石藥集團有限公司

CSPC

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

2015

Annual Report

CONTENT

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman and CEO)*
CHAK Kin Man
PAN Weidong
WANG Shunlong
WANG Huaiyu
LU Jianmin
WANG Zhenguo
WANG Jinxu
LU Hua

Non-executive Director:
LEE Ka Sze, Carmelo

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

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

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.
The Export-Import Bank of China

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK CODE

1093

WEBSITE

www.cspc.com.hk

Financial Highlights

RESULTS

		2015	2014
Revenue	*(HK$'000)*	**11,393,726**	10,955,077
Gross profit	*(HK$'000)*	**5,220,878**	4,187,353
Gross profit margin	*(%)*	**45.8**	38.2
Operating profit	*(HK$'000)*	**2,166,453**	1,674,368
Operating profit margin	*(%)*	**19.0**	15.3
Profit attributable to shareholders of the Company	*(HK$'000)*	**1,665,271**	1,268,446
Basic earnings per share	*(HK cents)*	**28.18**	21.47

For the year ended 31 December 2015, the Group recorded the following operating results:

— Revenue increased by 4.0% to HK$11,394 million;

— On the basis that revenue attributable to a former subsidiary was excluded from the 2014 comparative figure, revenue for the current year increased by 7.5%;

— Aggregate revenue of the innovative drugs increased by 35.6% to HK$3,775 million;

— Profit attributable to shareholders increased by 31.3% to HK$1,665 million; and

— Basic earnings per share increased by 31.3% to HK28.18 cents.

The Board recommends the payment of a final dividend of HK11 cents per share.

Chairman's Statement

OVERVIEW

In 2015, the global economic growth experienced a deceleration with deflation pressure in some economies. Likewise, the Chinese economy also encountered increasing downward pressure with a number of impacts and challenges. Facing this complex and mixed environment, the Chinese government persisted with the fundamental task of pursuing stable growth and carried out a series of policies that could stabilise growth, modify structure, promote reform, benefit people's livelihood and prevent risk, with the aim of ensuring the national economy to perform within a reasonable range, achieving progress in structural adjustments and continuously improving the livelihood of people. Changes in the economic environment pose both challenges and opportunities to the Group. The Group will proactively respond to market changes with continuous efforts in aggressively expanding its new drug business and promoting its products and brands to the international market in order to achieve sustainable growth of its business.

The Chinese pharmaceutical industry is one of the fastest growing industries in China and is able to maintain a mid-to-high pace of growth alongside with the continuous growth of the Chinese economy. However, the development of pharmaceutical industry in China also faces problems in areas of innovation system, product structure, quality and safety standard. The Chinese government is currently striving to improve the system in order to build a sound foundation enabling the pharmaceutical industry to maintain a healthy and sustainable development.

Under the environment of sustained economic growth in China, immense changes have been seen in its healthcare service system. Subsequent to several medical reforms, a diversified healthcare service system formed by hospitals, lower-tier healthcare institutions and professional public healthcare organisations has been established preliminarily, covering both urban and rural areas. Healthcare service institutions have been expanding at high speed, with an increasing number of branch hospitals, branch departments and community healthcare service centers. Oncology treatment is one of the most important areas in healthcare services. With the development in healthcare services, both the coverage and standard of oncology treatment services in general hospitals have been expanded and enhanced.

With the accelerating aging of the Chinese population, progress of urbanization policy and increase in the people's income level, the demand for pharmaceutical products in China is expected to have a continuous increase. China has entered an accelerating period of aging population with over 200 million people aged above 65, accounting for approximately 15% of its total population. The incidence rate of cancer, cerebro-cardiovascular diseases, senile dementia, diabetes and other elderly diseases is also increasing on a yearly basis, creating increasing demand for related treatments. Given the massive size of the population with these four types of diseases, the Group's "NBP（恩必普）", "Oulaining（歐來寧）", "Xuanning（玄寧）", "Linmeixin（林美欣）" (Glimepiride dispersible tablets) products and other oncology drugs possess immense market potential. On the other hand, the expansion of hospitals, increased coverage of the medical reimbursement scope and higher affordability of patients will also ensure that the demand for medical treatments is more able to be met.

Notwithstanding the national policy on restrictive sales and reasonable use of antibiotics which limits the growth of the antibiotics industry, antibiotics is still one of the major categories in the pharmaceutical market featuring high growth in the demand for high-end antibiotics in particular. Antibiotic product "Meropenem for injection" of the Group has attained rapid growth for many consecutive years. Coupled with the launch of new products such as "Biapenem for injection" and "Ertapenem for injection", the Group's antibiotic product series has established strong competitive advantages in the high-end antibiotics market with attractive prospects.

Chairman's Statement

BUSINESS OUTLOOK

Innovative Drug Business

The Group will implement the market strategy of "product differentiation, professional marketing and brand building". In addition, the Group will follow closely on the national and provincial medical insurance and tender policies in order to seize opportunities and minimize risks. The Group's marketing department will also put more efforts into increasing the market coverage of its products and enhancing the quality of academic promotion activities to promote market awareness for its products. 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 2016 and increase its contribution to the Group.

Common Generic Drug Business

Leveraging on its quality, brand, product chain, channels, professional marketing team and other competitive advantages, the Group will seize the opportunities brought by the low-priced drug policy in order to develop the common generic drug business into another key profit growth driver of the Group. Meanwhile, the Group will continue to innovate its marketing strategies of its common generic drug business in order to maximize the competitive advantage of its professional marketing team and well-established end-user network. The Group will also establish strategic partnerships with end-user operators covering the lower-tier market network to expedite the launch of new products with market size and growth potential. It is expected that the common generic drug business will continue to achieve steady growth in 2016.

Bulk Drug Business

In respect of the bulk drug business, the Group will continue its efforts in technology upgrades, production costs reduction, high-end quality certification and product quality enhancement in order to maintain its leading position in the industry. Currently, the Group has received U.S. FDA approvals for 6 products and 5 production workshops of the bulk drug business. The Group 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 remain on a steady trend in 2016.

CAI Dongchen
Chairman

Hong Kong, 21 March 2016

Management Discussion and Analysis

RESULTS

In 2015, the Group recorded sales revenue of approximately HK$11,394 million and profit attributable to shareholders of approximately HK$1,665 million, representing an increase of 4.0% and 31.3% over last year, respectively.

FINISHED DRUG BUSINESS

A number of medical policies have been released in 2015 to move on the medical reform in China. These policy changes in relation to drug price control, drug tenders and medical reimbursements have asserted high pressure on the entire pharmaceutical industry. The Group has formulated measures to maximize the benefits with consideration of market and price level for its products under the new environment. On the other hand, the Group's continued efforts in product promotion, market exploration and channel building have been fruitful. In 2015, sales revenue of the finished drug business reached HK$7,794 million, representing a growth of 16.0% over last year. The following is a business review of the Group's major innovative drug products and common generic drugs within the 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 in academic-based promotion, the innovative drug business maintained a rapid growth in sales. For the current year, sales revenue reached approximately HK$3,775 million, representing a 35.6% growth over last year.

Tenders of all the provinces and cities in China are expected to be completed successively, 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.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

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), Golden Award for Outstanding Chinese Patented Invention and China Grand Awards for Industry. "NBP" is a recommended drug in the "Guidelines for Cerebrovascular Disease Prevention and Treatment in China" and the "Guidelines for Acute Ischemic Stroke Treatment in China 2014" (the "New Guideline"). It is worth noting that in the New Guideline newly amended during the year, "NBP" was promoted to class II recommendation and level B evidence, with more in-depth and detailed description on its mechanism of action, safety and efficacy. The New Guideline also added a description on the better efficacy of the "NBP" sequential treatment group (14 days of "NBP" injection followed by 76 days of "NBP" capsules) against the control group. During the year, the China Food and Drug Administration ("CFDA") has approved the supplemental application of "NBP" injections for adding information on the better clinical results of the 90-day "NBP" sequential treatment group against the control group in the original prescription information, which provides support for more scientific use of "NBP" products. "NBP" also achieved important breakthrough in exploring into new treatment areas. The study results of a large-scale clinical research on the treatment of vascular cognitive impairment no dementia with butylphthalide was accepted and published by the international authoritative medical journal "Alzheimer's & Dementia". 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. It has a broad range of clinical indications with huge market potentials. "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). In face of the intense market competition of the oxiracetam injection products, the Group will continuously increase its efforts in academic-based promotion and building its expert network with a view to differentiate from other preparations in order to capture a bigger market share.

"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 and angina pectoris. 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. It is well positioned to capture a bigger market share.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Duomeisu"

"Duomeisu" (Doxorubicin hydrochloride liposome injection) is used as a first-line chemotherapy drug for the treatment of lymphoma, multiple myeloma, ovarian cancer and breast cancer. This product can also be used as a second-line chemotherapy drug for treating patients with improving progress of AIDS-related Kaposi's sarcoma. In addition, it can be used in patients who cannot tolerate using a combination of two or more of the following drugs: vincristine, bleomycin and doxorubicin (or any anthracycline antibiotics). "Duomeisu"'s patented nano-extrusion technique can make the particle size of the liposome more consistent so as to ensure the target enrichment effect of the liposomal drug.

"Jinyouli"

"Jinyouli" (PEG-rhGCSF injection) is the first long-acting growth factor drug in China. This product is a long-acting white blood cell booster used for the prevention of leucopenia and infection induced by chemotherapy.

"Ailineng"

"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. It is a category B product under the national reimbursement drug list in China. The upgraded liquid formulation of this product has obtained patent in China.

"Nuolining"

"Nuolining" (Imatinib mesylate tablets) is the Group's first approved small molecule targeted cancer drug. It is a first-line drug mainly for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML) and Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL). This product was launched in March 2015.

Common Generic Drug Products

During the year, the Group has proactively responded to the promulgation and implementation of the national policies on essential drugs and low-priced drugs, further enhancing its sales strategies, building sales channel and continuously improving the product mix of the common generic drugs, Sound growth in both the lower-tier medical market and the non-prescriptive drug market and improved profitability were achieved. Amongst all, the Group's Chinese medicine soft capsule product series (including "Qingre Jiedu soft capsules （清熱解毒軟膠囊）", "Ganmao Qingre soft capsules （感冒清熱軟膠囊）", "Yin Huang soft capsules （銀黃軟膠囊）", "Xiangsha Yangwei soft capsules （香砂養胃軟膠囊）" and "Huoxiang Qushu soft capsules （藿香祛暑軟膠囊）") have formed a brand portfolio and have attained sound growth during the year. Meanwhile, the Group's high-end antibiotics product "Zhongnuo Shuluoke（中諾舒羅克）" (meropenem for injection) and health supplement product "Guoweikang（果維康）" (vitamin C tablet) have also recorded rapid growth for many consecutive years. Products for chronic diseases also represent one of the Group's key development areas. Sales of existing product series including "Qinkexi（勤可息）" (enalapril maleate tablets), "Gubang（固邦）" (alendronate sodium enteric coated tablets), "Ouyi（歐意）" (aspirin enteric coated tablets), "Ouwei（歐維）" (mecobalamin tablets) and "Linmeixin（林美欣）" (glimepiride dispersible tablets) have also achieved growth during this year. As to antibiotics products, individual essential drugs have recorded declining sales due to market and product mix adjustments. In 2015, the common generic drug business has achieved stable growth, generating a sales revenue of HK$4,019 million, representing an increase of 2.2% over last year.

Management Discussion and Analysis

BULK DRUG BUSINESS

Antibiotics

In 2015, sales revenue of the antibiotics business decreased significantly, which was mainly attributable to the inclusion of sales revenue from a former subsidiary in the 2014 comparative figure. Improvements in the antibiotics market were seen in 2015. The Group has implemented a number of measures such as technology upgrades, reinforcement of internal management, energy saving and consumption reduction in order to decrease its production costs and maintain its leading position in this industry. In 2015, the antibiotics business recorded significant growth in profit.

