聯邦制藥國際控股有限公司

The United Laboratories International Holdings Limited

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

ANNUAL REPORT 2014

讓 生 命 更 有 價 值
Our mission is to make life more valuable

Contents

2014 CORPORATE CALENDAR OF THE UNITED LABORATORIES

February 2014

Tenofovir Disoproxil Fumarate Tablets, a Category 6 new drug which used for anti-AIDS, received documents for clinical trial and has entered the clinical trial stage.

March 2014

The United Laboratories hosted the new product launch for Memantine Hydrochloride Series, products for treatment of Alzheimer's disease.

The United Laboratories and Pengzhou Land Bureau executed contracts to change the use of a land, and a financial subsidy of approximately HK$390.7 million was granted to the United Laboratories by Pengzhou Information Technology Bureau.

Zhuhai United Laboratories was ranked among the "2013 Top Five Exporters of Bulk Medicine for Western Medicines in China".

April 2014

Zhuhai United Laboratories' blended powder of bulk medicine successfully passed the domestic GMP certification.

Mr. Tsoi Hoi Shan, the Chairman of The United Laboratories International Holdings Limited, was nominated as a senior vice president of the Chinese Pharmaceutical Enterprises Association.

May 2014

The United Laboratories ranked at No. 24 among the 2013 Top 100 Chinese Pharmaceutical Companies published by SMERI.

The workshop of United Laboratories (Inner Mongolia) was awarded the title of "Workers' Pioneer in Inner Mongolia Autonomous Region".

A package upgrading was conducted for the United Laboratories "Yin Dan" series products, to realize a fashion-oriented change in package design.

June 2014

The United Laboratories was approved to manufacture Biapenem, a Category 3.1 new drug, becoming the first five domestic companies to manufacture such type of drugs.

The United Laboratories was approved to manufacture Piperacillin Sodium and Tazobactam Sodium for Injection (4:1) with specifications of 0.625g/vial, a drug for children, becoming the only three domestic companies currently approved to manufacture that drug with such specifications.

Tenofovir Disoproxil Fumarate Capsules, a self-developed drug of the United Laboratories for treatment of Hepatitis B, obtained the approval for clinical trials.

July 2014

Zhuhai United Laboratories was ranked The Third among the "Top Ten Exporters of Bulk Medicine" and the "Pioneers in Preparation Products Internationalization Among China's Pharmaceutical Companies".

September 2014

Tenofovir Disoproxil Fumarate Tablets entered the stage of pending for the production permit.

October 2014

Zhuhai United Laboratories successfully passed Romania's GMP certification.

November 2014

United Laboratories (Inner Mongolia) successfully passed ISO9001 and ISO24001 inspections.

Zhuhai United Laboratories successfully passed China's new GMP certification.

Zhuhai United Laboratories won titles of the "Top 100 Industrial Enterprises with the Best Comprehensive Strength in China's Chemical Pharmaceutical Industry 2014" and the "Outstanding Enterprise Brands in China's Chemical Pharmaceutical Industry 2014 (among category of bulk medicine exporters)".

December 2014

Insulin Aspart, successfully finished the clinical trial and prepared to apply for the production permit.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

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

Independent non-executive directors

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

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Zhuhai Branch
Huaxia Bank, Zhuhai Branch
China Minsheng Banking Corp., Ltd., Zhuhai Branch
Bank of China Limited, Zhuhai Branch
Shanghai Pudong Development Bank Co., Ltd
Guangzhou Science City Sub-branch

