a director of certain subsidiaries of the Group. Mr. Lu has extensive technical and management experience in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang, aged 45, was appointed as an executive director of the Company in 2012. Mr. Wang is also a director of certain subsidiaries of the Group. 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 44, was appointed as an executive director of the Company in 2013. Mr. Wang is also a director of certain subsidiaries of the Group. 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 extensive experience in product research and development in the pharmaceutical industry.

LEE Ka Sze, Carmelo

Mr. Lee, aged 54, 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. Mr. Lee 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. Mr. Lee 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.

CHAN Siu Keung, Leonard

Mr. Chan, aged 57, was appointed as an independent non-executive director of the Company in 2004. Mr. Chan is also the chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Chan is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. Mr. Chan holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

Mr. Chan resigned as an executive director of Tern Properties Company Limited (listed on The Stock Exchange of Hong Kong Limited) on 1 January 2015.

WANG Bo

Mr. Wang, aged 54, was appointed as an independent non-executive director of the Company in 2012. Mr. Wang 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. Mr. Wang 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 an independent director of Jiangsu Wuzhong Industrial Co., Ltd. (listed on Shanghai Stock Exchange) and Hainan Shuangcheng Pharmaceutical Co., Ltd. (listed on Shenzhen Stock Exchange).

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

LO Yuk Lam

Mr. Lo, aged 66, was appointed as an independent non-executive director of the Company in 2014. Mr. Lo is currently the President of Saitai Biotechnology Research Institute, Vice-Chairman of Santai Eco Fishery Limited, Chairman of Lo & Associates Limited, Senior Director of Questmark Asia Limited and Senior Advisor of Questmark Capital Management Sdn. Bhd.. Mr. Lo is also involved in public services, currently serving as a member of the Advisory Council on Food and Environmental Hygiene of the Food and Health Bureau of the HKSAR, a member of the Advisory Committee of the Vocational Training Council, a general committee member of The Chinese Manufacturers' Association of Hong Kong ("CMA"), Chairman of the Innovation and Technology Committee of the CMA and a consultant of the Chinese Centre for Disease Control and Prevention. Mr. Lo is also an Adjunct Professor of The Chinese University of Hong Kong, a Fellow of The Hong Kong University of Science and Technology and an Honorary Professor of several universities in China. Mr. Lo holds a bachelor's degree in science from the University of Waterloo and an honorary doctorate of philosophy science from York University in the U.S..

Mr. Lo is also an independent director of Sinovac Biotech Limited (listed on NASDAQ) and an independent non-executive director of Luye Pharma Group Ltd. (listed on The Stock Exchange of Hong Kong Limited).

YU Jinming

Mr. Yu, aged 57, was appointed as an independent non-executive director of the Company in 2014. Mr. Yu is an Academician of Chinese Academy of Engineering, and is currently the Honorary President of Shandong Academy of Medical Sciences and the President of Shandong Cancer Hospital. Mr. Yu holds a bachelor's degree in medicine from Changwei Medical College and a doctorate in radiology from Shandong University.

Mr. Yu retired as an independent director of Shinva Medical Instrument Co., Ltd (listed on Shanghai Stock Exchange) on 13 May 2014.

CHEN Shilin

Mr. Chen, aged 53, was appointed as an independent non-executive director of the Company in 2014. Mr. Chen is currently the Director and Chief Researcher of the Institute of Chinese Materia Medica China Academy of Chinese Medical Science. Mr. Chen holds a bachelor's degree in medicine from Hubei College of Traditional Chinese Medicine, a master's degree and a doctorate in medicine from Chengdu University of Traditional Chinese Medicine.

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 2014, 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 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	1.48%
	Interest of controlled corporation	707,809,500 *(Note ii)*	—	707,809,500	11.98%
Feng Zhenying	Beneficial owner	—	3,000,000	3,000,000	0.05%
Chak Kin Man	Beneficial owner	4,000	3,000,000	3,004,000	0.05%
Pan Weidong	Beneficial owner	—	10,000,000	10,000,000	0.17%
Zhao John Huan	Interest of controlled corporation	2,426,160,635 *(Note iii)*	—	2,426,160,635	41.07%
Wang Huaiyu	Beneficial owner	—	15,000,000	15,000,000	0.25%
Lu Jianmin	Beneficial owner	—	10,000,000	10,000,000	0.17%
Wang Zhenguo	Beneficial owner	—	3,000,000	3,000,000	0.05%
Wang Jinxu	Beneficial owner	—	3,000,000	3,000,000	0.05%

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) These shares are held as to 493,880,000 shares by True Ally Holdings Limited ("TAHL") and 213,929,500 shares by Key Honesty Limited ("KHL"). KHL is wholly owned by TAHL, which in turn is wholly owned by Mr. Cai Dongchen.

(iii) Mr. Zhao John Huan is deemed to be interested in 2,426,160,635 shares 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 2,426,160,635 shares.

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 2014.

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 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than interest disclosed under the section "Directors' interests in the shares, underlying shares and debentures" above) 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	Percentage of the issued share capital of the Company
Hony Managing Partners Limited	Interest of controlled corporation	2,426,160,635 *(Note i)*	41.07%
Hony Capital Management Limited	Interest of controlled corporation	2,426,160,635 *(Note i)*	41.07%
Hony Capital Fund III GP Limited	Interest of controlled corporation	2,426,160,635 *(Note i)*	41.07%
Hony Capital Fund III GP, L.P.	Interest of controlled corporation	2,426,160,635 *(Note i)*	41.07%
Hony Capital Fund III, L.P.	Interest of controlled corporation	2,426,160,635 *(Note i)*	41.07%
March Rise Limited	Interest of controlled corporation	2,426,160,635 *(Note i)*	41.07%
Massive Top Limited	Interest of controlled corporation	2,426,160,635 *(Note i)*	41.07%
Joyful Horizon Limited	Beneficial owner	1,216,238,601 *(Note i)*	20.59%
Massive Giant Group Limited	Beneficial owner	1,058,016,034 *(Note i)*	17.91%
True Ally Holdings Limited	Beneficial owner	493,880,000	8.36%
	Interest of controlled corporation	213,929,500 *(Note ii)*	3.62%

SUBSTANTIAL SHAREHOLDERS *(continued)*

Note:

(i) Hony Managing Partners Limited 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 2,426,160,635 shares.

(ii) These shares are held by Key Honesty Limited, a company wholly owned by True Ally Holdings Limited.

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 2014.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2014, the Group has entered into certain 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 Transaction

On 29 January 2014, the Company entered into an agreement with China Charmaine Pharmaceutical Company Limited ("CCPCL") to acquire 21.43% equity interest in Unigene Biotechnology Co., Ltd ("Unigene") for a consideration of US$800,000. Upon completion of the acquisition, Unigene became a wholly-owned subsidiary of the Company. Details of this transaction were set out in the announcement of the Company dated 29 January 2014.

Continuing Connected Transactions

Name of company	Nature of transactions	Transaction amount *HKD'000*
SPG and its subsidiaries	Sales of pharmaceutical products *(note a)*	197,882
	Purchase of pharmaceutical products *(note a)*	2,013
	Rental expenses *(note b)*	12,625
	Rental expenses *(note c)*	1,900
	Rental expenses *(note d)*	2,097
	Purchase of finished pharmaceutical products *(note e)*	18,032
	Purchase of steam *(note h)*	5,180
	Warehouse service income *(note i)*	3,206
Guangdong Titan Pharmaceutical Co. Ltd. ("Guangdong Titan")	Sales of intermediate products *(note f)*	119,450
	Sales of pharmaceutical products *(note g)*	—

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., CSPC NBP Pharmaceutical Co., Ltd. and CSPC XNW Pharmaceutical Joint Stock Company Limited ("XNW"), all being subsidiaries of the Company, entered into a mutual supply agreement with SPG in relation to the purchase and sales of pharmaceutical product for a term of three years commencing on 1 November 2012.

(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.

(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.

(d) On 20 July 2002, Zhongnuo entered into a lease 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 2014 for a term of three years.

(e) On 18 December 2013, CSPC Zhongcheng Pharmaceutical Logistic Company Limited ("Zhongcheng Logistic"), a non wholly-owned subsidiary of the Company, entered into the Master Sales and Purchase Agreement with CSPC Hebei Zhongcheng Pharmaceutical Company Limited ("Hebei Zhongcheng"), a non wholly-owned subsidiary of SPG, in relation to the sale and purchase of finished pharmaceutical products for a term of three years commencing from 1 January 2014.

(f) On 3 May 2012, Siping City Fine Chemicals Product Co., Ltd. ("Siping"), a then 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 commencing on 3 May 2012.

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 when entering into the agreement. As announced by the Company on 12 August 2014, the transactions contemplated under this agreement have fallen under the exemption under Chapter 14A of the Listing Rules in that Siping has become an "insignificant subsidiary" and Guangdong Titan is no longer be a connected person of the Company, thus the transactions are exempt from reporting and annual review requirements under Chapter 14A of the Listing Rules.

(g) 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 commencing on 10 September 2012.