Vitamin C

Overcapacity of the vitamin C market still lingered in 2015, but market conditions remained relatively stable. Leveraging on its advantages in scale, production costs and quality, the Group continued to maintain its leading position in the industry. In 2015, both the total sales volume and export volume of the Group's vitamin C products were top-ranked in the industry. The Group also managed to reduce the loss of this business through reduction in production costs.

Caffeine and Others

In 2015, both the market demand and product price of caffeine remained stable while the Group's market share has further increased. As some manufacturers has halted or limited their production, the total supply has dropped and led to a mild increase in the market prices. The Group has also enhanced its product sales structure for this business by cutting the sales of some non-major products. In 2015, this business continued to make steady contribution to the Group's profits.

RESEARCH AND DEVELOPMENT

The Group continued to invest in the research and development of new products, and currently has approximately 170 products under research and development, with focus on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infection. Among these products, 15 are Class 1 new drugs and 50 are Class 3 new drugs (including Class 3 + 6).

In 2015, the Group has submitted applications for 29 products to the CFDA (of which, 7 are production applications and 22 are clinical trial applications). The Group has also obtained production approvals for 4 products (including "nafcillin sodium raw material and injection", "cefcapene pivoxil hydrochloride raw material and tablets", "aspirin enteric coated tablets (100mg)" and "cefdinir raw material"), as well as clinical trial approvals for 25 products (including Class 1 new drug "DBPR108 capsules"). In the first two months of 2016, the Group has further obtained clinical trial approvals for 16 products (including Class 1 new drug "SKLB1028 capsules"). Out of these 41 clinical trial approvals obtained, one product has completed the bioequivalence study and has submitted the application for production, 11 products have confirmed the institutions doing the clinical study and are either undergoing clinical trial or preparing clinical trial samples. On the other hand, pursuant to the "Opinions on Implementation of Priority Evaluation, Examination and Approval to Solve the Application Backlog of Registration of Drugs" of the CFDA, the Group has 7 products qualified for priority evaluation, examination and approval and has submitted the applications to the Center for Drug Evaluation accordingly.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT *(continued)*

At present, the Group has 28 products pending for production approval by the CFDA (including 4 Class 3 new drugs (including Class 3 + 6)); 16 products undergoing bioequivalence study or clinical trial (including 7 Class 1 new drugs); and 29 products granted clinical trial approvals. Of these 73 products pending approval or under development, 13 are oncology drugs, 8 are diabetes drugs, 9 are cardio-cerebrovascular drugs, 12 are neurology drugs, 15 are anti-infective drugs and 16 others.

With regard to overseas research and development, the Group has submitted 2 Abbreviated New Drug Application ("ANDA") in the U.S. during the year. Currently, the Group has a total of 10 drugs applying for ANDA in the U.S.. During the year, the ANDA application for the Group's "benzonatate soft capsules" and "donepezil hydrochloride tablets" (change of production site) have been approved by the U.S. FDA. Meanwhile, the protocol for phase II clinical trial application of "butylphthalide soft capsules" has been approved by the U.S. FDA and has started subject screening. The Investigational New Drug ("IND") application for "mitoxantrone hydrochloride liposome injection" has also been submitted to the U.S. FDA in March 2016.

FINANCIAL REVIEW

Results

	2015	2014	Change
Revenue *(HK$'000)*			
Finished drugs	**7,793,705**	6,716,184	+16.0%
Bulk drugs	**3,600,021**	4,238,893	-15.1%
Total	**11,393,726**	10,955,077	+4.0%
Operating profit *(HK$'000)*	**2,166,453**	1,674,368	+29.4%
Operating profit margin	**19.0%**	15.3%	
Profit attributable to shareholders *(HK$'000)*	**1,665,271**	1,268,446	+31.3%
Net profit margin	**14.6%**	11.6%	
Basic earnings per share *(HK cents)*	**28.18**	21.47	+31.3%

Revenue from the finished drug business remained the major growth driver to the Group. In particular, the innovative drugs continued to deliver strong growth in 2015 with aggregate sales revenue reaching approximately HK$3,775 million, representing a growth of 35.6%. Mainly due to the growing contribution from the innovative drugs, operating profit margin and net profit margin of the Group improved to 19.0% and 14.6% in 2015, respectively. Profit attributable to shareholders increased by 31.3% to HK$1,665 million with a corresponding increase in basic earnings per share to HK28.18 cents in 2015.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Position

In 2015, the Group's operating activities generated a cash inflow of HK$2,251 million (2014: HK$1,806 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) was 49 days for 2015, a decrease of 6 days as compared with 2014. Average turnover period of inventories (ratio of balance of inventories to cost of sales) slightly increased to 108 days for 2015. Current ratio of the Group improved further from 1.8 a year earlier to 2.2 as at 31 December 2015. Capital expenditure in relation to the additions of production facilities amounted to HK$924 million for the year.

The Group's financial position remained solid. As at 31 December 2015, total bank balances and cash amounted to HK$2,306 million and total borrowings amounted to HK$1,463 million, resulting in a net cash positon of HK$843 million (2014: HK$301 million). Total borrowings comprise bank loans of HK$1,382 million and loans from a related company of HK$81 million. HK$452 million of the total borrowings are repayable within one year and the remaining HK$1,011 million repayable between two to three years. Gearing ratio as at 31 December 2015 was 16.6% as compared to 15.0% a year earlier.

44% of the Group's borrowings are denominated in Hong Kong dollars, 16% in United States dollars and 40% in Renminbi. The Group's sales are mainly denominated in Renminbi for domestic sales in China and in United States dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its net foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Employees

As at 31 December 2015, the Group had about 10,023 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 2015 except the deviations from code provisions A.2.1 as set out below.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine executive directors, one non-executive director and four 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 28 to 30 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. During the period from 1 January 2015 to 25 May 2015, the composition of the Board comprised ten (10) executive directors, one (1) non-executive director and five (5) independent non-executive directors. The number of independent non-executive directors on the Board represented less than one-third of the members of the Board. Following the retirement of Mr. ZHAO John Huan, an executive director of the Company, at the annual general meeting of the Company held on 26 May 2015, the Company has complied with rule 3.10A of the Listing Rules.

Following the resignation of Mr. Chen Shilin as an independent non-executive director on 8 January 2016, 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 composition of the Board currently comprises nine (9) executive directors, one (1) non-executive director and four (4) independent non-executive directors. 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.

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 2015. Individual attendance of each director at the regular board meetings and committee meetings in 2015 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 *(resigned on 7 September 2015)*	3/3			
Chak Kin Man	4/4			
Pan Weidong	4/4			
Zhao John Huan *(retired on 26 May 2015)*	1/1			
Wang Shunlong	4/4			
Wang Huaiyu	4/4			
Lu Jianmin	4/4			
Wang Zhenguo	4/4			
Wang Jinxu	4/4			
Lu Hua *(appointed on 7 September 2015)*	1/1			
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	4/4	2/2	
Lo Yuk Lam	4/4			1/1
Yu Jinming	3/4			
Chen Shilin *(resigned on 8 January 2016)*	4/4			

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.

Corporate Governance Report

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.

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 2015 to consider and make recommendations to the Board on the remuneration of directors of the Company.

Corporate Governance Report

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.

One meeting was held in 2015 to review the appointment of a new executive director, the structure, size and composition of the Board and assess the independence of independent non-executive directors.

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.

Four meetings were held in 2015. At the meetings, the committee discussed and reviewed the following matters:

1. the 2014 annual results, annual report and results announcement;

2. the external auditor's report to the Audit Committee in respect of the 2014 annual audit;

3. the quarterly results for the three months ended 31 March 2015 and results announcement;

4. the 2015 interim results, interim report and results announcement;

5. the external auditor's report to the Audit Committee in respect of the 2015 interim review;

6. the quarterly results for the nine months ended 30 September 2015 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 2015.

Corporate Governance Report

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 training course/ seminar/forum/ conference	Reading regulatory update or materials relevant to the Company or its business
Executive Directors:		
Cai Dongchen *(Chairman and CEO)*	✓	✓
Chak Kin Man	✓	✓
Pan Weidong	✓	✓
Wang Shunlong	✓	✓
Wang Huaiyu	✓	✓
Lu Jianmin	✓	✓
Wang Zhenguo	✓	✓
Wang Jinxu	✓	✓
Lu Hua *(appointed on 7 September 2015)*	✓	✓
Non-Executive Director:		
Lee Ka Sze, Carmelo	✓	✓
Independent Non-Executive Directors:		
Chan Siu Keung, Leonard	✓	✓
Wang Bo	✓	✓
Lo Yuk Lam	✓	✓
Yu Jinming	✓	✓
Chen Shilin *(resigned on 8 January 2016)*	✓	✓

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.

The Board has performed the above duties during the year.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$3,660,000 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 38 and the responsibilities of the external auditor are set out on page 38 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.

Corporate Governance Report

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 2015, 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.

2015 GENERAL MEETINGS

At the 2015 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 2015 annual general meeting to ensure effective communication with shareholders. In addition, the Company held an extraordinary general meeting in 2015 to approve the whitewash waiver, adoption of new share option scheme and re-election of director. The chairman of the Audit Committee and Remuneration Committee has attended the extraordinary general meeting. The attendance record of the directors at the 2015 general meetings is set out below:

	General meeting attended/held
Directors	
Executive Directors:	
Cai Dongchen *(Chairman and CEO)*	1/2
Feng Zhenying *(resigned on 7 September 2015)*	0/1
Chak Kin Man	2/2
Pan Weidong	0/2
Zhao John Huan *(retired on 26 May 2015)*	0/1
Wang Shunlong	0/2
Wang Huaiyu	0/2
Lu Jianmin	0/2
Wang Zhenguo	0/2
Wang Jinxu	0/2
Lu Hua *(appointed on 7 September 2015)*	0/1
Non-Executive Director:	
Lee Ka Sze, Carmelo	2/2
Independent Non-Executive Directors:	
Chan Siu Keung, Leonard	2/2
Wang Bo	0/2
Lo Yuk Lam	0/2
Yu Jinming	0/2
Chen Shilin *(resigned on 8 January 2016)*	0/2

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 2015.

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 38, 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 31 December 2015, Massive Top Limited, which wholly owns Massive Giant Group Limited (a substantial shareholder of the Company), had an indirect interest in one of the Group's five largest customers. In addition, each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo, Mr. Wang Jinxu and Mr. Lu Hua, all being directors of the Company, had an indirect interest in Massive Top Limited. All transactions between the Group and the customer concerned were carried out on normal commercial terms.

BUSINESS REVIEW

Overview

The Group is principally engaged in the development, manufacture, marketing and sales of medicines and pharmaceutical related products in the People's Republic of China (the "PRC" or "China"). We currently has two major business segments, namely finished drugs and bulk drugs, accounting for 68.4% and 31.6% of the Group's revenue for the year 2015, respectively.

The finished drug products of the Group are primarily sold in China. The existing product portfolio consists of antibiotics, cardio-cerebrovascular drugs, diabetes drugs, neurology drugs, oncology drugs and traditional Chinese medicine. Of which, "NBP", "Oulaining", "Xuanning", "Duomeisu", "Jinyouli", "Ailineng" and "Nuolining" are categorized as innovative drugs of the Group. The other finished drug products of the Group, such as amoxicillin capsules, ceftriaxone sodium for injection, meropenem for injection, cefadroxil capsules, azithromycin tablets and vitamin C supplement tablets, are categorized as common generic drugs. The primary end-user customers of our finished drug products include hospitals, health-care centres, clinics and pharmacy stores. We generate revenue by selling our finished drug products to distributors which in turn sell our products to the end-user customers.