Hong Kong

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

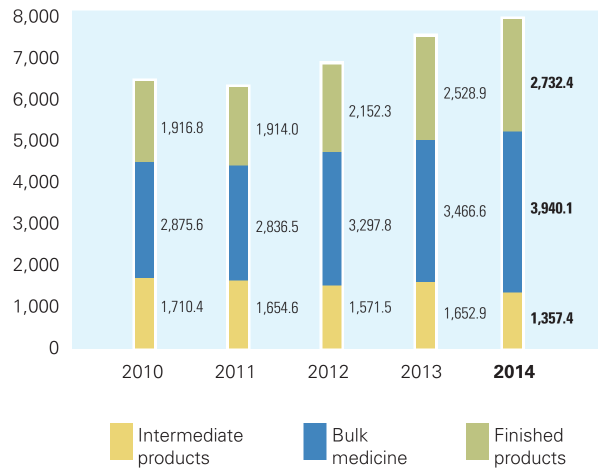
WEBSITE

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

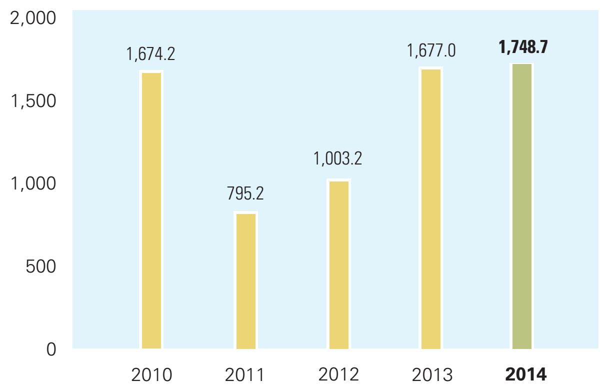
FINANCIAL HIGHLIGHTS

	2014 HK$'000	2013 HK$'000	Increase / (decrease) %
Turnover	**8,029,835**	7,648,443	5.0%
EBITDA	**1,748,700**	1,677,049	4.3%
Profit before taxation	**663,546**	901,348	(26.4%)
Profit for the year attributable to owners of the Company	**681,076**	48,037	1,317.8%
Earnings per share			
Basic	**HK41.86 cents**	HK2.95 cents	1,319.0%
Diluted	**HK41.86 cents**	HK2.95 cents	1,319.0%

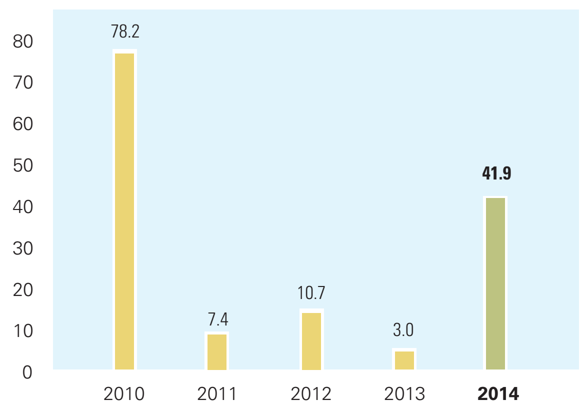
TURNOVER
(HK$ million)



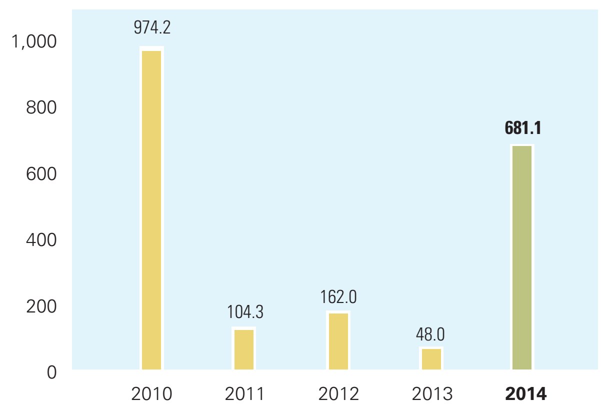
EBITDA
(HK$ million)



BASIC EARNINGS PER SHARE
(HK Cents)



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



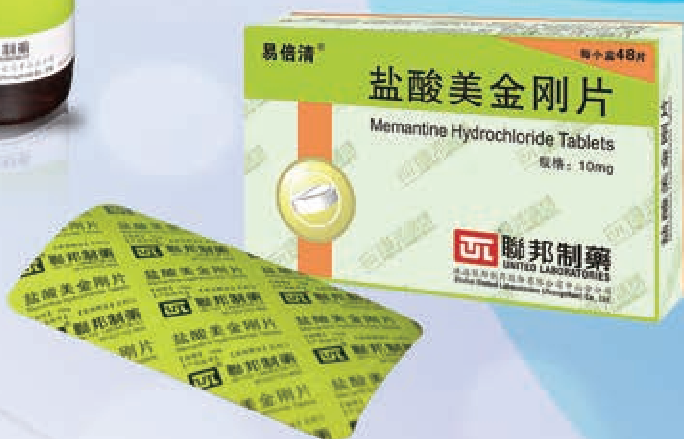
优思灵USLIN

Recombinant Human Insulin Products

- USLIN®R
- USLIN®30R
- USLIN®50R
- USLIN®N

Memantine Hydrochloride Oral Solution

Memantine Hydrochloride Tablets



银丹

Yin Dan Effervescent Tablets

- Safe and Natural
- Protecting Blood Vessels
- Adjusting Blood Lipid
- Traditional Chinese Medicine Formulas

Vitamin C Effervescent Tablets

(Blackcurrant Flavor)

One tablet per day to meet daily body needs

CHAIRMAN'S STATEMENT

Mr. Tsoi Hoi Shan
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "United Laboratories") for the year ended 31 December 2014.

In 2014, global economy was uncertain. The American economy presented a slow recovery and would step into a cycle of interest rate increases soon. The European economy remained unstable and relied on the support of easing monetary policies. The Chinese economy entered into a new normal stage of restructuring with its growth steadily slowing down, but population ageing accelerated, and residents' consciousness for medical and healthcare increased significantly. Therefore, the proportion of consumption and the service industry in the economy still rose. Mr. Li Keqiang, Premier of the State Council, chaired and convened a standing committee meeting of the State Council on 19 January 2015, to promote reform of the pharmaceutical and healthcare system with focus on improvement of the universal medical insurance system and consolidation of the essential medicine system and its application at grass-roots level while the government would continue to energetically support purchases of drugs and medical equipments by hospitals or other medical clinics. With constantly rising per capita income of domestic residents, the trend of national economic development and population ageing, improved living standard and larger medical insurance coverage, market demand for medical and healthcare also leverages significantly, driving the pharmaceutical industry to grow rapidly over the past several years, which would be propulsion for future growth. The overall operating environment of the Group was continuingly improved.