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 when entering into the agreement. As announced by the Company on 14 August 2014, the transactions contemplated under this agreement have fallen under the exemption under Chapter 14A of the Listing Rules in that Siping has become an "insignificant subsidiary" and Guangdong Titan is no longer be a connected person of the Company, thus the transactions are exempt from reporting and annual review requirements under Chapter 14A of the Listing Rules.

(h) On 29 August 2014, XNW entered into a steam supply agreement with Hebei Hongyuan Re Dian Limited Liability Company ("Hongyuan") (owned as to 40% by SPG) in relation to the purchase of steam by XNW from Hongyuan for a term of three years commencing on 29 August 2014. Details of this transaction are set out in the announcement of the Company dated 29 August 2014.

(i) On 14 November 2014, Zhongcheng Logistic entered into a warehouse storage service agreement with Hebei Zhongcheng whereby Zhongcheng Logistic would provide warehouse storage service to Hebei Zhongcheng for a term of three years commencing on 14 November 2014. Details of this transaction are set out in the announcement of the Company dated 14 November 2014.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Both SPG and CCPCL are wholly-owned subsidiaries of Massive Top Limited ("MTL"), a shareholder of the Company which has significant influence over the Company. Therefore, both SPG and CCPCL are connected persons of the Company under the Listing Rules. Each of Mr. Cai Dongchen, Mr. Feng Zhenying, Mr. Pan Weidong, Mr. Zhao John Huan, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo and Mr. Wang Jinxu is indirectly interested in MTL.

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

(ii) 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.

Directors' Report

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 34 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 2014	Granted	Exercised	Cancelled	Lapsed	As at 31 December 2014
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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2014.

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 2015

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 36 to 124, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 (Cap. 622) (the "Hong Kong Company 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 80 of Schedule 11 to 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 2014, 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 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	7	**10,955,077**	9,949,103
Cost of sales		**(6,767,724)**	(6,816,042)
Gross profit		**4,187,353**	3,133,061
Other income		**134,558**	211,402
Selling and distribution expenses		**(1,788,032)**	(1,300,739)
Administrative expenses		**(551,697)**	(620,291)
Other expenses		**(307,814)**	(243,455)
Operating profit		**1,674,368**	1,179,978
Finance costs	8	**(54,358)**	(72,537)
Share of results of			
— an associate	19	**375**	—
— a joint venture	20	**588**	(14,045)
Gain on disposal of subsidiaries	40	**511**	154,228
Profit before tax	9	**1,621,484**	1,247,624
Income tax expense	10	**(337,153)**	(258,324)
Profit for the year		**1,284,331**	989,300
Other comprehensive (expense) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**(225,574)**	150,299
Share of exchange differences of			
— an associate		**(5)**	—
— a joint venture		**(459)**	(337)
Other comprehensive (expense) income for the year, net of income tax		**(226,038)**	149,962
Total comprehensive income for the year		**1,058,293**	1,139,262

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Profit for the year attributable to:			
Owners of the Company		**1,268,446**	972,751
Non-controlling interests		**15,885**	16,549
		1,284,331	989,300
Total comprehensive income attributable to:			
Owners of the Company		**1,045,174**	1,120,755
Non-controlling interests		**13,119**	18,507
		1,058,293	1,139,262
		HK cents	HK cents
Earnings per share			
Basic	*13*	**21.47**	17.49
Diluted	*13*	**21.26**	16.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	15	**5,049,087**	4,961,171
Prepaid lease payments	16	**498,522**	547,754
Goodwill	17	**125,060**	128,438
Other intangible assets	18	**111,289**	127,597
Interest in an associate	19	**56,732**	—
Interest in a joint venture	20	**18,167**	18,038
Available-for-sale investment		**1,705**	1,705
Deferred tax assets	30	**34,922**	43,071
		5,895,484	5,827,774
Current assets			
Inventories	21	**1,805,749**	1,855,188
Trade and other receivables	22	**2,006,712**	2,029,961
Bills receivables	23	**1,079,359**	982,437
Trade receivables due from related companies	24(i)	**92,471**	122,137
Amount due from a joint venture	24(ii)	**76,450**	91,519
Prepaid lease payments	16	**14,928**	16,909
Tax recoverable		**2,754**	226
Held for trading investments		**703**	438
Derivatives financial instruments		**—**	3,428
Restricted bank deposits	26	**58,199**	82,779
Bank balances and cash	26	**1,468,421**	1,187,751
		6,605,746	6,372,773
Current liabilities			
Trade and other payables	27	**2,329,726**	2,303,199
Bills payables	28	**227,150**	273,397
Trade payables due to related companies	24(i)	**26,483**	47,607
Trade payable to an associate	24(iii)	**576**	—
Trade payable due to a joint venture	24(ii)	**—**	2,007
Amounts due to related companies	24(i)	**277,894**	475,179
Tax liabilities		**116,597**	77,116
Unsecured bank loans	29	**624,070**	659,946
		3,602,496	3,838,451

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Net current assets		**3,003,250**	2,534,322
Total assets less current liabilities		**8,898,734**	8,362,096
Non-current liabilities			
Deferred tax liabilities	30	**29,645**	33,117
Unsecured bank loans	29	**601,800**	680,120
Government grants	31	**115,761**	52,059
		747,206	765,296
Net assets		**8,151,528**	7,596,800
Capital and reserves			
Share capital	32	**9,819,731**	558,636
Reserves		**(1,740,577)**	6,893,984
Equity attributable to owners of the Company		**8,079,154**	7,452,620
Non-controlling interests		**72,374**	144,180
Total equity		**8,151,528**	7,596,800

The consolidated financial statements on pages 36 to 39 were approved and authorised for issue by the Board of Directors on 24 March 2015 and are signed on its behalf by:

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

Statement of Financial Position

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	15	**58**	80
Investments in subsidiaries	35	**10,039,183**	9,813,085
Amount due from a subsidiary	25	**359,643**	359,643
		10,398,884	10,172,808
Current assets			
Other receivables		**6,603**	4,877
Amounts due from subsidiaries	25	**1,901,226**	1,900,417
Derivative financial instruments		**—**	3,428
Bank balances and cash	26	**23,433**	72,897
		1,931,262	1,981,619
Current liabilities			
Other payables		**19,137**	25,634
Amount due to a subsidiary	25	**520,196**	578,196
Amounts due to related companies	24(i)	**279,637**	292,445
Tax liabilities		**57,646**	31,175
Unsecured bank loans	29	**244,320**	203,280
		1,120,936	1,130,730
Net current assets		**810,326**	850,889
Total assets less current liabilities		**11,209,210**	11,023,697
Non-current liabilities			
Unsecured bank loans	29	**601,800**	470,120
Net assets		**10,607,410**	10,553,577
Capital and reserves			
Share capital	32	**9,819,731**	558,636
Reserves	36	**787,679**	9,994,941
Total equity		**10,607,410**	10,553,577

CAI Dongchen
Director

CHAK Kin Man
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	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 33)	Share options reserve HK$'000 (note 34)	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 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 14)*	–	–	–	–	–	–	–	–	(382,542)	(382,542)	–	(382,542)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(18,977)	(18,977)
Conversion of convertible bonds *(note 33)*	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 39)*	–	–	–	–	–	–	–	–	–	–	5,057	5,057
Acquisition of additional interest in a subsidiary *(note d)*	–	–	–	–	–	–	–	–	(599)	(599)	(12,401)	(13,000)
Disposal of subsidiaries *(note 40)*	–	–	–	–	–	–	–	(2,044)	2,044	–	(24,991)	(24,991)
At 31 December 2013 and 1 January 2014	**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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,268,446**	**1,268,446**	**15,885**	**1,284,331**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(223,272)**	**–**	**(223,272)**	**(2,766)**	**(226,038)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(223,272)**	**1,268,446**	**1,045,174**	**13,119**	**1,058,293**
Dividends recognised as distribution *(note 14)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(472,641)**	**(472,641)**	**–**	**(472,641)**
Dividends paid to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,317)**	**(20,317)**
Transfer to statutory reserve	**–**	**–**	**–**	**271,602**	**–**	**–**	**–**	**–**	**(271,602)**	**–**	**–**	**–**
Transfer pursuant to the new Hong Kong Companies Ordinance on 3 March 2014 *(note 32)*	**8,700,054**	**(8,700,054)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Conversion of convertible bonds *(note 33)*	**561,041**	**–**	**–**	**–**	**–**	**(561,041)**	**–**	**–**	**–**	**–**	**–**	**–**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**–**	**–**	**–**	**–**	**53,187**	**–**	**–**	**53,187**	**–**	**53,187**
Acquisition of additional interest in a subsidiary *(note d)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**814**	**814**	**(7,054)**	**(6,240)**
Dissolution of a subsidiary *(note e)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,467)**	**4,467**	**–**	**–**	**–**
Disposal of a subsidiary *(note 40)*	**–**	**–**	**–**	**(1,836)**	**–**	**–**	**–**	**(629)**	**2,465**	**–**	**(57,554)**	**(57,554)**
At 31 December 2014	**9,819,731**	**–**	**(5,523,729)**	**514,760**	**45,564**	**–**	**181,433**	**35,269**	**3,006,126**	**8,079,154**	**72,374**	**8,151,528**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

Notes:

(a) The balance in other reserve as at 1 January 2014 and 31 December 2014 mainly 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 reverse acquisition on 29 October 2012.