Bulk drug products of the Group include antibiotics, vitamin C and caffeine in the bulk powder form. Apart from the market in China, a significant part of the bulk drug products is sold in overseas markets, including U.S., Germany, Japan and India. We generate revenue by selling our bulk drug products to pharmaceutical companies, food and beverages manufacturers and distributors.

The Group has a strong research and development team which focuses on the development of innovative drugs and generic drugs. We also collaborate with leading research institutions, universities and hospitals in order to broaden our sources of new drugs. The Group currently has approximately 170 products under research and development. It is our strategy to continue to invest in research and development in order to maintain a sustainable growth of our business.

BUSINESS REVIEW *(continued)*

Overview *(continued)*

With over 10,000 employees, the Group's headquarters along with its major production facilities and research and development centres are located in Shijiazhuang City, Hebei Province, the PRC.

Principal risks and uncertainties

The following risks and uncertainties may affect the results and business operations of the Group, some of which are inherent to pharmaceutical sector and some are from external sources.

(i) Drug approval process in relation to our products under development

The actual timing of the market launch of our products under development could vary significantly from our estimates due to a number of factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties in the outcome of regulatory approval process. If any of the necessary approvals in relation to our products under development is delayed or not obtained, this could adversely affect the timing of the market launch of our products. The Group is committed to investing in research and development of new drugs in order to ensure a rich product pipeline.

(ii) Results of drug tenders

Our sales volumes and profitability depends on our ability to win in the drug tender of each province or region in China for our products at a desirable tender price. We may fail to win bids in the tenders due to various factors, including uncompetitive bidding price or our products or other aspects of our operations are perceived to be less competitive. If our products are not selected in the tender in one or more provinces or regions, we will be unable to sell the relevant products to the public hospitals in those regions. This could adversely affect our market share, revenues and profitability. We have a team of staff monitoring and handling the drug tenders of our products with the objective of winning the tenders for our products at a desirable price level. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

(iii) Compliance with certain PRC environmental and safety regulations

We are subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes, noise pollution and the safety of our workers during the manufacturing process. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our production facilities and obligations to take corrective measures. In addition to the above, the PRC government may amend such laws, rules and regulations to impose a more stringent standard. If there is any such amendment, we may need to incur additional costs and expenses (including additional capital expenditure) in order to comply with the amended standard. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

(iv) Exclusion of products from certain PRC medical reimbursement list

Under the PRC national medical insurance scheme, patients can obtain reimbursement of all or a portion of the cost of certain drugs listed in the National Medical Insurance Drugs Catalogues or the Provincial Medical Insurance Drugs Catalogues (the "Reimbursement Lists"). The drugs listed in the Reimbursement Lists are reviewed and updated from time to time. There is no assurance that our products will be or continue to be listed in the Reimbursement Lists. The entry into, and the removal from the Reimbursement Lists are beyond our control. The removal of any of our products from the Reimbursement Lists may have an adverse impact on the demand of our products, sales volume, revenue and profitability.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties *(continued)*

(v) Illegal practice of employees or third-party distributors

The Group prohibits our employees and third-party distributors from engaging in corruption practices to influence the procurement decision of hospitals. However, we may not be able to effectively ensure that every employee or third-party distributor complies at all times with our policies. Possible corruption or bribery practices in the PRC pharmaceutical industry may include providing kick-backs, bribes or other illegal benefits to hospitals, medical institutions, doctors or other medical practitioners in return for favourable treatment or recommendation of certain medical products. If our employees or third-party distributors engage in such corruption practices or improper conduct, this may harm our reputation or expose us to regulatory investigations. In such instance, this could adversely affect our business and operations, as well as diverting senior management's attention away from their normal duties. In addition, it may also expose us to additional costs and liabilities (including fines from regulatory authorities). The employee handbook and sales contracts entered into with third-party distributors contain specific rules to forbid employees and third-party distributors engaging in illegal practices, in order to prevent misconduct from occurring.

(vi) Side effects of products

Our products may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by our customers. In addition, our products may be perceived to cause severe side effects if other pharmaceutical companies' products containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects. If our products cause or perceived to cause severe side effects, our sales and profitability could be adversely affected. We have established a professional research and development team and increased our efforts in clinical research and clinical analysis in order to minimize the side effects of our products. We have also adopted a product recall procedure to ensure that our products could be quickly recalled in case of safety or quality concerns.

(vii) Quality standards

Our products are required to meet certain quality standards. However, certain post-production processes, including transportation, storage, warehousing and usage, may adversely affect the quality of our products. Some of these processes are managed by third parties, over which we have limited control. If, as a result of such post-production processes, our pharmaceutical products are deemed or proven to be unsafe, ineffective, defective or contaminated, this may result in product liability or product recalls. Any claims relating to the quality of our products, regardless of their merit, could adversely affect our reputation, business, financial condition and operations. Our production facilities have passed GMP authentication. We have formulated stringent quality management systems and standard operating procedures to rigorously control the production process, storage and transportation process, to prevent product quality issues.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties *(continued)*

(viii) Product liability

Claims for product liability and/or product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated or if we are alleged to have engaged in practices such as improper, insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. Product liability claims may attract negative publicity to the Group and our products, which may adversely affect our reputation, business, financial condition and operations. We have set up a dedicated department to strictly implement the relevant technical and quality standards to ensure that the products meet the requirements in all aspects, to avoid product liability, and to properly handle relevant issues expeditiously.

(ix) Currency fluctuations

We generate the majority of our sales in Renminbi. Fluctuations in the exchange rate between Hong Kong dollars and Renminbi will affect the translation into Hong Kong dollars when we prepare our financial statements of the Group.

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option schemes to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

We have developed long-standing relationships with a number of our suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Distributors

We sell some of our products to our customers through third-party distributors. We work closely with our distributors to ensure that we share the view for upholding our brand value and customer services, specifically focusing on attracting and retaining customers in order to drive sales growth. We also require our distributors to comply with our policies and promotional activities standards. We also monitor the financial condition and repayment history of our distributors.

BUSINESS REVIEW *(continued)*

Key Relationships *(continued)*

(iv) Hospitals

We are committed to offer a broad and diverse range of good-quality products to hospitals. We also stay connected and maintained a close relationship with the hospitals by maintaining a database and have ongoing communications with them through various channels such as telephone calls, direct mails, visits, marketing materials and meetings. We also work with our distributors and provide training to their key sales personnel to provide quality and value-added customer services to the hospitals.

Environmental policies

We are subject to certain PRC laws, rules and regulations concerning environmental protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes and noise pollution.

The Group attaches importance to comply with the relevant environmental laws and regulations. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

Compliance with laws and regulations

The Group's operations are mainly carried out by the Company's subsidiaries established in the mainland China while the Company itself is incorporated in Hong Kong with its shares listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2015 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong that have a significant impact on the Group.

Recent Developments

No important event affecting the Group has occurred since 31 December 2015.

Further discussion and analysis of the business and operation of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 40.

The Board recommends the payment of a final dividend of HK11 cents per share in respect of the year ended 31 December 2015. Subject to approval by the shareholders at the forthcoming annual general meeting, payment of the final dividend will be made on or around Friday, 17 June 2016 to shareholders of the Company whose name appear on the register of members of the Company on Wednesday, 8 June 2016.

Directors' Report

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 24 May 2016 to Monday, 30 May 2016, both days inclusive, during which period no transfer of shares 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 Monday, 30 May 2016, 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 Monday, 23 May 2016.

The register of members of the Company will be closed from Monday, 6 June 2016 to Wednesday, 8 June 2016, 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, 3 June 2016.

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 115 of this annual report. This summary does not form part of the audited consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2015 amounted to approximately HK$694,495,000 (2014: HK$605,411,000).

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately HK$924,249,000. 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 31 and 33 to the consolidated financial statements, respectively.

EQUITY-LINKED AGREEMENTS

Save for the share option schemes as disclosed in the Annual Report, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets and profit of the Company against all liability incurred by him as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance policy against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company.

Directors' Report

DIRECTORS

Directors of the Company

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 *(resigned on 7 September 2015)*
Chak Kin Man
Pan Weidong
Zhao John Huan *(retired on 26 May 2015)*
Wang Shunlong
Wang Huaiyu
Lu Jianmin
Wang Zhenguo
Wang Jinxu
Lu Hua *(appointed on 7 September 2015)*

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Chan Siu Keung, Leonard
Wang Bo
Lo Yuk Lam
Yu Jinming
Chen Shilin *(resigned on 8 January 2016)*

Mr. Zhao John Huan retired as an executive director of the Company on 26 May 2015 due to work related reasons and Mr Feng Zhenying resigned as an executive director of the Company on September 2015 due to retirement. Mr. Lu Hua has been appointed as an executive director of the Company on 7 September 2015.

Subsequent to end of the financial year, Mr. Chen Shilin resigned as an independent non-executive director of the Company effective from 8 January 2016 due to other business commitments.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Lu Jianmin, Wang Zhenguo, Wang Jinxu, Chan Siu Keung, Leonard and Wang Bo retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS *(continued)*

Directors of the subsidiaries of the Company

The directors of subsidiary undertakings included in the annual consolidated financial statements of the Company (other than those listed above) were Mr. Liu Jian, Ms. Tian Yumiao, Mr. Qu Buqing, Mr. Ji Mengwei, Mr. Liu Fang, Mr. Zhang Cuilong, Mr. Zhao Yongzheng, Mr. Ge Laibing, Mr. Li Chunlei, Mr. Li Yingui, Mr. Sun Jumin, Mr. Guo Yumin and Mr. Wang Hongbin.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 62, 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").

CHAK Kin Man

Mr. Chak, aged 50, 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 46, 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.

WANG Shunlong

Mr. Wang, aged 51, 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 also a non-executive director of Consun Pharmaceutical Group Limited (listed on The Stock Exchange of Hong Kong Limited).

WANG Huaiyu

Mr. Wang, aged 52, 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.

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

LU Jianmin

Mr. Lu, aged 57, 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 46, 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.

WANG Jinxu

Mr. Wang, aged 45, 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.

LU Hua

Mr. LU, aged 43, was appointed as an executive director of the Company in 2015. Mr. Lu is also a director of certain subsidiaries of the Group. Mr. Lu holds a bachelor's degree in science (chemistry) from Hebei Normal University, a master's degree in engineering (pharmaceutical manufacturing) from Beijing University of Chemical Technology, an EMBA degree from Tsinghua University and a doctorate in engineering (pharmaceutical manufacturing) from Tianjin University. Mr. Lu has extensive experience in pharmaceutical engineering, production management and technical research.

LEE Ka Sze, Carmelo

Mr. Lee, aged 55, 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 a member of the SFC (HKEC Listing) Committee.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, Yugang International Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited and an independent non-executive director of KWG Property Holding Limited and Esprit Holdings Limited. Mr. Lee was also appointed as an independent non-executive director of China Pacific Insurance (Group) Co., Ltd. on 26 November 2015. All of the above companies are listed on the Stock Exchange of Hong Kong Limited.

Mr. Lee resigned as a non-executive director of Y.T. Realty Group Limited (listed on the Stock Exchange of Hong Kong Limited) on 29 February 2016.

Directors' Report

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

CHAN Siu Keung, Leonard

Mr. Chan, aged 58, 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.

WANG Bo

Mr. Wang, aged 55, 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), Hainan Shuangcheng Pharmaceutical Co., Ltd. (listed on Shenzhen Stock Exchange) and Henan Taloph Pharmaceutical Stock Co., Ltd. (listed on Shanghai Stock Exchange).

LO Yuk Lam

Mr. Lo, aged 67, 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 58, 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.