(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 Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to SPG and its subsidiaries during group reorganisation under the Robust Sun Group in 2012 and 2) the imputed interest arising on loan from SPG (see note 24 for details).

(d) On 25 June 2013 and 29 January 2014, the Group entered into equity transfer agreements with China Charmaine Pharmaceutical Company Limited ("China Charmaine") to acquire additional 45% equity interest in CSPC Huasheng Pharmaceutical Co., Ltd ("Huasheng") and 21.43% equity interest in Unigene Biotechnology Company Limited ("Unigene"), respectively. The transactions were completed on 22 August 2013 and 19 March 2014, respectively. Upon completion of these acquisitions, Huasheng and Unigene became wholly-owned subsidiaries of the Company. Accordingly, the differences between the carrying amounts of net assets attributable to the additional interests acquired at the date of acquisitions and the fair value of considerations paid by the Company for these acquisitions were debited/credited to accumulated profits.

(e) During the year, the Group dissolved an inactive subsidiary as set out in note 43 and the relevant exchange differences of that subsidiary accumulated in translation reserve was transferred to accumulated profits.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 *HK$'000*	2013 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**1,621,484**	1,247,624
Adjustments for:		
Amortisation of intangible assets	**19,850**	11,525
Amortisation of prepaid lease payments	**15,319**	14,227
Depreciation of property, plant and equipment	**575,043**	630,530
Share-based payment expenses	**53,187**	128,246
Gain on disposal of subsidiaries	**(511)**	(154,228)
(Gain) loss on disposal/write-off of property, plant and equipment	**(3,402)**	11,505
(Gain) loss on fair value change of held for trading investments	**(279)**	101
Government grant income	**(85,547)**	(139,179)
Net impairment loss on trade receivables	**2,883**	190
(Reversal) write down of inventories	**(7,342)**	15,000
Interest on bank loans	**51,232**	65,133
Interest income	**(7,852)**	(5,994)
Imputed interest on amount due to a related company	**3,126**	7,404
Share of results of		
— an associate	**(375)**	—
— a joint venture	**(588)**	14,045
Movements in working capital	**2,236,228**	1,846,129
Increase in inventories	**(28,404)**	(36,160)
Increase in trade and other receivables	**(138,130)**	(168,722)
Increase in bills receivables	**(169,619)**	(301,904)
Decrease (increase) in trade receivables due from related companies	**26,950**	(31,055)
Decrease (increase) in derivative financial instruments	**3,428**	(2,805)
Increase in trade and other payables	**220,654**	55,924
Decrease in bills payables	**(39,911)**	(431,912)
(Decrease) increase in trade payables due to related companies	**(20,186)**	46,448
Increase in trade payable due to an associate	**583**	—
Decrease in trade payable due to a joint venture	**(1,982)**	(3,446)
Increase in government grants	**61,669**	130,960
Cash generated from operations	**2,151,280**	1,103,457
Income tax paid	**(293,156)**	(222,741)
Interest paid	**(51,670)**	(65,853)
NET CASH FROM OPERATING ACTIVITIES	**1,806,454**	814,863

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(806,998)**	(597,115)
Placement of restricted bank deposits		**(14,802)**	(65,808)
Purchase of intangible assets		**(6,539)**	(17,315)
Acquisition of additional interest in a subsidiary		**(6,240)**	(13,000)
Withdrawal of restricted bank deposits		**37,597**	720
Disposal of subsidiaries	40	**17,991**	384,037
Repayment from (advance to) a joint venture		**13,583**	(26,280)
Proceeds on disposal of property, plant and equipment		**12,326**	33,448
Interest received		**7,852**	5,994
Acquisition of subsidiaries	39	**—**	(127,927)
Prepaid lease payments paid		**—**	(32,911)
Repayment from former subsidiaries	40	**—**	1,065,731
Repayment from related companies		**—**	14,570
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(745,230)**	624,144
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(844,040)**	(2,266,736)
Dividends paid		**(472,641)**	(382,542)
Repayment to related companies		**(190,878)**	(380,181)
Dividends paid to non-controlling interests		**(20,317)**	(18,977)
New bank loans raised		**781,063**	1,319,165
NET CASH USED IN FINANCING ACTIVITIES		**(746,813)**	(1,729,271)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**314,411**	(290,264)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,187,751**	1,449,977
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(33,741)**	28,038
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,468,421**	1,187,751

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.

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 43.

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

2.1 Amendments to HKFRSs and the new Interpretation that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to HKFRSs and a new interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) — Int 21	Levies

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

2.1 Amendments to HKFRSs and the new Interpretation that are mandatorily effective for the current year *(continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- measure and evaluate performance of substantially all of investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Group is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

The application of the above new Interpretation and other amendments to HKFRSs in the current annual period has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

2.2 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:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 — 2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 — 2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 — 2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with early application permitted.
3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

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

2.2 New and revised HKFRSs issued but not yet effective *(continued)*

HKFRS 9 Financial Instruments *(continued)*

Key requirements of HKFRS 9 are described below:

- all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

2.2 New and revised HKFRSs issued but not yet effective *(continued)*

HKFRS 9 Financial Instruments *(continued)*

- 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 Group is in the process of performing a detail review on assessing the impact of the application of HKFRS 9 and not practical to provide a reasonable estimate of that effect until the assessment has been completed.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Group is in the process of performing a detail review on assessing the impact of the application of HKFRS 15 and not practical to provide a reasonable estimate of that effect until the assessment has been completed.

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

2.2 New and revised HKFRSs issued but not yet effective *(continued)*

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First time Adoption of Hong Kong Financial Reporting Standards*. The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

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

2.2 New and revised HKFRSs issued but not yet effective *(continued)*

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(continued)*

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

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.

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

2.2 New and revised HKFRSs issued but not yet effective *(continued)*

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

The amendments to HKFRS 8 (i) require an entity to disclose the judgments 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. As the amendments do not contain any effective date, they are considered to be immediately effective.

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 do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

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

2.2 New and revised HKFRSs issued but not yet effective *(continued)*

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.

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 do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012-2014 Cycle

The *Annual Improvements to HKFRSs 2012-2014 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 *Disclosure — Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with *HKAS 34 Interim Financial Reporting*.

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

2.2 New and revised HKFRSs issued but not yet effective *(continued)*

Annual Improvements to HKFRSs 2012-2014 Cycle *(continued)*

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and comply with the applicable requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Company Ordinance (Cap. 32) in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Account and Audit", as set out in sections 76 to 87 of Schedule 11 to that Ordinance. 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").

Basis of preparation

The consolidated financial statements has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in 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.

Basis of consolidation

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

- has power over the investee;
- is exposed, or has 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit 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.

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

Investments in subsidiaries

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

Investment in an associate and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate and a joint venture *(continued)*

The results and assets and liabilities of associate or joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associate or 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 an associate or 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 associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or 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 associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or 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 an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group' consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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).

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.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

The Group as lessor

Rental income from operating leases is recognised 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 for own use

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 entity's functional currency (foreign currencies) are recognised at the rates of exchange 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 monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting 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 expense 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On the disposal of or partial disposal involving loss of control over 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 to identifiable assets acquired and liabilities assumed through 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 34.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, 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 equity instruments expected to 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 capital. 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.

Current 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 items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax *(continued)*

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

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 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 for the year

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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.

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).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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, 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 are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basic as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Derecognition of intangible assets

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.

Impairment loss on tangible and intangible assets other than goodwill

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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).

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method (continued)

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 incorporates 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 6c.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bills receivables, trade receivables 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 impairment.

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

AFS 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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments 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 AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

3. 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
- the disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of 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 (see the accounting policy below).

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

3. 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

Classification as debt or equity

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 a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables, bills payables, trade payables due to related companies, trade payable to an associate, trade payable due to a joint venture, amounts due to related companies, amount due to a subsidiary 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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.

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.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Group are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and 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. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCE 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. As at 31 December 2014, the carrying amount of goodwill was approximately HK$125,060,000 (2013: HK$128,438,000). Details of the recoverable amount calculation are disclosed in note 17.

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 2014, the carrying amounts of the Group's trade receivable were approximately HK$1,694,691,000 (2013: HK$1,719,240,000), net of allowance for doubtful debts of approximately HK$4,395,000 (2013: HK$1,588,000).

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 2014, the carrying amounts of property, plant and equipment were approximately HK$5,049,087,000 (2013: HK$4,961,171,000). Details of the movement for property, plant and equipment are disclosed in note 15.

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 2014, the carrying amounts of the inventories were approximately HK$1,805,749,000 (2013: HK$1,855,188,000), net of provision for inventories of approximately HK$7,658,000 (2013: HK$15,000,000).