Directors' Report

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).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions of the Group during the year are set out in the section below headed "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 transactions, arrangements or contracts of significance to which the Company, or any of its parent companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company or his connected entities 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 2015, 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	6,538,000	80,000,000	86,538,000	1.46%
	Interest of controlled corporation	1,765,825,534 *(Note ii)*	—	1,765,825,534	29.87%
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%
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%
Lu Hua	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) Mr. Cai Dongchen is deemed to be interested in 1,765,825,534 shares, comprising (i) 493,880,000 shares directly held by True Ally Holdings Limited ("True Ally"), a direct wholly-owned subsidiary of Mr. Cai Dongchen; (ii) 213,929,500 shares directly held by Key Honesty Limited, an indirect wholly-owned subsidary of Mr. Cai Dongchen; and (iii) 1,058,016,034 shares directly held by Massive Giant Group Limited by virtue of his interests in a chain of corporations holding Massive Giant Group Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥)) ("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

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 2015.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share 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 2015, 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.

Long Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
True Ally Holdings Limited	Beneficial owner	493,880,000	8.36%
	Interest in controlled corporation	1,271,945,534 *(Note (i))*	21.52%
Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership)	Interest in controlled corporation	1,058,016,034 *(Note (ii))*	17.90%
March Rise Limited	Interest in controlled corporation	1,058,016,034 *(Note (ii))*	17.90%
Massive Top Limited	Interest in controlled corporation	1,058,016,034 *(Note (ii))*	17.90%

SUBSTANTIAL SHAREHOLDERS *(continued)*

Long Positions *(continued)*

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
Massive Giant Group Limited	Beneficial owner	1,058,016,034 *(Note (ii))*	17.90%
JPMorgan Chase & Co.	Beneficial owner	23,442,676	
	Investment manager	104,456,000	
	Custodian/approved lending agent	169,504,632	
		297,403,308	5.03%
UBS Group AG	Persons having a security interest in shares	258,599,551	
	Interest in controlled corporation	55,865,851	
		314,465,402	5.32%

Note:

(i) The interests comprise 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("Ture Ally") and 1,058,016,034 shares directly held by Massive Giant Group Limited described in Note (ii) below.

(ii) The interests represent 1,058,016,034 shares directly held by Massive Giant Group Limited, of which Massive Top Limited owns 100%. Massive Top Limited in turn is owned as to 75% by March Rise Limited, 15% by Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥)) ("Zhongyihe") and 10% by True Ally. March Rise Limited is owned as to 40% by True Ally and 60% by Zhongyihe.

Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
UBS Group AG	Interest in controlled corporation	3,591,352	0.06%

Lending Pool

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
JPMorgan Chase & Co.	Custodian/approved lending agent	169,504,632	2.87%

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 2015.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2015, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Name of company	Nature of transactions	Transaction amount *HKD'000*
CSPC Holdings Company Limited (formerly known as Shijiazhuang Pharmaceutical Group Company Limited) ("CHL") and its subsidiaries (the "CHL Group")	Sales of pharmaceutical products *(note a)*	223,100
	Purchase of pharmaceutical products *(note a)*	2,897
	Sales of pharmaceutical products *(note b)*	59,736
	Rental expenses *(note c)*	12,391
	Rental expenses *(note d)*	1,865
	Rental expenses *(note e)*	2,058
	Purchase of finished pharmaceutical products *(note f)*	26,858
	Purchase of steam *(note g)*	11,643
	Warehouse service income *(note h)*	6,121

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 CHL in relation to the purchase and sales of pharmaceutical product for a term of three years commencing on 1 November 2012.

(b) On 1 November 2015, the Company entered into the Master Sales Agreement with CHL, pursuant to which the Company agrees to supply and to procure its subsidiaries to supply pharmaceutical products to the CHL Group for a terms of three years commencing on 1 November 2015. Details of the transaction are set out in the announcement of the Company dated 1 November 2015.

(c) On 25 June 2013, Zhongnuo entered into three lease agreements with CHL 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.

(d) On 25 June 2013, XNW entered into a lease agreement with Hebei Shengxue Glucose Limited Liability Company, a non wholly-owned subsidiary of CHL, 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.

(e) On 20 July 2002, Zhongnuo entered into a lease agreement with CHL 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.

(f) 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 CHL, in relation to the sale and purchase of finished pharmaceutical products for a term of three years commencing from 1 January 2014.

(g) 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 CHL) in relation to the purchase of steam by XNW from Hongyuan for a term of three years commencing on 29 August 2014.

(h) 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.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

Massive Giant Group Limited is a substantial shareholder of the Company holding approximately 17.90% of the total number of issued shares of the Company as at the date of this report, which is wholly owned by Massive Top Limited ("MTL"). CHL is a wholly-owned subsidiary of MTL. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo, Mr. Wang Jinxu and Mr. Lu Hua, all being directors of the Company, 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

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

INTERESTS IN COMPETITOR

CHL holds a 51% interest in CSPC Jiangxi Jinfurong Pharmaceutical Co., Ltd, a company principally engaged in the manufacture and sales of traditional Chinese medicines in the PRC and which may compete with the Group in certain aspects of its business.

CHL is a wholly-owned subsidiary of MTL and each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo, Mr. Wang Jinxu and Mr. Lu Hua, all being directors of the Company, is indirectly interested in MTL.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 33 to the consolidated financial statements.

The following table discloses movements in the Company's share options granted under the share option scheme adopted by the Company on 6 July 2004 during the year:

Category	Date of grant	Exercise price (HK$)	Exercisable period	Number of Share Options: As at 1 January 2015	Granted	Exercised	Cancelled	Lapsed	As at 31 December 2015
Directors									
Cai Dongchen	17 April 2013	3.98	17 April 2014 — 16 April 2023	80,000,000	—	—	—	—	80,000,000
Feng Zhenying (resigned on 7 September 2015)	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
Lu Hua (appointed on 7 September 2015)	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	20,000,000	—	—	—	(3,000,000)	17,000,000
Total				150,000,000	—	(3,000,000)	—	(3,000,000)	144,000,000

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

Directors' Report

SHARE OPTION SCHEME *(continued)*

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$6.84.

As at 31 December 2015, options to subscribe for an aggregate of 144,000,000 shares of the Company under the said share option scheme were outstanding, representing 2.44% of the existing shares in issue of the Company as at the date of the report.

At the extraordinary general meeting of the Company held on 9 December 2015, an ordinary resolution was passed for the adoption of a new share option scheme. No options have been granted under the new share option scheme since its adoption.

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.

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.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2015.

DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$1,258,000.

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, 21 March 2016

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 40 to 114, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	7	**11,393,726**	10,955,077
Cost of sales		**(6,172,848)**	(6,767,724)
Gross profit		**5,220,878**	4,187,353
Other income		**86,561**	134,558
Selling and distribution expenses		**(2,266,958)**	(1,788,032)
Administrative expenses		**(534,881)**	(551,697)
Other expenses		**(339,147)**	(307,814)
Operating profit		**2,166,453**	1,674,368
Finance costs	8	**(56,335)**	(54,358)
Share of results of			
— an associate	19	**141**	375
— a joint venture	20	**10,663**	588
Loss on disposal of an associate	19	**(8,873)**	—
Gain on disposal of a subsidiary	36	**—**	511
Profit before tax	9	**2,112,049**	1,621,484
Income tax expense	10	**(432,423)**	(337,153)
Profit for the year		**1,679,626**	1,284,331
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**(423,345)**	(225,574)
Share of exchange differences of an associate and a joint venture		**(1,244)**	(464)
Other comprehensive expense for the year, net of income tax		**(424,589)**	(226,038)
Total comprehensive income for the year		**1,255,037**	1,058,293

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Profit for the year attributable to:			
Owners of the Company		**1,665,271**	1,268,446
Non-controlling interests		**14,355**	15,885
		1,679,626	1,284,331
Total comprehensive income attributable to:			
Owners of the Company		**1,244,595**	1,045,174
Non-controlling interests		**10,442**	13,119
		1,255,037	1,058,293
		HK cents	*HK cents*
Earnings per share			
Basic	13	**28.18**	21.47
Diluted	13	**27.95**	21.26

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	15	**5,142,767**	5,049,087
Prepaid lease payments	16	**467,785**	498,522
Goodwill	17	**119,388**	125,060
Other intangible assets	18	**96,080**	111,289
Interest in an associate	19	**—**	56,732
Interest in a joint venture	20	**27,586**	18,167
Available-for-sale investment		**—**	1,705
Deferred tax assets	29	**38,706**	34,922
		5,892,312	5,895,484
Current assets			
Inventories	21	**1,819,228**	1,805,749
Trade and other receivables	22	**1,877,617**	2,006,712
Bills receivables	23	**1,389,493**	1,079,359
Trade receivables due from related companies	24(i)	**162,212**	92,471
Amount due from a joint venture	24(ii)	**75,179**	76,450
Prepaid lease payments	16	**15,057**	14,928
Tax recoverable		**2,477**	2,754
Held for trading investments		**606**	703
Restricted bank deposits	25	**6,202**	58,199
Bank balances and cash	25	**2,299,468**	1,468,421
		7,647,539	6,605,746
Current liabilities			
Trade and other payables	26	**2,488,645**	2,329,726
Bills payables	27	**392,828**	227,150
Trade payables due to related companies	24(i)	**1,108**	26,483
Trade payable to an associate	24(iii)	**—**	576
Trade payable due to a joint venture	24(ii)	**1,591**	—
Amounts due to related companies	24(i)	**3,060**	277,894
Tax liabilities		**145,063**	116,597
Borrowings	28	**451,966**	624,070
		3,484,261	3,602,496

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Net current assets		**4,163,278**	3,003,250
Total assets less current liabilities		**10,055,590**	8,898,734
Non-current liabilities			
Deferred tax liabilities	29	**46,322**	29,645
Borrowings	28	**1,010,944**	601,800
Government grants	30	**185,717**	115,761
		1,242,983	747,206
Net assets		**8,812,607**	8,151,528
Capital and reserves			
Share capital	31	**9,835,299**	9,819,731
Reserves		**(1,097,244)**	(1,740,577)
Equity attributable to owners of the Company		**8,738,055**	8,079,154
Non-controlling interests		**74,552**	72,374
Total equity		**8,812,607**	8,151,528

The consolidated financial statements on pages 40 to 114 were approved and authorised for issue by the Board of Directors on 21 March 2016 and are signed on its behalf by:

CAI Dongchen	**CHAK Kin Man**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Equity attributable to owners of the Company											
	Share capital	Share premium	Other reserve	Statutory reserve	Capital contribution reserve	Convertible bonds	Share options reserve	Translation reserve	Accumulated profits	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000* *(note c)*	*HK$'000* *(note 32)*	*HK$'000* *(note 33)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 31)*	8,700,054	(8,700,054)	–	–	–	–	–	–	–	–	–	–
Conversion of convertible bonds *(note 32)*	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 36)*	–	–	–	(1,836)	–	–	–	(629)	2,465	–	(57,554)	(57,554)
At 31 December 2014 and 1 January 2015	**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**
Profit for the year	–	–	–	–	–	–	–	–	1,665,271	1,665,271	14,355	1,679,626
Other comprehensive expense for the year	–	–	–	–	–	–	–	(420,676)	–	(420,676)	(3,913)	(424,589)
Total comprehensive income for the year	–	–	–	–	–	–	–	(420,676)	1,665,271	1,244,595	10,442	1,255,037
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	–	–	–	(590,802)	(590,802)	–	(590,802)
Dividends paid to non-controlling interest	–	–	–	–	–	–	–	–	–	–	(3,267)	(3,267)
Transfer to statutory reserve	–	–	–	185,876	–	–	–	–	(185,876)	–	–	–
Exercise of share options	15,568	–	–	–	–	–	(3,629)	–	–	11,939	–	11,939
Forfeiture of share options	–	–	–	–	–	–	(3,629)	–	3,629	–	–	–
Capital contribution from a non-controlling interest	–	–	–	–	–	–	–	–	–	–	366	366
Acquisition of additional interest in a subsidiary *(note d)*	–	–	–	–	–	–	–	–	(6,831)	(6,831)	(5,363)	(12,194)
At 31 December 2015	**9,835,299**	**–**	**(5,523,729)**	**700,636**	**45,564**	**–**	**174,175**	**(385,407)**	**3,891,517**	**8,738,055**	**74,552**	**8,812,607**

Notes:

(a) The balance in other reserve 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 CSPC Holdings Company Limited (formerly known as Shijiazhuang Pharmaceutical Group Company Limited) ("CHL") 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 CHL and its subsidiaries during group reorganisation under the Robust Sun Group in 2012 and 2) the imputed interest arising on loan from CHL (see note 24 for details).