5. 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 29 and amounts due to related companies in note 24, 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.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
FVTPL				
— derivative financial instruments	**—**	3,428	**—**	3,428
— held for trading investments	**703**	438	**—**	—
Loans and receivables (including cash and cash equivalents)	**4,538,035**	4,233,363	**2,284,302**	2,332,957
Available-for-sale investment	**1,705**	1,705	**—**	—
Financial liabilities				
Amortised cost	**3,627,484**	4,051,808	**1,645,953**	1,544,041

6. FINANCIAL INSTRUMENTS *(continued)*

6b. 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, 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 payable due to an associate, trade payable due to a joint venture, amounts due to related companies, amount due to a subsidiary, 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.

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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**888,637**	864,455	**24,515**	90,249	**1,408,833**	1,442,641	**18,612**	68,202
USD	**237,120**	101,400	**570,933**	567,867	**237,120**	101,400	**4,567**	7,858

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

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% (2013: 5%) increase and decrease in RMB against HK$ and USD. A 5% (2013: 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% (2013: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2013: 5%) against the relevant currency. For a 5% (2013: 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)	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Post-tax profit	**34,349**	30,775	**(13,269)**	(18,542)	**58,042**	57,353	**9,709**	3,905

(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.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. 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 29 for details of these loans), which are raised from the banks in the PRC and Hong Kong.

The Group and the Company are exposed to cash flow interest rate risk primarily in relation to the floating-rate bank borrowings (see note 29 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 (2013: 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 2014 and 2013, 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$3,432,000 (2013: HK$5,327,000) and HK$3,324,000 (2013: HK$2,811,000), 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.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2014, 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 2014, the Group and the Company have available unutilised bank loan facilities of HK$180,000,000 (2013: HK$306,000,000). Details of which are set out in note 29.

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.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The Group

As at 31 December 2014

	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$'000	Carrying amount at 31.12.2014 HK$'000
Non-derivative financial liabilities							
Trade and other payables	—	1,834,720	12,420	22,371	—	1,869,511	1,869,511
Bills payables	—	—	164,938	62,212	—	227,150	227,150
Trade payables due to related companies	—	26,483	—	—	—	26,483	26,483
Trade payables to an associate	—	576	—	—	—	576	576
Amounts due to related companies	—	277,894	—	—	—	277,894	277,894
Unsecured bank loans							
— floating-rate	3.05	—	80,109	184,021	628,999	893,129	863,370
— fixed-rate	5.22	—	—	381,410	—	381,410	362,500
		2,139,673	257,467	650,014	628,999	3,676,153	3,627,484

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

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The Company

As at 31 December 2014

	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$'000*	Carrying amount at 31.12.2014 *HK$'000*
Non-derivative financial liabilities							
Amount due to a subsidiary	—	520,196	—	—	—	520,196	520,196
Amounts due to related companies	—	279,637	—	—	—	279,637	279,637
Unsecured bank loans — floating-rate	2.98	—	73,878	177,726	623,121	874,725	846,120
		799,833	73,878	177,726	623,121	1,674,558	1,645,953

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	—	578,196	—	—	—	578,196	578,196
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
		870,641	53,202	154,220	485,875	1,563,938	1,544,041

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.

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value measurement

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 31 December 2014 HK$'000	Fair value as at 31 December 2013 HK$'000	Fair value hierarchy	Valuation techniques and key input(s)
Foreign currency derivatives and structured forward contract classified as derivative	—	3,428	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 investments	**703**	438	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*
2014			
Financial assets			
Held for trading investments	**703**	**—**	**703**

	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

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

7. REVENUE AND SEGMENT INFORMATION

	2014	2013
	HK$'000	*HK$'000*
Sale of goods	**10,955,077**	9,949,103

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 the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance.

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)

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

7. 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 2014

	Finished drugs HK$'000	Antibiotics HK$'000	Vitamin C HK$'000	Caffeine and others HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
SEGMENT REVENUE							
External sales	6,716,184	2,369,864	1,243,347	625,682	10,955,077	—	10,955,077
Inter-segment sales	—	47,514	6,794	8,332	62,640	(62,640)	—
TOTAL REVENUE	6,716,184	2,417,378	1,250,141	634,014	11,017,717	(62,640)	10,955,077
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	1,635,411	155,929	(87,666)	122,688	1,826,362	—	1,826,362
Unallocated income							7,849
Unallocated expenses							(159,843)
Operating profit							1,674,368
Finance costs							(54,358)
Share of results of							
— an associate							375
— a joint venture							588
Gain on disposal of a subsidiary							511
Profit before tax							1,621,484

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2013

	Finished drugs HK$'000	Antibiotics HK$'000	Vitamin C HK$'000	Caffeine and others HK$'000	Segment total HK$'000	Eliminations HK$'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	—	99,108	8,347	7,053	114,508	(114,508)	—
TOTAL REVENUE	5,753,847	2,545,478	1,124,780	639,506	10,063,611	(114,508)	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 results of a joint venture							(14,045)
Gain on disposal of subsidiaries							154,228
Profit before tax							1,247,624

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned/loss recognised by each segment without allocation of interest income, finance costs, central administrative expenses, share of results of an associate and a joint venture and gain on disposal of subsidiaries. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

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

	2014	2013
	HK$'000	*HK$'000*
The PRC (country of domicile)	**8,164,521**	7,099,136
Other Asian regions	**1,134,235**	1,361,914
Americas *(Note)*	**790,634**	664,579
Europe	**711,190**	665,940
Others	**154,497**	157,534
	10,955,077	9,949,103

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 for both years.

8. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**51,232**	65,133
Imputed interest on amount due to a related company *(note 24)*	**3,126**	7,404
	54,358	72,537

9. PROFIT BEFORE TAX

	2014 HK$'000	2013 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration *(note 11)*		
— salaries, wages and other benefits	**919,282**	826,729
— contribution to retirement benefit schemes	**106,704**	99,455
— share-based payment expenses (included in administrative expenses)	**53,187**	128,246
Total staff costs	**1,079,173**	1,054,430
Amortisation of intangible assets (included in cost of sales)	**19,850**	11,525
Amortisation of prepaid lease payments	**15,319**	14,277
Depreciation of property, plant and equipment	**575,043**	630,530
Total depreciation and amortisation	**610,212**	656,332
Auditor's remuneration	**3,600**	3,700
(Gain) loss on disposal/write-off of property, plant and equipment (included in other income/other expenses)	**(3,402)**	11,505
Government grant income *(note 31)*	**(85,547)**	(139,179)
Interest income	**(7,852)**	(5,994)
(Reversal) write down of inventories (included in cost of sales)	**(7,342)**	15,000
Net foreign exchange loss (gains)	**4,518**	(17,506)
Rental expenses	**31,268**	15,461
Net impairment loss on trade receivables	**2,883**	190
Research and development expenditure recognised as an expense (included in other expenses)	**307,223**	212,462

Note: 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 2014 and 2013.

10. INCOME TAX EXPENSE

	2014	2013
	HK$'000	HK$'000
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax ("PRC EIT")	300,781	224,395
— PRC withholding tax on dividends distributed by subsidiaries	32,422	49,775
	333,203	274,170
Deferred taxation *(note 30)*	3,950	(15,846)
	337,153	258,324

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 regulations of the EIT law. 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 2017. PRC EIT had been relieved by HK$1,847,000 for the year ended 31 December 2013 as a result of tax losses brought forward from previous years.

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 40 according to the relevant tax rule in the PRC.

10. INCOME TAX EXPENSE *(continued)*

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:

	2014	2013
	HK$'000	*HK$'000*
Profit before tax	**1,621,484**	1,247,624
Tax at the PRC EIT rate of 25% (2013: 25%)	**405,371**	311,906
Tax effect of income not taxable for tax purpose	**(7,611)**	(44,530)
Tax effect of expenses not deductible for tax purpose	**84,678**	82,503
Tax effect of share of results of an associate	**(94)**	—
Tax effect of share of results of a joint venture	**(147)**	3,511
Utilisation of tax losses previously not recognised	**—**	(1,847)
Tax effect of tax losses not recognised	**27,565**	49,124
Effect of tax exemption, relief and concessions granted to PRC subsidiaries	**(203,775)**	(166,643)
PRC withholding tax on dividends distributed by subsidiaries	**31,166**	24,300
Tax charge for the year	**337,153**	258,324

Details of deferred taxation and unused tax losses are set out in note 30.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 20 (2013: 17) directors were as follows:

2014

	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$'000*	Chan Siu Keung, Leonard *HK$'000*	Wang Bo *HK$'000*	Huo Zhenxing *HK$'000* *(note (ii))*	Qi Moujia *HK$'000* *(note (ii))*	Guo Shichang *HK$'000* *(note (iii))*	Zhang Fawang *HK$'000* *(note (iii))*	Lo Yuk Lam *HK$'000* *(note (iv))*	Yu Jinming *HK$'000* *(note (iv))*	Chen Shilin *HK$'000* *(note (iv))*	Total *HK$'000*
Fees	60	60	60	60	–	–	60	60	60	60	350	250	80	–	–	–	–	70	47	47	1,324
Salaries and other benefits	4,365	797	2,046	795	–	–	798	798	798	793	–	–	–	–	–	–	–	–	–	–	11,190
Contribution to retirement benefit schemes	404	55	189	55	–	–	55	55	55	56	–	–	–	–	–	–	–	–	–	–	924
Share-based payment expenses	28,366	1,064	1,064	3,546	–	–	5,318	3,546	1,064	1,064	–	–	–	–	–	–	–	–	–	–	45,032
Total emoluments	33,195	1,976	3,359	4,456	–	–	6,231	4,459	1,977	1,973	350	250	80	–	–	–	–	70	47	47	58,470

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

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$'000*	Chan Siu Keung Leonard *HK$'000*	Wang Bo *HK$'000*	Huo Zhenxing *HK$'000*	Qi Moujia *HK$'000*	Guo, Shichang *HK$'000*	Zhang Fawang *HK$'000*	Total *HK$'000*
Fees	60	60	60	60	–	–	60	60	60	35	300	150	66	66	66	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 expenses	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	150	66	66	66	66	66	130,002

Notes:

(i) The performance related incentive payment is determined by the remuneration committee for the year ended 31 December 2013 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) Mr. Huo Zhenxing and Mr. Qi Moujia retired as independent non-executive directors on 20 May 2014.

(iii) Mr. Guo Shichang and Mr. Zhang Fawang resigned as independent non-executive directors on 19 March 2014 and 1 June 2014 respectively.

(iv) Mr. Lo Yuk Lam, Mr. Yu Jinming and Mr. Chen Shilin were appointed as independent non-executive directors on 1 June 2014.

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.

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group for the year ended 31 December 2014 included 5 (2013: 5) directors and the chief executive of the Company, details of their emoluments are set out in note 11 above.

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.

13. EARNINGS PER SHARE

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

	2014	2013
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**1,268,446**	972,751

	2014	2013
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,908,018**	5,562,186
Effect of dilutive potential ordinary shares:		
Tranche II Convertible Bonds (as defined in note 33) as if converted	**—**	317,247
Share options granted by the Company	**59,664**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,967,682**	5,879,433

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 that reporting period.

14. DIVIDENDS

	2014	2013
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2013 Final, paid — HK8 cents (2013: 2012 Final, paid — HK10 cents) per share	**472,641**	382,542

The directors recommend the payment of a final dividend of HK10 cents (2013: HK8 cents) per share in respect of the year ended 31 December 2014. Subject to approval by the shareholders in the forthcoming annual general meeting, the proposed final dividend will be paid on or around 15 June 2015 to shareholders of the Company whose names appear on the register of members of the Company on 2 June 2015.

15. 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 2013	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
Acquired on acquisition of subsidiaries *(note 39)*	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 40)*	(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**
Exchange adjustments	**(55,920)**	**(84,226)**	**(3,753)**	**(690)**	**(11,244)**	**(155,833)**
Additions	**12,663**	**148,128**	**9,471**	**824**	**705,461**	**876,547**
Transfers	**296,434**	**417,807**	**1,288**	**4,693**	**(720,222)**	**—**
Disposals/write-off	**(2,120)**	**(30,786)**	**(1,648)**	**(4,000)**	**—**	**(38,554)**
Disposal of a subsidiary *(note 40)*	**(41,648)**	**(54,179)**	**(386)**	**(2,477)**	**—**	**(98,690)**
At 31 December 2014	**2,292,130**	**3,509,253**	**137,741**	**25,196**	**432,396**	**6,396,716**
DEPRECIATION						
At 1 January 2013	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 40)*	(27,024)	(80,267)	(1,422)	(1,108)	—	(109,821)
At 31 December 2013	**238,549**	**564,105**	**39,469**	**9,952**	**—**	**852,075**
Exchange adjustments	**(7,645)**	**(18,645)**	**(1,532)**	**(328)**	**—**	**(28,150)**
Provided for the year	**134,975**	**397,616**	**32,674**	**9,778**	**—**	**575,043**
Eliminated on disposals/write-off	**(891)**	**(23,943)**	**(1,266)**	**(3,530)**	**—**	**(29,630)**
Eliminated on disposal of a subsidiary *(note 40)*	**(5,344)**	**(14,201)**	**(385)**	**(1,779)**	**—**	**(21,709)**
At 31 December 2014	**359,644**	**904,932**	**68,960**	**14,093**	**—**	**1,347,629**
CARRYING VALUES						
At 31 December 2014	**1,932,486**	**2,604,321**	**68,781**	**11,103**	**432,396**	**5,049,087**
At 31 December 2013	1,844,172	2,548,404	93,300	16,894	458,401	4,961,171

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

THE GROUP *(continued)*

At 31 December 2014, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to approximately HK$163,877,000 (2013: HK$167,406,000). 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 2013	1,403	1,005	2,408
Addition	78	—	78
At 31 December 2013 and 31 December 2014	**1,481**	**1,005**	**2,486**
DEPRECIATION			
At 1 January 2013	1,383	1,005	2,388
Provided for the year	18	—	18
At 31 December 2013	**1,401**	**1,005**	**2,406**
Provided for the year	**22**	**—**	**22**
At 31 December 2014	**1,423**	**1,005**	**2,428**
CARRYING VALUES			
At 31 December 2014	**58**	**—**	**58**
At 31 December 2013	80	—	80

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%

16. PREPAID LEASE PAYMENTS

	2014	2013
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**14,928**	16,909
Non-current asset	**498,522**	547,754
	513,450	564,663

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

17. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1 January 2013	102,716
Exchange adjustments	3,245
Arising on acquisition of subsidiaries *(note 39)*	22,477
At 31 December 2013	**128,438**
Exchange adjustments	**(3,378)**
At 31 December 2014	**125,060**

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

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

	2014	2013
	HK$'000	*HK$'000*
OYY Group	**102,717**	105,350
Baike Group (as defined in note 39)	**22,343**	23,088
	125,060	128,438

During the years ended 31 December 2014 and 2013, management of the Group determines that there is no impairment of the above-mentioned cash-generating units containing the goodwill.

The recoverable amounts of CSPC Ouyi Pharmaceutical Co., Ltd, ("OYY") and its subsidiaries (collectively referred to as "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. The 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 18% (2013: 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.

18. OTHER INTANGIBLE ASSETS

THE GROUP

	License and patent HK$'000	Development costs HK$'000	Total HK$'000
COST			
At 1 January 2013	2,037	28,611	30,648
Exchange adjustments	1,293	898	2,191
Addition	—	17,315	17,315
Acquired on acquisition of subsidiaries *(note 39)*	96,725	—	96,725
Disposal of subsidiaries *(note 40)*	—	(1,232)	(1,232)
At 31 December 2013	**100,055**	**45,592**	**145,647**
Exchange adjustments	**(2,501)**	**(1,170)**	**(3,671)**
Addition	**—**	**6,539**	**6,539**
At 31 December 2014	**97,554**	**50,961**	**148,515**
AMORTISATION			
At 1 January 2013	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 40)*	—	(1,232)	(1,232)
At 31 December 2013	**3,799**	**14,251**	**18,050**
Exchange adjustments	**(218)**	**(456)**	**(674)**
Provided for the year	**9,851**	**9,999**	**19,850**
At 31 December 2014	**13,432**	**23,794**	**37,226**
CARRYING VALUES			
At 31 December 2014	**84,122**	**27,167**	**111,289**
At 31 December 2013	96,256	31,341	127,597

18. OTHER INTANGIBLE ASSETS *(continued)*

Development costs mainly represent costs internally generated or techniques and formulae acquired from third parties for the development of products and production technology.

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

19. INTEREST IN AN ASSOCIATE

	2014	2013
	HK$'000	*HK$'000*
Cost of unlisted investment in an associate *(note 40)*	**56,362**	—
Share of post-acquisition profit	**375**	—
Exchange adjustments	**(5)**	—
	56,732	—

As at 31 December 2014, the Group held 40% of the registered capital of Siping City Fine Chemicals Product Co. Ltd. ("Siping") upon disposal of its 20% equity interest in Siping on 1 November 2014 as set out in note 40. Siping is a sino-foreign equity joint venture company established in the PRC to manufacture and sell pharmaceutical products.

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

The associate is accounted for using the equity method in these consolidated financial statements since the above-mentioned disposal.