(d) On 29 January 2014 and 30 August 2015, the Group entered into equity transfer agreements with China Charmaine Pharmaceutical Company Limited to acquire additional 21.43% equity interest in Unigene Biotechnology Company Limited ("Unigene") and with an independent third party to acquire the remaining 5.84% in CSPC Baike (Shandong) ("Baike Shandong"), respectively. The transactions were completed on 22 August 2014 and 17 September 2015, respectively. Upon completion of these acquisitions, Unigene and Baike Shandong 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 ended 31 December 2014, the Group dissolved an inactive subsidiary, Shiyao Ouyi International Pharmaceutical Co., Ltd. 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 2015

	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**2,112,049**	1,621,484
Adjustments for:		
Amortisation of intangible assets	**18,430**	19,850
Amortisation of prepaid lease payments	**14,794**	15,319
Depreciation of property, plant and equipment	**572,036**	575,043
Gain on disposal of a subsidiary	**—**	(511)
Gain on disposal of an available-for-sale investment	**(358)**	—
Government grant income	**(39,730)**	(85,547)
Finance costs	**56,335**	54,358
Interest income	**(8,459)**	(7,852)
Loss on disposal of an associate	**8,873**	—
Loss (gain) on disposal of property, plant and equipment	**7,012**	(3,402)
Loss (gain) on fair value change of held for trading investments	**68**	(279)
Net impairment loss on trade receivables	**9,024**	2,883
Reversal on write down of inventories	**—**	(7,342)
Share-based payment expenses	**—**	53,187
Share of results of		
— an associate	**(141)**	(375)
— a joint venture	**(10,663)**	(588)
Movements in working capital	**2,739,270**	2,236,228
Increase in inventories	**(99,272)**	(28,404)
Decrease (increase) in trade and other receivables	**30,636**	(138,130)
Increase in bills receivables	**(373,799)**	(169,619)
(Increase) decrease in trade receivables due from related companies	**(76,964)**	26,950
Decrease in derivative financial instruments	**—**	3,428
Increase in trade and other payables	**170,201**	220,654
Increase (decrease) in bills payables	**183,192**	(39,911)
Decrease in trade payables due to related companies	**(25,165)**	(20,186)
(Decrease) increase in trade payable due to an associate	**(572)**	583
Increase (decrease) in trade payable due to a joint venture	**1,656**	(1,982)
Increase in government grants	**143,999**	61,669
Cash generated from operations	**2,693,182**	2,151,280
Income tax paid	**(385,855)**	(293,156)
Interest paid	**(56,752)**	(51,670)
NET CASH FROM OPERATING ACTIVITIES	**2,250,575**	1,806,454

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(815,691)**	(806,998)
Acquisition of additional interest in subsidiaries		**(12,194)**	(6,240)
Purchase of intangible assets		**(7,853)**	(6,539)
Prepaid lease payments paid		**(7,170)**	—
Placement of restricted bank deposits		**(5,593)**	(14,802)
(Advance to) repayment from a joint venture		**(945)**	13,583
Withdrawal of restricted bank deposits		**56,973**	37,597
Disposal of an associate	19	**48,000**	—
Receipt on issuance of shares upon exercise of share options		**11,939**	—
Proceeds on disposal of property, plant and equipment		**9,342**	12,326
Interest received		**8,459**	7,852
Disposal of an available-for-sale investment		**2,063**	—
Capital contribution from non-controlling interest	38	**366**	—
Disposal of a subsidiary	36	**—**	17,991
NET CASH USED IN INVESTING ACTIVITIES		**(712,304)**	(745,230)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		**(1,324,456)**	(844,040)
Dividends paid		**(590,802)**	(472,641)
Repayment to related companies		**(273,798)**	(190,878)
Dividends paid to non-controlling interests		**(3,267)**	(20,317)
New borrowings raised		**1,587,702**	781,063
NET CASH USED IN FINANCING ACTIVITIES		**(604,621)**	(746,813)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**933,650**	314,411
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,468,421**	1,187,751
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(102,603)**	(33,741)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**2,299,468**	1,468,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 38.

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")

Application of new and revised HKFRSs

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after a date to be determined.

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 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)*

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

HKFRS 9 Financial Instruments *(continued)*

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS *39 Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally 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 attributable to a financial liability's 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 is 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.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, 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 retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

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

HKFRS 9 Financial Instruments *(continued)*

The Group has already commenced an assessment of the impact of the application of HKFRS 9 and is not yet in a position to state whether these would have a significant impact on the Group's results and financial position.

HKFRS 15 Revenue from Contracts with Customers

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 Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The Group has already commenced an assessment of the impact of the application of HKFRS 15 and is not yet in a position to state whether these would have a significant impact on the Group's results and financial position.

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

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

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 *Property, Plant and Equipment* prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 *Intangible Assets* introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The Group does not anticipate that the application of these amendments to HKAS 16 and HKAS 38 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

The amendments to HKFRS 10 *Consolidated Financial Statements* and HKAS 28 *Investments in Associates and Joint Ventures* deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of 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, 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 of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value 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 Group has already commenced an assessment of the impact of these amendments and is not yet in a position to state whether these would have a significant impact on the Group's results and financial position.

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests* in Other Entities and HKAS 28 *Investments in Associates and Joint Ventures* clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The Group does not anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKAS 28 will have a material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any subsidiary, associate or joint venture that qualifies as an investment entity.

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 a disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

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.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The Group does not anticipate that the application of these amendments will have a material effect on the amounts recognised in the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) ("the new CO") regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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.

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 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 significant 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.

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 date when 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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.

Goodwill

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.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. The difference between the carrying amount of the associate at the date the equity method was discontinued, and any proceeds from disposing of an interest in the associate is included in the determination of the gain or loss on disposal of the associate.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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's 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.

Leasing

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

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).

On the disposal of a subsidiary or an associate 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

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.

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 33.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment arrangements *(continued)*

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.

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

Property, plant and equipment

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

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

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

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

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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.

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 (see the accounting policy in respect of goodwill above)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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 at FVTPL

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

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.

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 2015, the carrying amount of goodwill was approximately HK$119,388,000 (2014: HK$125,060,000). 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 2015, the carrying amounts of the Group's trade receivable were approximately HK$1,547,767,000 (2014: HK$1,694,691,000), net of allowance for doubtful debts of approximately HK$13,181,000 (2014: HK$4,395,000).

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 2015, the carrying amounts of property, plant and equipment were approximately HK$5,142,767,000 (2014: HK$5,049,087,000). 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 2015, the carrying amounts of the inventories were approximately HK$1,819,228,000 (2014: HK$1,805,749,000), net of provision for inventories of approximately HK$7,041,000 (2014: HK$7,658,000).

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 28 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, accumulated 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

	2015	2014
	HK$'000	*HK$'000*
Financial assets		
FVTPL		
— held for trading investments	**606**	703
Loans and receivables (including cash and cash equivalents)	**5,568,133**	4,538,035
Available-for-sale investment	**—**	1,705
Financial liabilities		
Amortised cost	**3,823,191**	3,627,484

6b. Financial risk management objectives and policies

The major financial instruments of the Group include available-for-sale investment, trade and other receivables, bills receivables, trade receivables due from related companies, amount due from a joint venture, 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 and borrowings. 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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

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 to foreign currency risk.

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

	Liabilities		Assets	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**654,686**	888,637	**3,873**	24,515
USD	**232,500**	237,120	**575,851**	570,933

Sensitivity analysis

The Group is mainly exposed to HK$ and USD.

The following tables detail the sensitivity of the Group to a 5% (2014: 5%) increase and decrease in RMB against HK$ and USD. A 5% (2014: 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% (2014: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2014: 5%) against the relevant currency. For a 5% (2014: 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.

	HK$ Impact (i)		USD Impact (ii)	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Post-tax profit	**25,870**	34,349	**(13,648)**	(13,269)

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

(ii) This is mainly attributable to the exposure outstanding on USD bank balances, bank loans, trade and other receivables as 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 28 for details of these loans), which were raised from the banks in PRC.

The Group is exposed to cash flow interest rate risk primarily in relation to the floating-rate bank borrowings (see note 28 for details of these borrowings). It is the policy of the Group 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 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 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 (2014: 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 2015 and 2014, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by approximately HK$5,495,000 (2014: HK$3,432,000).

(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 2015, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group 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 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 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 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 relies on bank borrowings as a significant source of liquidity. As at 31 December 2015, the Group have available unutilised bank loan facilities of HK$215,000,000 (2014: HK$180,000,000). Details of which are set out in note 28.

The following tables detail the Group'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 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)*

As at 31 December 2015

	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$'000*	Carrying amount at 31.12 2015 *HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	1,925,561	23,314	12,819	—	1,961,694	1,961,694
Bills payables	—	—	92,745	300,083	—	392,828	392,828
Trade payables due to related companies	—	1,108	—	—	—	1,108	1,108
Trade payable due to a joint venture	—	1,591	—	—	—	1,591	1,591
Amounts due to related companies	—	3,060	—	—	—	3,060	3,060
Borrowings							
— floating-rate	2.94	39,460	20,588	368,356	1,000,976	1,429,380	1,382,361
— fixed-rate	4.60	—	9,362	28,085	46,809	84,256	80,549
		1,970,780	146,009	709,343	1,047,785	3,873,917	3,823,191

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
Borrowings							
— 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

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		Fair value hierarchy	Valuation techniques and key input(s)
	31 December 2015 ***HK$'000***	31 December 2014 *HK$'000*		
Held-for-trading comprised of equity securities listed in the PRC	**606**	703	Level 1	Quoted bid prices in an active market

The fair value measurements of held for trading investments at the end of reporting period are categorised into level 1 of the fair value hierarchy.

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.