	2014
	HK$'000
Current assets	**163,109**
Non-current assets	**99,306**
Current liabilities	**120,586**
Non-current liabilities	—

19. INTEREST IN AN ASSOCIATE *(continued)*

	1.11.2014 *to* 31.12.2014
	HK$'000
Revenue	**51,863**
Profit for the year	**936**
Other comprehensive expenses for the year	**(12)**
Total comprehensive income for the year	**924**

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

	2014
	HK$'000
Net assets of Siping	**141,829**
Proportion of the Group's ownership interest in Siping	**40%**
Carrying amount of the Group's interest in Siping	**56,732**

20. INTEREST IN A JOINT VENTURE

	2014	2013
	HK$'000	*HK$'000*
Cost of unlisted investment in a joint venture	**36,495**	36,495
Share of post-acquisition losses	**(17,438)**	(18,026)
Exchange adjustments	**(890)**	(431)
	18,167	18,038

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

At 31 December 2014 and 2013, 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 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.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	2014	2013
	HK$'000	*HK$'000*
Current assets	**134,979**	117,679
Non-current assets	**146,199**	179,900
Current liabilities	**236,149**	251,195
Non-current liabilities	**8,695**	10,308
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**5,559**	21,832
Current financial liabilities (excluding trade and other payables and provisions)	**91,250**	57,692
Revenue	**364,356**	294,468
Profit (loss) for the year	**1,175**	(28,090)
Other comprehensive expenses for the year	**(917)**	(674)
Total comprehensive income (expenses) for the year	**258**	(28,764)

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

The above profit (loss) for the year includes the following:

	2014 HK$'000	2013 HK$'000
Depreciation and amortisation	**23,961**	31,296
Interest income	**72**	78
Finance costs	**4,084**	6,342
Income tax expense	**1,372**	2,708

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

	2014 HK$'000	2013 HK$'000
Net assets of Huarong	**36,334**	36,076
Proportion of the Group's ownership interest in Huarong	**50%**	50%
Carrying amount of the Group's interest in Huarong	**18,167**	18,038

21. INVENTORIES

	2014 HK$'000	2013 HK$'000
Raw materials	**321,479**	399,989
Work in progress	**159,909**	204,011
Finished goods	**1,324,361**	1,251,188
	1,805,749	1,855,188

22. TRADE AND OTHER RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**1,699,086**	1,720,828
Less: allowance for doubtful debts	**(4,395)**	(1,588)
	1,694,691	1,719,240
Prepayment for purchase of raw material	**183,695**	126,911
Deposits and prepayment for utilities	**40,093**	28,942
Other tax recoverable	**28,672**	62,879
Others	**59,561**	91,989
	2,006,712	2,029,961

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 the invoice dates at the end of the reporting period which approximated the respective revenue recognition dates:

	2014	2013
	HK$'000	*HK$'000*
0 to 90 days	**1,479,654**	1,484,861
91 to 180 days	**210,236**	174,391
181 to 365 days	**4,801**	11,377
Over 365 days	**—**	48,611
	1,694,691	1,719,240

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Trade receivables disclosed below include amounts that are past due at the end of the reporting period for which the Group had not recognised an allowance for doubtful debts because there had not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the group to the counterparty.

22. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing of trade receivables which are past due but not impaired

	2014	2013
	HK$'000	*HK$'000*
91 to 180 days	**210,236**	174,391
181 to 365 days	**4,801**	11,377
Over 365 days	**—**	48,611
	215,037	234,379

Movements in the allowance for doubtful debts

	2014	2013
	HK$'000	*HK$'000*
Balance at beginning of the year	**1,588**	1,361
Impairment loss recognised on trade receivables	**2,883**	190
Exchange adjustments	**(76)**	37
Balance at end of the year	**4,395**	1,588

As at 31 December 2014, the Group's trade receivables denominated in USD is approximately HK$526,859,000 (2013: HK$515,623,000).

23. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2013: 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.

24. RELATED PARTIES DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Other than those transactions with related parties as disclosed in note 39 and the consolidated statement of changes in equity, the Group had also entered into the following transactions. The significant transactions with these companies during the year, and the balances with them at the end of the reporting period, are as follows:

(i) Related companies

Name of company	Nature of transactions/balances	2014	2013
		HK$'000	*HK$'000*
The Group			
SPG (*note c*), and its subsidiaries and associates (the "SPG Group")	Purchase of pharmaceutical products	**387,525**	276,796
	Sale of pharmaceutical products	**203,564**	257,570
	Rental expense	**16,622**	9,602
	Purchase of steam	**13,273**	—
	Warehouse service income	**13,079**	—
	Balance due from/to the SPG Group		
	— trade receivables aged 0-90 days	**92,471**	77,284
	— trade payables aged 0-90 days	**26,483**	47,607
	— other payables — current (*note b*)	**277,894**	468,425
	— dividend payable	**—**	6,754

24. RELATED PARTIES DISCLOSURES *(continued)*

(i) Related companies *(continued)*

Name of company	**Nature of transactions/balances**	**2014**	2013
		HK$'000	*HK$'000*
Guangdong Titan Pharmaceutical Co., Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of a non-controlling interest of Siping (ceased to be a related party since 1 November 2014)	Sale of finished goods	**143,552**	120,769
	Balance due from Guangdong Titan		
	— trade receivables		
	aged 0-90 days	**N/A**	44,853
Total	Balance due from/to		
	— trade receivables	**92,471**	122,137
	— trade payables	**26,483**	47,607
	— other payables *(note b)*	**277,894**	468,425
	— dividend payables	**—**	6,754
The Company			
SPG Group	Balance due to the SPG Group		
	— other payables *(note b)*	**279,637**	292,445

As at 31 December 2014, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of approximately HK$112,500,000 (2013: HK$346,154,000) granted to the Group. As at 31 December 2014, the extent of utilisation by the Group amounted to approximately HK$112,500,000 (2013: HK$346,154,000).

24. RELATED PARTIES DISCLOSURES *(continued)*

(ii) A joint venture

Name of company	Nature of transactions/balances	2014	2013
		HK$'000	*HK$'000*
Huarong	Purchase of raw materials	**8,997**	10,407
	Provision of utility services by the Group	**50,691**	47,138
	Sales of raw materials	**4,059**	7,220
	Sales of others	**—**	215
	Balance due from/to Huarong		
	— other receivables *(note a)*	**76,450**	91,519
	— trade payables aged 0-90 days	**—**	2,007

(iii) An associate

Name of company	Nature of transactions/balances	2014	2013
		HK$'000	*HK$'000*
Siping	Purchase of raw materials	**4,430**	—
	Balance due to Siping		
	— trade payables aged 0-90 days	**576**	—

Notes:

a. Amounts are unsecured, non-interest bearing and repayable on demand.

b. 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 was presented as amount due to a related party under current liabilities 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, the balance was fully repaid and imputed interest arising on loan from SPG of approximately HK$3,126,000 (2013: HK$7,404,000) is recorded as finance costs in the consolidated statement of profit or loss and other comprehensive income.

c. SPG is a wholly-owned subsidiary of Massive Top Limited which is a shareholder of the Company and has significant influence over the Group.

24. RELATED PARTIES DISCLOSURES *(continued)*

(iv) Compensation of Key Management Personnel

In addition, the remuneration of key management personnel, which represents the Company's Directors of the Group during the year is as follows:

	2014	2013
	HK$'000	*HK$'000*
Short-term benefits	**12,514**	20,507
Post-employment benefits	**924**	914
Share-based payment expenses	**45,032**	108,581
	58,470	130,002

25. AMOUNTS DUE FROM/TO SUBSIDIARIES

Except for an amount of approximately HK$359,643,000 (2013: HK$359,643,000) due from a subsidiary which is 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.

26. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.1% (2013: 0.01% to 1.64%) per annum.

As at 31 December 2014 and 2013, 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**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**24,515**	90,249	**18,612**	68,202
USD	**44,074**	52,244	**4,567**	4,436

27. TRADE AND OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**955,617**	935,534
Customer deposits and advance from customers	**373,342**	280,999
Other tax payables	**53,984**	37,313
Freight and utilities charges payable	**28,430**	27,727
Construction cost and acquisition of property, plant and equipment payable	**601,792**	548,376
Government grants *(note 31)*	**88,596**	182,235
Staff welfare payable	**131,792**	141,077
Selling expense payable	**60,260**	73,000
Provision for litigation *(note 41)*	**783**	45,999
Other	**35,130**	30,939
	2,329,726	2,303,199

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

	2014	2013
	HK$'000	*HK$'000*
0 to 90 days	**703,652**	658,963
91 to 180 days	**104,716**	78,391
More than 180 days	**147,249**	198,180
	955,617	935,534

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.

28. BILLS PAYABLES

All bills payables of the Group are aged within 180 days (2013: 180 days) and not yet due at the end of the reporting period.

29. UNSECURED BANK LOANS

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured				
— floating-rate HK$ bank loans	**609,000**	572,000	**609,000**	572,000
— floating-rate USD bank loans	**237,120**	101,400	**237,120**	101,400
— floating-rate RMB bank loans	**17,250**	487,180	**—**	—
— fixed-rate RMB bank loans	**362,500**	179,486	**—**	—
	1,225,870	1,340,066	**846,120**	673,400
The above borrowings are repayable as follows:				
Within one year	**624,070**	659,946	**244,320**	203,280
More than one year, but not more than two years	**491,800**	383,120	**491,800**	173,120
More than two years, but not more than five years	**110,000**	297,000	**110,000**	297,000
	1,225,870	1,340,066	**846,120**	673,400
Less: Amounts due within one year shown under current liabilities	**(624,070)**	(659,946)	**(244,320)**	(203,280)
Amounts shown under non-current liabilities	**601,800**	680,120	**601,800**	470,120

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:	**2014**	2013
Floating-rate HK$ bank loans	**From 1.8% to 2.98% per annum**	From 1.78% to 3.13% per annum
Floating-rate USD bank loans	**From 2.65% to 3.17% per annum**	From 2.98% to 3.23% per annum
Floating-rate RMB bank loans	**From 6.15% to 6.4% per annum**	From 4.2% to 6.56% per annum
Fixed-rate RMB bank loans	**From 3.25% to 6.0% per annum**	From 3.25% to 5.70% per annum

29. 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	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**609,000**	572,000	**609,000**	572,000
USD	**237,120**	101,400	**237,120**	101,400

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

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Floating-rate HK$ bank loans	**180,000**	150,000	**180,000**	150,000
Floating-rate USD bank loans	**—**	156,000	**—**	156,000
	180,000	306,000	**180,000**	306,000

As at 31 December 2014, SPG had given guarantee of approximately HK$112,500,000 (2013: HK$346,154,000) to secure borrowings of the Group.

30. DEFERRED TAXATION

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

	2014	2013
	HK$'000	*HK$'000*
Deferred tax asset	**34,922**	43,071
Deferred tax liability	**(29,645)**	(33,117)
	5,277	9,954

30. 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 2013	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
Acquisitions of subsidiaries *(note 39)*	—	5,050	1,171	(13,754)	—	—	(7,533)
Disposal of subsidiaries *(note 40)*	—	(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**
Credit (charge) to profit or loss	**2,405**	**4,648**	**290**	**(12,549)**	**—**	**1,256**	**(3,950)**
Disposal of subsidiaries *(note 40)*	**—**	**(852)**	**384**	**—**	**—**	**—**	**(468)**
Exchange adjustments	**(756)**	**436**	**66**	**(5)**	**—**	**—**	**(259)**
At 31 December 2014	**30,709**	**(15,537)**	**(2,040)**	**(6,049)**	**—**	**(1,806)**	**5,277**

At the end of the reporting period, the Group has unused tax losses of approximately HK$345,517,000 (2013: HK$235,259,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2018.

The unused tax losses will be expired as follow:

	2014	2013
	HK$'000	*HK$'000*
2016	**38,896**	38,896
2017	**196,363**	196,363
2018	**110,258**	—
	345,517	235,259

30. 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.

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$3,371,329,000 (2013: HK$2,323,201,000) 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.

31. GOVERNMENT GRANTS

	2014	2013
	HK$'000	*HK$'000*
Current (included in other payables in note 27)		
— Acquisition of property, plant and equipment *(note a)*	**8,030**	6,467
— Other subsidies *(note b)*	**80,566**	175,768
	88,596	182,235
Non-current		
— Acquisition of property, plant and equipment *(note a)*	**115,761**	52,059
	204,357	234,294

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$7,299,000 (2013: HK$5,412,000).

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$78,248,000 (2013: HK$133,767,000).

32. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares		
Authorised		
At 1 January 2013, 31 December 2013 and 1 January 2014		
— Ordinary shares of HK$0.1 each	30,000,000,000	3,000,000
At 31 December 2014 *(note)*	**N/A**	**N/A**
Issued and fully paid		
At 1 January 2013		
— Ordinary shares of HK$0.1 each	2,725,421,698	272,542
Conversion of convertible bonds (note 33) on:		
— 13 May 2013	1,100,000,000	110,000
— 17 October 2013	1,760,934,973	176,094
At 31 December 2013 and 1 January 2014	**5,586,356,671**	**558,636**
Transfer pursuant to the new Hong Kong Companies Ordinance on 3 March 2014 *(note)*	**—**	**8,700,054**
Conversion of convertible bonds on 9 May 2014 *(note 33)*	**321,661,732**	**561,041**
At 31 December 2014	**5,908,018,403**	**9,819,731**

Note:

On 3 March 2014, the new Hong Kong Companies Ordinance Chapter 622 (the "new CO") came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.

33. 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 Convertible Bonds") and US$86,003,274.70 (equivalent to HK$670,825,542.66) ("Tranche II Convertible Bonds").

Details of the convertible bonds and the fair value measurements are set out in the Group's consolidated financial statements for the year ended 31 December 2013.

The movement of the convertible bonds is set out below:

	Tranche I Convertible Bonds	Tranche II Convertible Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2013	5,717,242	561,041	6,278,283
Conversion to ordinary shares *(Note a)*	(5,717,242)	—	(5,717,242)
At 31 December 2013	—	**561,041**	**561,041**
Conversion to ordinary shares *(Note b)*	—	**(561,041)**	**(561,041)**
At 31 December 2014	—	—	—

Notes:

(a) On 13 May 2013 and 17 October 2013, the convertible bonds holder exercised the conversion rights and converted the Tranche I Convertible Bonds into 1,100,000,000 shares and 1,760,934,973 shares of the Company respectively.

(b) On 9 May 2014, the convertible bonds holder exercised the conversion rights and converted the Tranche II Convertible Bonds into 321,661,732 shares of the Company.

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.

34. 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 and has expired on 5 July 2014.

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.

34. SHARE OPTION SCHEME *(continued)*

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%

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.

During the year, HK$53,187,000 (2013: HK$128,246,000) share-based payment expense is recognised in profit and loss and included in administrative expense, with a corresponding income in the share option reserve.

Except those share options granted on 17 April 2013, no other share options have been exercised, granted nor lapsed during both years. As at 31 December 2014, the number of share options outstanding is 150,000,000 (2013: 150,000,000).

35. INVESTMENTS IN SUBSIDIARIES

	2014	2013
	HK$'000	*HK$'000*
Unlisted investments, at cost	**10,039,183**	9,813,085

Particulars of the Company's subsidiaries as at 31 December 2014 and 2013 are set out in note 43.

36. RESERVES OF THE COMPANY

	Share premium HK$'000	Other reserve HK$'000	Convertible bonds HK$'000	Share option reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2013	3,268,906	835	6,278,283	—	388,261	9,936,285
Dividends recognised as distribution	—	—	—	—	(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 expenses	—	—	—	128,246	—	128,246
At 31 December 2013	**8,700,054**	**835**	**561,041**	**128,246**	**604,765**	**9,994,941**
Dividends recognised as distribution	**—**	**—**	**—**	**—**	**(472,641)**	**(472,641)**
Profit for the year	**—**	**—**	**—**	**—**	**473,287**	**473,287**
Conversion of convertible bonds	**—**	**—**	**(561,041)**	**—**	**—**	**(561,041)**
Recognition of equity-settled share-based payment expenses	**—**	**—**	**—**	**53,187**	**—**	**53,187**
Transfer pursuant to the new Hong Kong Companies Ordinance on 3 March 2014	**(8,700,054)**	**—**	**—**	**—**	**—**	**(8,700,054)**
At 31 December 2014	**—**	**835**	**—**	**181,433**	**605,411**	**787,679**

37. OPERATING LEASE COMMITMENTS

The Group as lessee

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of warehouse	**31,268**	15,461

37. OPERATING LEASE COMMITMENTS *(continued)*

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	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**24,462**	23,551	**2,430**	2,281
In the second to fifth year inclusive	**22,332**	38,965	**2,937**	8,000
Over five years	**5,931**	—	**—**	—
	52,725	62,516	**5,367**	10,281

Operating lease payments represent rentals payable by the Group and the Company for certain of its warehouses and office premises. Leases are negotiated and rentals are fixed for an average of four years.

38. CAPITAL AND OTHER COMMITMENTS

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

	The Group	
	2014	2013
	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	**410,416**	312,326
Other commitments *(note)*	**154,295**	104,367

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

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

39. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2013

On 25 June 2013, the Group entered into an 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 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

39. 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. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2014

On 1 November 2014, the Group disposed of its 20% equity interest in Siping, a non wholly-owned subsidiary of the Group as to 60% immediately before this transaction for a consideration of RMB22,000,000 (equivalent to approximately HK$27,500,000), to an independent third party, resulting in loss of control over Siping, and a gain on such disposal of HK$511,000 during the year.

Upon the completion of this disposal, Siping ceased to be a subsidiary of the Company. Accordingly, the Group's remaining 40% equity interest in Siping was classified as 'interest in an associate' at the date of loss of control and accounted for using equity method in accordance with HKAS 28 *Investments in Associates and Joint Ventures* during the period subsequent to the disposal.

For the year ended 31 December 2013

The Group disposed of the following subsidiaries:

(a) On 4 June 2013, the Group entered into an 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 an 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 were principally engaged in the manufacture and sales of penicillin intermediates and bulk drugs, cephalosporin intermediates which was included in Antibiotics segment as disclosed in note 7. 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*.