7. REVENUE AND SEGMENT INFORMATION

	2015	2014
	HK$'000	*HK$'000*
Sale of goods	**11,393,726**	10,955,077

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 and operating 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 2015

	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	7,793,705	1,718,436	1,202,694	678,891	11,393,726	—	11,393,726
Inter-segment sales	—	55,434	4,126	8,245	67,805	(67,805)	—
TOTAL REVENUE	7,793,705	1,773,870	1,206,820	687,136	11,461,531	(67,805)	11,393,726
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	2,030,600	189,496	(39,577)	119,853	2,300,372		2,300,372
Unallocated income							9,807
Unallocated expenses							(143,726)
Operating profit							2,166,453
Finance costs							(56,335)
Share of results of							
— an associate							141
— a joint venture							10,663
Loss on disposal of an associate							(8,873)
Profit before tax							2,112,049

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

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

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, loss on disposal of an associate and gain on disposal of a subsidiary. This is the measure reported to the board of directors for the purposes of resources 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:

	2015	2014
	HK$'000	*HK$'000*
The PRC (country of domicile)	**8,671,612**	8,164,521
Other Asian regions	**1,122,154**	1,134,235
Americas	**830,673**	790,634
Europe	**607,443**	711,190
Others	**161,844**	154,497
	11,393,726	10,955,077

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

	2015	2014
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**47,498**	51,232
Interest on loans from a related company *(note 24c)*	**8,837**	—
Imputed interest on amount due to a related company *(note 24b)*	**—**	3,126
	56,335	54,358

9. PROFIT BEFORE TAX

	2015	2014
	HK$'000	*HK$'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	**789,421**	823,626
— contribution to retirement benefit schemes	**106,812**	96,894
— share-based payment expenses (included in administrative expenses)	**—**	53,187
Total staff costs	**896,233**	973,707
Amortisation of intangible assets (included in cost of sales)	**18,430**	19,850
Amortisation of prepaid lease payments	**14,794**	15,319
Depreciation of property, plant and equipment	**572,036**	575,043
Total depreciation and amortisation	**605,260**	610,212
Auditor's remuneration	**3,660**	3,600
Gain on disposal of an available-for-sale investment (included in other income)	**(358)**	—
Government grant income *(note 30)*	**(39,730)**	(85,547)
Interest income	**(8,459)**	(7,852)
Loss (gain) on disposal of property, plant and equipment (included in other expenses/other income)	**7,012**	(3,402)
Net foreign exchange loss	**1,786**	4,518
Rental expenses *(note 34)*	**36,577**	31,268
Reversal on write down of inventories (included in cost of sales)	**—**	(7,342)
Net impairment loss on trade receivables	**9,024**	2,883
Research and development expenditure recognised as an expense (included in other expenses)	**324,505**	307,223

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 2015 and 2014.

10. INCOME TAX EXPENSE

	2015	2014
	HK$'000	*HK$'000*
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax ("PRC EIT")	**377,464**	300,781
— PRC withholding tax on dividends distributed by subsidiaries	**42,096**	32,422
	419,560	333,203
Deferred taxation *(note 29)*	**12,863**	3,950
	432,423	337,153

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.

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:

	2015 *HK$'000*	2014 *HK$'000*
Profit before tax	**2,112,049**	1,621,484
Tax at the PRC EIT rate of 25% (2014: 25%)	**528,012**	405,371
Tax effect of income not taxable for tax purpose	**(57)**	(7,611)
Tax effect of expenses not deductible for tax purpose	**70,376**	84,678
Tax effect of share of results of an associate	**(35)**	(94)
Tax effect of share of results of a joint venture	**(2,666)**	(147)
Utilisation of tax losses previously not recognised	**(6,151)**	—
Tax effect of tax losses not recognised	**27,292**	27,565
Effect of tax exemption, relief and concessions granted to PRC subsidiaries	**(245,661)**	(203,775)
PRC withholding tax on dividends distributed by subsidiaries	**61,313**	31,166
Tax charge for the year	**432,423**	337,153

Details of deferred taxation and unused tax losses are set out in note 29.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 17 (2014: 20) directors were as follows:

2015

	Executive directors											Non-executive director	Independent non-executive directors					
	Cai Dongchen *HK$'000* (Chairman and Chief Executive)	Feng Zhenying *HK$'000* *(note (ii))*	Chak Kin Man *HK$'000*	Pan Weidong *HK$'000*	Zhao John Huan *HK$'000* *(note (iv))*	Wang Shunlong *HK$'000*	Wang Huaiyu *HK$'000*	Lu Jianmin *HK$'000*	Wang Zhenguo *HK$'000*	Wang Jinxu *HK$'000*	Lu Hua *HK$'000* *(note (ii))*	Lee Ka Sze, Carmelo *HK$'000*	Chan Siu Keung, Leonard *HK$'000*	Wang Bo *HK$'000*	Lo Yuk Lam *HK$'000*	Yu Jinming *HK$'000*	Chen Shilin *HK$'000* *(note (iii))*	Total *HK$'000*
Fees	60	40	60	60	–	–	60	60	60	60	20	350	250	80	120	80	80	1,440
Salaries	4,365	522	2,046	787	–	–	783	783	783	795	261	–	–	–	–	–	–	11,125
Performance bonuses	6,500	–	2,500	1,781	–	–	1,781	1,781	1,781	1,188	396	–	–	–	–	–	–	17,708
Contribution to retirement benefit schemes	403	38	186	65	–	–	59	59	59	75	20	–	–	–	–	–	–	964
Total emoluments	11,328	600	4,792	2,693	–	–	2,683	2,683	2,683	2,118	697	350	250	80	120	80	80	31,237

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

2014

	Executive directors										Non-executive director	Independent non-executive directors									
	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* *(note (v))*	Wang Bo *HK$'000* *(note (v))*	Huo Zhenxing *HK$'000* *(note (vi))*	Qi Moujia *HK$'000* *(note (vi))*	Guo Shichang *HK$'000* *(note (vii))*	Zhang Fawang *HK$'000* *(note (vii))*	Lo Yuk Lam *HK$'000* *(note (vii))*	Yu Jinming *HK$'000*	Chen Shilin *HK$'000*	Total *HK$'000*
Fees	60	60	60	60	–	–	60	60	60	60	350	250	80	–	–	–	–	70	47	47	1,324
Salaries	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

Notes:

(i) The performance related incentive payment is determined by the remuneration committee for the year ended 31 December 2015 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. Feng Zhenying resigned and Mr. Lu Hua was appointed as executive director on 7 September 2015.

(iii) Mr. Chen Shilin resigned as independent non-executive directors on 8 January 2016.

(iv) Mr. Zhao John Huan retired as an executive director on 26 May 2015.

(v) Mr. Huo Zhenxing and Mr. Qi Moujia retired as independent non-executive directors on 20 May 2014.

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

(vii) 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. The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group for the year ended 31 December 2015 included 5 (2014: 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:

	2015	2014
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**1,665,271**	1,268,446

	2015	2014
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,908,795**	5,908,018
Effect of dilutive potential ordinary shares: Share options granted by the Company	**48,879**	59,664
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,957,674**	5,967,682

14. DIVIDENDS

	2015	2014
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2014 Final, paid — HK10 cents (2014: 2013 Final, paid — HK8 cents) per share	**590,802**	472,641

The directors recommend the payment of a final dividend of HK11 cents (2014: HK10 cents) per share in respect of the year ended 31 December 2015. Subject to approval by the shareholders in the forthcoming annual general meeting, the proposed final dividend will be paid on or around Friday, 17 June 2016 to shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 8 June 2016.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2014	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 36)*	(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**
Exchange adjustments	**(114,669)**	**(174,403)**	**(8,775)**	**(1,186)**	**(26,720)**	**(325,753)**
Additions	**15,794**	**67,871**	**12,828**	**1,865**	**825,891**	**924,249**
Transfers	**255,914**	**349,487**	**38,420**	**—**	**(643,821)**	**—**
Disposals/write-off	**—**	**(16,689)**	**(1,866)**	**(749)**	**—**	**(19,304)**
At 31 December 2015	**2,449,169**	**3,735,519**	**178,348**	**25,126**	**587,746**	**6,975,908**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2014	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 36)*	(5,344)	(14,201)	(385)	(1,779)	—	(21,709)
At 31 December 2014	**359,644**	**904,932**	**68,960**	**14,093**	**—**	**1,347,629**
Exchange adjustments	**(22,055)**	**(56,312)**	**(4,329)**	**(878)**	**—**	**(83,574)**
Provided for the year	**145,630**	**395,480**	**24,609**	**6,317**	**—**	**572,036**
Eliminated on disposals/write-off	**—**	**(1,379)**	**(1,295)**	**(276)**	**—**	**(2,950)**
At 31 December 2015	**483,219**	**1,242,721**	**87,945**	**19,256**	**—**	**1,833,141**
CARRYING VALUES						
At 31 December 2015	**1,965,950**	**2,492,798**	**90,403**	**5,870**	**587,746**	**5,142,767**
At 31 December 2014	1,932,486	2,604,321	68,781	11,103	432,396	5,049,087

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

At 31 December 2015, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to approximately HK$69,439,000 (2014: HK$163,877,000). 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 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

	2015	2014
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**15,057**	14,928
Non-current asset	**467,785**	498,522
	482,842	513,450

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

17. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1 January 2014	128,438
Exchange adjustments	(3,378)
At 31 December 2014	**125,060**
Exchange adjustments	**(5,672)**
At 31 December 2015	**119,388**

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

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

	2015	2014
	HK$'000	*HK$'000*
OYY Group	**98,058**	102,717
Baike Group	**21,330**	22,343
	119,388	125,060

During the years ended 31 December 2015 and 2014, management of the Group determines that there is no impairment of the above-mentioned cash-generating units containing the goodwill.

The recoverable amounts of OYY (as defined in note 38) and its subsidiary (collectively referred to as "OYY Group") and Baike Yantai (as defined in note 38) and its subsidiaries (collectively referred to as "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% (2014: 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

	License and patent	Development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2014	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**
Exchange adjustments	**(5,279)**	**(1,720)**	**(6,999)**
Addition	**—**	**7,852**	**7,852**
At 31 December 2015	**92,275**	**57,093**	**149,368**
AMORTISATION AND IMPAIRMENT			
At 1 January 2014	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**
Exchange adjustments	**(704)**	**(1,664)**	**(2,368)**
Provided for the year	**9,667**	**8,763**	**18,430**
At 31 December 2015	**22,395**	**30,893**	**53,288**
CARRYING VALUES			
At 31 December 2015	**69,880**	**26,200**	**96,080**
At 31 December 2014	84,122	27,167	111,289

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

	2015	2014
	HK$'000	*HK$'000*
Cost of unlisted investment in an associate *(note 36)*	—	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") after disposal of its 20% equity interest in Siping on 1 November 2014 as set out in note 36. Siping is a sino-foreign equity joint venture company established in the PRC to manufacture and sell pharmaceutical products.

On 16 June 2015, the Company entered into agreements with certain non-controlling shareholders of Siping to dispose of its remaining 40% equity interest in Siping for an aggregate cash consideration of RMB38,400,000 (equivalent to approximately HK$48,000,000). The transactions were completed on 28 July 2015 and resulted in a loss on disposal of approximately HK$8,873,000 during the year.

Summarised financial information in respect of the Group's associate is set out below. This 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 during the period from the date of loss of control over Siping in 2014 until the date when Siping ceased to be an associate of the Company.

	2015	2014
	HK$'000	*HK$'000*
Current assets	N/A	163,109
Non-current assets	N/A	99,306
Current liabilities	N/A	(120,586)
Non-current liabilities	N/A	—

19. INTEREST IN AN ASSOCIATE *(continued)*

	1.1.2015 to 28.7.2015	1.11.2014 to 31.12.2014
	HK$'000	*HK$'000*
Revenue	**146,507**	51,863
Profit and total comprehensive income for the period	**353**	924
Share of results for the period	**141**	375

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

	2015	2014
	HK$'000	*HK$'000*
Net assets of Siping	**N/A**	141,829
Proportion of the Group's ownership interet in Siping	**N/A**	40%
Carrying amount of the Group's interest in Siping	**N/A**	56,732

20. INTEREST IN A JOINT VENTURE

	2015	2014
	HK$'000	*HK$'000*
Cost of unlisted investment in a joint venture	**36,495**	36,495
Share of post-acquisition losses	**(6,775)**	(17,438)
Exchange adjustments	**(2,134)**	(890)
	27,586	18,167

At 31 December 2015 and 2014, 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.