40. DISPOSAL OF SUBSIDIARIES *(continued)*

The net assets at the date of disposal of the subsidiaries disposed of during both years were as follows:

	2014	2013		
		NMG Zhongrun	Tianjin Cenway	
	Siping	Group	Group	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consideration:				
Cash received	**27,500**	364,557	151,899	516,456
Analysis of assets and liabilities over which control was lost:				
Property, plant and equipment	**76,981**	1,059,463	189,383	1,248,846
Prepaid lease payments	**21,970**	11,790	27,535	39,325
Inventories	**38,359**	191,383	55,769	247,152
Trade and other receivables	**106,056**	523,878	53,903	577,781
Bill receivables	**46,016**	77,171	2,886	80,057
Tax recoverable	**64**	—	2,332	2,332
Deferred tax assets	**468**	6,407	2,745	9,152
Restricted bank deposits	**—**	6,329	3,165	9,494
Bank balances and cash	**9,509**	88,792	43,627	132,419
Trade and other payable *(Note)*	**(120,280)**	(1,632,986)	(234,469)	(1,867,455)
Bill payables	**—**	(37,721)	—	(37,721)
Tax liabilities	**(738)**	(365)	—	(365)
Unsecured bank loans	**(37,500)**	(37,975)	(15,823)	(53,798)
Net assets disposed of	**140,905**	256,166	131,053	387,219

Note: In 2013, 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.

40. DISPOSAL OF SUBSIDIARIES *(continued)*

	2014 *HK$'000*	2013 *HK$'000*
Gain on disposal of subsidiaries:		
Cash consideration	**27,500**	516,456
Fair value of retained interest classified as associate *(note 19)*	**56,362**	—
Net assets disposed of	**(140,905)**	(387,219)
Non-controlling interests	**57,554**	24,991
Gain on disposal	**511**	154,228
Net cash inflow arising on disposal:		
Cash consideration	**27,500**	516,456
Less: bank balances and cash disposed of	**(9,509)**	(132,419)
	17,991	384,037

The subsidiaries disposed of during both years did not have any significant contribution to the results and cash flows of the Group during the period prior to the disposals.

41. 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 in relation to the exports of vitamin C to the United States and elsewhere in the world. Details of the complaints and the development in prior years are set out in the Company's consolidated financial statements for the year ended 31 December 2013.

On 15 March 2013, the Company, Weisheng, the direct purchaser class and injunctive class in the direct purchaser action entered into a settlement agreement for US$22.5 million to resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. On 16 October 2013, the court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the direct purchaser action. The first instalment of the settlement amounting to US$20 million has been paid by the Company and Weisheng on 13 April 2013 and the remaining US$2.5 million was settled on 9 October 2014.

41. CONTINGENT LIABILITIES *(continued)*

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. On 16 May 2014, the Court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the indirect purchase actions. The settlement amount of US$2.2 million has been paid by the Company and Weisheng on 9 January 2014.

The provision of litigation has been included in other payables (note 27) which represents the remaining unpaid settlement amounts (all settlement amounts have been paid as at 31 December 2014) and related legal cost.

42. 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$106,704,000 (2013: HK$99,455,000), of which HK$774,000 (2013: HK$826,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

43. 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 Directly %		Indirectly %		Principal activity
				2014	2013	**2014**	2013	
China Pharmaceutical Group Limited	Hong Kong	Limited liability	HK$3	**100**	100	**–**	–	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability	HK$2	**100**	100	**–**	–	Investment holding
Dragon Merit Holdings Limited	Hong Kong	Limited liability	HK$1	**–**	–	**100**	100	Investment holding
Robust Sun	The BVI	Limited liability	US$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
CSPC Hebei Zhongrun Huanbao Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	**–**	–	**100**	100	Sewage and pharmaceutical by-products treatment
Zhongrun Huanbao Technology (Shijiazhuang) Co., Ltd. (Newly established in 2014)	The PRC	Foreign investment enterprise with limited liability	RMB1,000,000	**–**	–	**100**	–	Sewage and pharmaceutical by-products treatment
CSPC Yinhu Pharmacentical. Co., Ltd	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000	**–**	–	**90**	90	Manufacture and sale of pharmaceutical products
Siping *(note a)*	The PRC	Sino-foreign equity joint venture	RMB39,529,435	**40**	40	**–**	20	Manufacture and sale of pharmaceutical products
Unigene *(note b)*	The PRC	Sino-foreign equity joint venture	US$7,000,000	**100**	78.57	**–**	–	Provision of pharmaceutical research and development services
CSPC Zhongzheng Pharmaceutical Logistic Company Limited	The PRC	Sino-foreign equity joint venture	RMB50,000,000	**–**	–	**99**	99	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	Trading 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

43. 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 %		Indirectly %		Principal activity
				2014	2013	2014	2013	
CSPC NBP Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB380,000,000	**50**	50	**50**	50	Manufacture and sales of pharmaceutical products
OYY	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Import and Export Trade Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB100,000	**–**	–	**100**	100	Trading of pharmaceutical products
CSPC XNW Pharmaceutical Joint-stock Co., Ltd.	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**	100	Manufacture and sales of pharmaceutical products
Shiyao Ouyi International Pharmaceutical Co., Ltd. ("OIP") (note c)	The PRC	Foreign investment enterprise with limited liability	RMB50,000,000	**–**	–	**–**	100	Inactive
Baike Yantai *(note d)*	The PRC	Sino-foreign equity joint venture	RMB 223,000,000	**68.61**	30	**31.39**	70	Investment and property holding
Baike Shandong	The PRC	Foreign investment enterprises with limited liability	RMB 161,547,580	**–**	–	**94.16**	94.16	Manufacture and sales of pharmaceutical products
Conjupro Bioerapecitics Inc.	U.S.A	Limited liability	USD 3,285,750	**–**	–	**100**	100	Provision of pharmaceutical research and development services
CSPC Medsolution (Ghana) Limited	Ghana	Limited liability	GHS437,400	**–**	–	**100**	100	Trading of pharmaceutical products

Notes:

a. On 1 November 2014, the Group disposed of its 20% equity interest in Siping and Siping ceased to be a subsidiary of the Company after the disposal as set out in note 40.

b. On 19 March 2014, the Group's shareholding in Unigene increased from 78.57% to 100% upon acquisition of additional interest in Unigene.

c. OIP, an inactive subsidiary of the Company, was dissolved on 25 November 2014.

d. During the year, the company injected additional capital of RMB123,000,000 into Baike Yantai and accordingly holds 68.61% direct equity interest in Baike Yantai.

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

At the end of the reporting period, the Group does not have significant non-controlling interests and accordingly, no details of non-controlling interests are presented.

Financial Summary

	For the year ended 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)	*(Note)*			
Results					
Revenue	1,757,586	2,407,445	4,146,444	9,949,103	**10,955,077**
Cost of sales	(1,038,193)	(1,370,535)	(2,341,104)	(6,816,042)	**(6,767,724)**
Gross profit	719,393	1,036,910	1,805,340	3,133,061	**4,187,353**
Other income	23,437	28,010	38,693	211,402	**134,558**
Selling and distribution expenses	(334,677)	(452,844)	(757,297)	(1,300,739)	**(1,788,032)**
Administrative expenses	(139,368)	(138,325)	(235,363)	(620,291)	**(551,697)**
Other expenses	(40,131)	(31,140)	(87,797)	(243,455)	**(307,814)**
Operating profit	228,654	442,611	763,576	1,179,978	**1,674,368**
Finance costs	(12,336)	(21,705)	(60,090)	(72,537)	**(54,358)**
Share of results of					
— an associate	—	—	—	—	**375**
— a joint venture	—	—	(3,981)	(14,045)	**588**
Gain on disposal of subsidiaries	—	—	—	154,228	**511**
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	—	**—**
Changes in fair value of convertible bonds	—	—	(222,739)	—	**—**
Gain on bargain purchase	—	—	1,810,702	—	**—**
Profit before tax	205,731	418,138	2,300,823	1,247,624	**1,621,484**
Income tax expense	(30,999)	(60,964)	(131,975)	(258,324)	**(337,153)**
Profit for the year	174,732	357,174	2,168,848	989,300	**1,284,331**
Profit for the year attributable to:					
Owners of the Company	174,229	355,411	2,162,235	972,751	**1,268,446**
Non-controlling interests	503	1,763	6,613	16,549	**15,885**
	174,732	357,174	2,168,848	989,300	**1,284,331**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
	(Note)	*(Note)*			
Earnings per share					
Basic	N/A	N/A	147.78	17.49	**21.47**
Diluted	N/A	N/A	52.04	16.54	**21.26**

Financial Summary

	As at 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)	*(Note)*			
Assets and liabilities					
Total assets	1,758,229	2,408,914	13,698,711	12,200,547	**12,501,230**
Total liabilities	(1,084,997)	(1,447,962)	(6,934,966)	(4,603,747)	**(4,349,702)**
Net assets	673,232	960,952	6,763,745	7,596,800	**8,151,528**
Equity attributable to owners of the Company	663,293	949,379	6,586,760	7,452,620	**8,079,154**
Non-controlling interests	9,939	11,573	176,985	144,180	**72,374**
Total equity	673,232	960,952	6,763,745	7,596,800	**8,151,528**

Note:

The summary of the consolidated results of the Group for each of the two years ended 31 December 2010 and 2011, and of the consolidated assets and liabilities as at 31 December 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 two year ended 31 December 2010 and 2011 as its inclusion, for the purpose of this report, is not considered meaningful.