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

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

	2015	2014
	HK$'000	*HK$'000*
Current assets	**151,068**	134,979
Non-current assets	**118,614**	146,199
Current liabilities	**(189,303)**	(236,149)
Non-current liabilities	**(25,207)**	(8,695)

The above amounts of assets and liabilities include the following:

	2015	2014
	HK$'000	*HK$'000*
Cash and cash equivalents	**17,492**	5,559
Current financial liabilities (excluding trade and other payables and provisions)	**(35,800)**	(91,250)
Revenue	**409,341**	364,356
Profit for the year	**21,326**	1,175
Other comprehensive expenses for the year	**(2,487)**	(917)
Total comprehensive income for the year	**18,839**	258

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

The above profit for the year includes the following:

	2015 HK$'000	2014 HK$'000
Depreciation and amortisation	**(22,524)**	(23,961)
Interest income	**121**	72
Finance costs	**(3,963)**	(4,084)
Income tax expense	**(593)**	(1,372)

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

	2015 HK$'000	2014 HK$'000
Net assets of Huarong	**55,172**	36,334
Proportion of the Group's ownership interest in Huarong	**50%**	50%
Carrying amount of the Group's interest in Huarong	**27,586**	18,167

21. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**246,401**	321,479
Work in progress	**167,825**	159,909
Finished goods	**1,405,002**	1,324,361
	1,819,228	1,805,749

22. TRADE AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	**1,560,948**	1,699,086
Less: allowance for doubtful debts	**(13,181)**	(4,395)
	1,547,767	1,694,691
Prepayment for purchase of raw materials	**176,527**	183,695
Deposits and prepayment for utilities	**62,798**	40,093
Other tax recoverable	**29,325**	28,672
Others	**61,200**	59,561
	1,877,617	2,006,712

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:

	2015 HK$'000	2014 HK$'000
0 to 90 days	**1,375,675**	1,479,654
91 to 180 days	**129,875**	210,236
181 to 365 days	**42,217**	4,801
	1,547,767	1,694,691

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

	2015	2014
	HK$'000	*HK$'000*
91 to 180 days	**129,875**	210,236
181 to 365 days	**42,217**	4,801
	172,092	215,037

Movements in the allowance for doubtful debts

	2015	2014
	HK$'000	*HK$'000*
Balance at beginning of the year	**4,395**	1,588
Impairment loss recognised on trade receivables	**9,024**	2,883
Exchange adjustments	**(238)**	(76)
Balance at end of the year	**13,181**	4,395

As at 31 December 2015, the Group's trade receivables denominated in USD amounted to approximately HK$480,808,000 (2014: HK$526,859,000).

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 (2014: 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 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	2015 HK$'000	2014 HK$'000
The Group			
CHL, and its subsidiaries and associates (the "CHL Group")	Purchase of pharmaceutical products	**131,848**	387,525
	Sale of pharmaceutical products	**321,295**	203,564
	Rental expense	**16,314**	16,622
	Interest expenses *(note c)*	**8,837**	—
	Purchase of steam	**11,643**	13,273
	Warehouse service income	**6,121**	13,079
	Balance due from/to the CHL Group		
	— trade receivables		
	aged 0-90 days	**146,248**	92,471
	aged 90-180 days	**15,964**	—
		162,212	92,471
	— trade payables		
	aged 0-90 days	**1,108**	26,483
	— other payables *(note b)*	**3,060**	277,894
	— borrowings *(note 28 and note c)*		
	— current	**35,800**	—
	— non-current	**44,749**	—
		80,549	—

24. RELATED PARTIES DISCLOSURES *(continued)*

(i) Related companies *(continued)*

Name of company	Nature of transactions/balances	2015 HK$'000	2014 HK$'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 2015)	Sale of finished goods	**N/A**	143,552
	Balance due from Guangdong Titan — trade receivables aged 0-90 days	**N/A**	N/A
Total	Balance due from/to		
	— trade receivables	**162,212**	92,471
	— trade payables	**1,108**	26,483
	— other payables *(note b)*	**3,060**	277,894
	— borrowings *(note 28 and note c)*		
	— current	**35,800**	—
	— non-current	**44,749**	—
		80,549	—

As at 31 December 2014, CHL had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of approximately HK$112,500,000 (2015: nil) granted to the Group and was fully utilised by the Group at the end of reporting period.

(ii) A joint venture

Name of company	Nature of transactions/balances	2015 HK$'000	2014 HK$'000
Huarong	Purchase of raw materials	**13,705**	8,997
	Provision of utility services by the Group	**85,921**	50,691
	Sales of raw materials	**174,893**	4,059
	Balance due from/to Huarong		
	— other receivables *(note a)*	**75,179**	76,450
	— trade payables (aged 0-90 days)	**1,591**	—

24. RELATED PARTIES DISCLOSURES *(continued)*

(iii) An associate

Name of company	Nature of transactions/balances	2015 HK$'000	2014 HK$'000
Siping (ceased to be an associate since 28 July 2015)	Purchase of raw materials	**3,411**	4,430
	Sale of raw materials	**20,192**	—
	Balance due to Siping — trade payables (aged 0-90 days)	**—**	576

(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:

	2015 HK$'000	2014 HK$'000
Short-term benefits	**30,273**	12,514
Post-employment benefits	**964**	924
Share-based payment expenses	**—**	45,032
	31,237	58,470

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, CHL agreed to change the maturity of a balance of RMB97,705,193 (equivalent to approximately HK$104,503,000) to 31 May 2014. Imputed interest was computed using the prevailing market interest rate of 6.56% per annum for comparable long term borrowings on 31 May 2012. During the year ended 31 December 2014, the balance was fully repaid and imputed interest arising on loan from CHL of approximately HK$3,126,000 is recorded as finance costs in the consolidated statement of profit or loss and other comprehensive income.

c. During the year, the Group obtained new unsecured loans from a related company of approximately HK$300,000,000 (2014: nil) which are repayable within 1 to 4 years and the Group repaid part of these loans of approximately HK$219,451,000 (2014: nil). These loans are unsecured and bear interest rate of 4.6% per annum.

25. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.3% (2014: 0.01% to 1.1%) per annum.

As at 31 December 2015 and 2014, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade and other payables and are classified as current assets. The restricted bank deposits will be released upon settlement or discharge of the relevant letters of credit and guarantee.

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:

	2015	2014
	HK$'000	*HK$'000*
HK$	**3,873**	24,515
USD	**95,043**	44,074

26. TRADE AND OTHER PAYABLES

	2015	2014
	HK$'000	*HK$'000*
Trade payables	**752,256**	955,617
Customer deposits and advance from customers	**441,063**	373,342
Other tax payables	**113,088**	53,984
Freight and utilities charges payable	**70,562**	28,430
Construction cost and acquisition of property, plant and equipment payable	**678,785**	601,792
Government grants *(note 30)*	**109,537**	88,596
Staff welfare payable	**111,950**	131,792
Selling expense payable	**145,430**	60,260
Others	**65,974**	35,913
	2,488,645	2,329,726

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

	2015	2014
	HK$'000	*HK$'000*
0 to 90 days	**613,893**	703,652
91 to 180 days	**65,471**	104,716
More than 180 days	**72,892**	147,249
	752,256	955,617

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.

27. BILLS PAYABLES

All bills payables of the Group are aged within 180 days (2014: 180 days) and not yet due at the end of the reporting period.

28. BORROWINGS

	2015 HK$'000	2014 HK$'000
Unsecured		
— floating-rate HK$ bank loans	**648,667**	609,000
— floating-rate USD bank loans	**232,500**	237,120
— floating-rate RMB bank loans	**501,194**	17,250
— fixed-rate RMB bank loans	**—**	362,500
— fixed-rate RMB loans from a related company *(note 24(i))*	**80,549**	—
	1,462,910	1,225,870

The above borrowings are repayable as follows:

	2015	2014
Within one year	**451,966**	624,070
More than one year, but not more than two years	**791,659**	491,800
More than two years, but not more than five years	**219,285**	110,000
	1,462,910	1,225,870
Less: Amounts due within one year shown under current liabilities	**(451,966)**	(624,070)
Amounts shown under non-current liabilities	**1,010,944**	601,800

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

Effective interest rate:	**2015**	2014
Floating-rate HK$ bank loans	**From 2.19% to 2.82% per annum**	From 1.8% to 2.98% per annum
Floating-rate USD bank loans	**From 2.45% to 2.75% per annum**	From 2.65% to 3.17% per annum
Floating-rate RMB bank loans	**3.15% per annum**	From 6.15% to 6.4% per annum
Fixed-rate RMB bank loans	**N/A**	From 3.25% to 6.0% per annum
Fixed-rate RMB loans from a related company	**4.6% per annum**	N/A

28. BORROWINGS *(continued)*

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

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

	2015	2014
	HK$'000	*HK$'000*
HK$	**648,667**	609,000
USD	**232,500**	237,120

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

	2015	2014
	HK$'000	*HK$'000*
Floating-rate HK$ bank loans	**153,000**	180,000
Floating-rate USD bank loans	**62,000**	—
	215,000	180,000

As at 31 December 2014, CHL had given guarantee of approximately HK$112,500,000 (2015: nil) to secure borrowings of the Group.

29. DEFERRED TAXATION

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

	2015	2014
	HK$'000	*HK$'000*
Deferred tax asset	**38,706**	34,922
Deferred tax liability	**(46,322)**	(29,645)
	(7,616)	5,277

29. 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	Undistributed profit of subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2014	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 36)*	—	(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**
Credit (charge) to profit or loss	**6,869**	**3,542**	**279**	**(4,336)**	**(19,217)**	**(12,863)**
Exchange adjustments	**(1,122)**	**565**	**82**	**445**	**—**	**(30)**
At 31 December 2015	**36,456**	**(11,430)**	**(1,679)**	**(9,940)**	**(21,023)**	**(7,616)**

At the end of the reporting period, the Group has unused tax losses of approximately HK$477,535,000 (2014: HK$392,972,000) 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 2020.

The unused tax losses will be expired as follow:

	2015	2014
	HK$'000	*HK$'000*
2015	**—**	136
2016	**46,438**	47,319
2017	**38,171**	38,896
2018	**192,704**	196,363
2019	**108,204**	110,258
2020	**92,018**	—
	477,535	392,972

29. 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$3,248,175,000 (2014: HK$2,591,053,000) 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.

30. GOVERNMENT GRANTS

	2015	2014
	HK$'000	*HK$'000*
Current (included in other payables in note 26)		
— Acquisition of property, plant and equipment *(note a)*	**7,647**	8,030
— Other subsidies *(note b)*	**101,890**	80,566
	109,537	88,596
Non-current		
— Acquisition of property, plant and equipment *(note a)*	**185,717**	115,761
	295,254	204,357

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 will transfer the grants to profit or loss over the useful lives of the related assets. During the year, the Group recognised income of approximately HK$7,980,000 (2014: HK$7,299,000).

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$31,750,000 (2014: HK$78,248,000).

31. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares		
Authorised		
At 1 January 2014		
— Ordinary shares of HK$0.1 each	30,000,000,000	3,000,000
At 31 December 2014 and 2015 *(note a)*	**N/A**	**N/A**
Issued and fully paid		
At 1 January 2014		
— Ordinary shares of HK$0.1 each	5,586,356,671	558,636
Transfer pursuant to the new Hong Kong Companies Ordinance on 3 March 2014 *(note a)*	—	8,700,054
Conversion of convertible bonds on 9 May 2014 *(note 32)*	321,661,732	561,041
At 31 December 2014 and 1 January 2015	**5,908,018,403**	**9,819,731**
Exercise of share options *(note b)*	**3,000,000**	**15,568**
At 31 December 2015	**5,911,018,403**	**9,835,299**

Note:

(a) On 3 March 2014, the new CO came into effect and 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.

(b) During the year, the Company issued 3,000,000 shares upon exercise of share option by a director of the Company at an exercise price of $3.98 under the 2004 Scheme (as set out in note 33). These new shares rank pari passu in all respects with other shares in issue.

32. 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 years 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 2014	—	561,041	561,041
Conversion to ordinary shares *(Note)*	—	(561,041)	(561,041)
At 31 December 2014 and 31 December 2015	—	—	—

Note:

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.

33. SHARE OPTION SCHEME

(i) 2004 share option scheme

The Company's share option scheme (the "2004 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 2004 Scheme was valid and effective for a period of 10 years from its adoption and has expired on 5 July 2014.

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

33. SHARE OPTION SCHEME *(continued)*

(i) 2004 share option scheme *(continued)*

During the year ended 31 December 2014, share-based payment expense of HK$53,187,000 (2015: nil) was recognised in profit and loss and included in administrative expense, with a corresponding income in the share option reserve.

Except that a director of the Company exercised his 3,000,000 options upon resignation in September 2015 while another 3,000,000 options granted to employees who resigned during the year have not been exercised and hence forfeited, no other share options have been exercised, granted nor lapsed during both years. As at 31 December 2015, the number of share options outstanding is 144,000,000 (2014: 150,000,000).

In respect of the share options exercised during the year, the weighted average share price before the dates on which the share options were exercised was HK$6.84.

(ii) 2015 share option scheme

Following the expiry of the 2004 Scheme, the shareholders of the Company approved the adoption of a new 2015 share option scheme (the "2015 Scheme") at an extraordinary general meeting on 9 December 2015. The purpose of 2015 Scheme is to provide the Company with a flexible means of giving 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 2015 Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the 2015 Scheme unless the Company obtains a fresh approval from its shareholders. 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 in aggregate 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 by poll in general meeting.

33. SHARE OPTION SCHEME *(continued)*

(ii) 2015 share option scheme *(continued)*

Options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer (both dates inclusive) 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 which must be a business day; (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. There is no share options granted under 2015 Scheme during the year.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

	2015	2014
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of warehouse	**36,577**	31,268

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

	2015	2014
	HK$'000	*HK$'000*
Within one year	**26,025**	24,462
In the second to fifth year inclusive	**13,669**	22,332
Over five years	**4,394**	5,931
	44,088	52,725

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

35. CAPITAL AND OTHER COMMITMENTS

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

	The Group	
	2015	2014
	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	**526,512**	410,416
Other commitments *(note)*	**141,296**	154,295

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

36. DISPOSAL OF A SUBSIDIARY

For the year ended 31 December 2014

On 1 November 2014, the Group disposed of its 20% equity interest in Siping, a subsidiary of the Group owned 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 ended 31 December 2014.

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.

36. DISPOSAL OF A SUBSIDIARY *(continued)*

For the year ended 31 December 2014 *(continued)*

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

	HK$'000
Consideration:	
Cash received	27,500
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	76,981
Prepaid lease payments	21,970
Inventories	38,359
Trade and other receivables	106,056
Bill receivables	46,016
Tax recoverable	64
Deferred tax assets	468
Bank balances and cash	9,509
Trade and other payable	(120,280)
Tax liabilities	(738)
Unsecured bank loans	(37,500)
Net assets disposed of	140,905

	HK$'000
Gain on disposal of the subsidiary:	
Cash consideration	27,500
Fair value of retained interest classified as associate *(note 19)*	56,362
Net assets disposed of	(140,905)
Non-controlling interests	57,554
Gain on disposal	511
Net cash inflow arising on disposal:	
Cash consideration	27,500
Less: bank balances and cash disposed of	(9,509)
	17,991

Siping did not have any significant contribution to the results and cash flows of the Group during the period prior to the disposal.

37. 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$106,812,000 (2014: HK$96,894,000), of which HK$854,000 (2014: HK$865,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2015	2014	**2015**	2014	
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 British Virgin Islands	Limited liability	US$2	**100**	100	**—**	—	Investment holding
CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd	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

38. 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 % 2015	Directly % 2014	Indirectly % 2015	Indirectly % 2014	Principal activity
Zhongrun huanbao Technology (Shijiazhuang) Co., Ltd	The PRC	Foreign investment enterprise with limited liability	RMB1,000,000	**–**	–	**100**	100	Sewage and pharmaceutical by-products
CSPC Yinhu Pharmacentical. Co., Ltd	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000	**–**	–	**90**	90	Manufacture and sale of pharmaceutical products
Unigene	The PRC	Sino-foreign equity joint venture	US$7,000,000	**100**	100	**–**	–	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	Sale of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB45,000,000	**–**	–	**100**	100	Manufacture and sale of pharmaceutical products
CSPC 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
CSPC OYY Pharmaceutical Co., Ltd. ("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
CSPC Huasheng Pharmaceutical Co., Ltd	The PRC	Sino-foreign equity joint venture	RMB4,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Baike (Yantai) Biogharmaceutica Co., Ltd. ("Baike Yantai")	The PRC	Sino-foreign equity joint venture	RMB 223,000,000	**68.61**	68.61	**31.39**	31.39	Investment and property holding
Baike Shandong *(note a)*	The PRC	Foreign investment enterprises with limited liability	RMB 161,547,580	**–**	–	**100**	94.16	Manufacture and sales of pharmaceutical product

38. 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				Principal activity
				Directly %		Indirectly %		
				2015	2014	**2015**	2014	
Conjupro Bioerapecitics Inc.	The United States of America	Limited liability	USD5,966,285	**–**	–	**100**	100	Research and development in Pharmaceutical products
CSPC Medsolution (Ghana) Limited	Ghana	Foreign investment enterprise with limited liability	GHS437,400	**–**	–	**100**	100	Sales of pharmaceutical products
CSPC Hebei Guoweikang Medicines & Health Products Co., Ltd. ("CSPC GWK") *(note b)*	The PRC	Foreign investment enterprise with limited liability	RMB30,000,000	**–**	–	**99**	–	Manufacture and sale of pharmaceutical products

Notes:

a. On 17 September 2015, the Group's shareholding in Baike Shandong increased from 94.16% to 100% upon acquisition of additional interest in Baike Shandong.

b. CSPC GWK was newly established during the year by the Group and CHL, a related company, which holds 99% and 1% interest in CSPC GWK, respectively.

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.

39. STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

Statement of financial position

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment		**36**	58
Investments in subsidiaries	38	**9,994,683**	10,039,183
Amount due from a subsidiary		**359,643**	359,643
		10,354,362	10,398,884
Current assets			
Other receivables		**6,812**	6,603
Amounts due from subsidiaries		**1,807,612**	1,901,226
Bank balances and cash		**10,137**	23,433
		1,824,561	1,931,262
Current liabilities			
Other payables		**18,751**	19,137
Amount due to a subsidiary		**519,435**	520,196
Amount due to a related company		**6,019**	279,637
Tax liabilities		**48,747**	57,646
Unsecured bank loans		**416,166**	244,320
		1,009,118	1,120,936
Net current assets		**815,443**	810,326
Total assets less current liabilities		**11,169,805**	11,209,210
Non-current liabilities			
Unsecured bank loans		**465,001**	601,800
Net assets		**10,704,804**	10,607,410
Capital and reserves			
Share capital	31	**9,835,299**	9,819,731
Reserves		**869,505**	787,679
Total equity		**10,704,804**	10,607,410

The Company's statement of financial position was approved and authorised for issue by the board of directors on 21 March 2016 and are signed on its behalf by:

CAI Dongchen	**CHAK Kin Man**
DIRECTOR	*DIRECTOR*

39. STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE COMPANY *(continued)*

Statement of changes in equity

For the year ended 31 December 2015

	Share capital	Share premium	Other reserve	Convertible bonds	Share options reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note 32)*	*HK$'000* *(note 33)*	*HK$'000*	*HK$'000*
At 1 January 2014	558,636	8,700,054	835	561,041	128,246	604,765	10,553,577
Profit for the year	—	—	—	—	—	473,287	473,287
Dividend recognised as distribution *(note 14)*	—	—	—	—	—	(472,641)	(472,641)
Conversion of convertible bonds *(note 32)*	561,041	—	—	(561,041)	—	—	—
Recognition of equity-settled share-based payment expenses	—	—	—	—	53,187	—	53,187
Transfer pursuant to the new Hong Kong Companies Ordinary on 3 March 2014 *(note 31)*	8,700,054	(8,700,054)	—	—	—	—	—
At 31 December 2014 and 1 January 2015	**9,819,731**	**—**	**835**	**—**	**181,433**	**605,411**	**10,607,410**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**676,257**	**676,257**
Dividend recognised as distribution *(note 14)*	**—**	**—**	**—**	**—**	**—**	**(590,802)**	**(590,802)**
Exercise of share options	**15,568**	**—**	**—**	**—**	**(3,629)**	**—**	**11,939**
Forfeiture of share options	**—**	**—**	**—**	**—**	**(3,629)**	**3,629**	**—**
At 31 December 2015	**9,835,299**	**—**	**835**	**—**	**174,175**	**694,495**	**10,704,804**

Financial Summary

	For the year ended 31 December				
	2011	2012	2013	2014	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)				
Results					
Revenue	2,407,445	4,146,444	9,949,103	10,955,077	**11,393,726**
Cost of sales	(1,370,535)	(2,341,104)	(6,816,042)	(6,767,724)	**(6,172,848)**
Gross profit	1,036,910	1,805,340	3,133,061	4,187,353	**5,220,878**
Other income	28,010	38,693	211,402	134,558	**86,561**
Selling and distribution expenses	(452,844)	(757,297)	(1,300,739)	(1,788,032)	**(2,266,958)**
Administrative expenses	(138,325)	(235,363)	(620,291)	(551,697)	**(534,881)**
Other expenses	(31,140)	(87,797)	(243,455)	(307,814)	**(339,147)**
Operating profit	442,611	763,576	1,179,978	1,674,368	**2,166,453**
Finance costs	(21,705)	(60,090)	(72,537)	(54,358)	**(56,335)**
Share of results of					
— an associate	—	—	—	375	**141**
— a joint venture	—	(3,981)	(14,045)	588	**10,663**
Loss on disposal of an associate	—	—	—	—	**(8,873)**
Gain on disposal of subsidiaries	—	—	154,228	511	**—**
Recognition of fair values of financial guarantee contracts issued	(17,676)	(5,130)	—	—	**—**
Amortisation of financial guarantee liabilities	14,908	18,485	—	—	**—**
Changes in fair value of convertible bonds	—	(222,739)	—	—	**—**
Gain on bargain purchase	—	1,810,702	—	—	**—**
Profit before tax	418,138	2,300,823	1,247,624	1,621,484	**2,112,049**
Income tax expense	(60,964)	(131,975)	(258,324)	(337,153)	**(432,423)**
Profit for the year	357,174	2,168,848	989,300	1,284,331	**1,679,626**
Profit for the year attributable to:					
Owners of the Company	355,411	2,162,235	972,751	1,268,446	**1,665,271**
Non-controlling interests	1,763	6,613	16,549	15,885	**14,355**
	357,174	2,168,848	989,300	1,284,331	**1,679,626**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
	(Note)				
Earnings per share					
Basic	N/A	147.78	17.49	21.47	**28.18**
Diluted	N/A	52.04	16.54	21.26	**27.95**

Financial Summary

	As at 31 December				
	2011	2012	2013	2014	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)				
Assets and liabilities					
Total assets	2,408,914	13,698,711	12,200,547	12,501,230	**13,539,851**
Total liabilities	(1,447,962)	(6,934,966)	(4,603,747)	(4,349,702)	**(4,727,244)**
Net assets	960,952	6,763,745	7,596,800	8,151,528	**8,812,607**
Equity attributable to owners of the Company	949,379	6,586,760	7,452,620	8,079,154	**8,738,055**
Non-controlling interests	11,573	176,985	144,180	72,374	**74,552**
Total equity	960,952	6,763,745	7,596,800	8,151,528	**8,812,607**

Note:

The summary of the consolidated results of the Group for the year ended 31 December 2011, and of the consolidated assets and liabilities as at 31 December 2011, have been extracted from the Company's Circular dated 26 September 2012. 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 year ended 31 December 2011 as its inclusion, for the purpose of this report, is not considered meaningful.