During the year under review, United Laboratories capitalised on its leading position in the industry and earnestly improved its core capacity, sought for opportunities amidst such a changing situation, with a view to realizing consistent growth of business. During the year, the Group's turnover amounted to approximately HK$8,029.8 million, an increase of 5.0% over that of 2013. EBITDA and profit before taxation were approximately HK$1,748.7 million and HK$663.5 million respectively, representing an increase of 4.3% and decrease of 26.4% over last year, respectively. The profit attributable to owners of the Company was approximately HK$681.1 million, representing an increase of 1,317.8% over last year. Earnings per share amounted to HK41.86 cents. The increase in profit was mainly as the overall gross profit margin was improved due to increase in selling

CHAIRMAN'S STATEMENT

prices of intermediate and bulk medicine products, and decrease in unit production costs through new production capacity being steadily released and the production technology of enzymatic bulk amoxicillin being mature of the Inner Mongolia plant; and in light of the cessation of operations of the Chengdu production plant of the Group, a financial subsidy of approximately HK$390.7 million was granted to United Laboratories (Chengdu), a wholly-owned subsidiary of the Group by the Pengzhou Information Technology Bureau while a compensation of approximately HK$609.1 million (equivalent to RMB484.1 million) was paid by United Laboratories (Chengdu) for changing the use of the land since United Laboratories (Chengdu), a wholly-owned subsidiary of the Company, and the Pengzhou Land Bureau executed contracts to change the use of a land.

The Board does not recommend payment of final dividend for the year ended 31 December 2014.

During the year, the Group recorded steady increase in sales. As the demand for antibiotics became more stable, the selling price of 6-APA, an intermediate product, grew steadily. The price of corn, a primary raw material of our intermediate product, remained stable during the year, effectively maintaining production costs of products. Phase V of the Group's Inner Mongolia plant commenced production during the year. With the Group actively researching and implementing enzymatic amoxicillin production technologies in new production capacities, vertical integration was further strengthened, thus effectively lowering production costs. The re-allocation of the Chengdu 6-APA production line was successfully completed and had already been integrated into the Inner Mongolia factories which helped the Group in optimising resource allocation to achieve higher cost efficiency.

For finished products, the promotion and bidding work of recombinant human insulin injection products went on smoothly. Leveraging on our advantages in sales teams deployed and services provided to basic medical institutions, the Group received orders from private hospitals, clinics of all levels and pharmacies during the year, with sales being especially prominent in Shandong, Henan, Liaoning, Jilin and Fujian provinces. During the year under review, sales revenue from recombinant human insulin products successfully achieved sales targets set at the beginning of the year.

After the Fourth Plenary Session of the 18th Central Committee of the Communist Party of China, new medical reform, guided by the banner of marketisation, is carried out steadily with a more defined focus. Auxiliary work is adjusted continuously and new policies are introduced, so as to support new medical reform. Important adjustments were also made to the national pharmaceutical policy, an important component of new medical reform in the past two years. Extensive explorations on centralised pharmaceutical procurement were carried out in every province. Taking the centralised pharmaceutical procurement in Hunan province for an example, under the pressure of a new round of price cut of drugs, the Group forged ahead, and 40 pharmaceutical products including recombinant human insulin product and memantine hydrochloride product, which is used for the treatment of Alzheimer's Disease were included in the proposed bidding results, during which our main products such as recombinant human insulin product and memantine hydrochloride product maintained a good price trend. Moreover, the Group will promote the growth of product sales more positively. It is expected that 2015 is a year of centralized pharmaceutical procurement, and the centralized procurement of various pharmaceutical products will be carried out successively during the Year. The encouraging result of winning the tender of Hunan province indicates that 2015 will be a fruitful year for the bidding work of United Laboratories' pharmaceutical products.

The Group continued to strengthen its research and development of biological products. The Group has applied to process pre-approval inspection of registered production site for Insulin Glargine (third generation

CHAIRMAN'S STATEMENT

insulin), and it is expected that the Group will obtain the production approval documents for Insulin Glargine and put it into production during the Year. Clinical trial for Insulin Aspart (third generation insulin) 30 injection products was completed successfully at the end of 2014, and we are currently preparing to apply for the production approval, which further promotes the optimization of the Group's insulin product line.

Moreover, the Group actively expanded the market for our new memantine hydrochloride, which is used for the treatment of Alzheimer's disease by introducing oral solutions and tablets in line with the market demand. The Group will strive to develop new dosage forms and specifications for memantine hydrochloride, so as to capture more market shares and continue to broaden the relevant market and develop relevant new products with increasing sales contributions, thus expand our finished products business. For new products, Levetiracetam Category 3.1 new drug which is used for the treatment of epilepsy) successfully passed the inspection of registered production site for drugs at the beginning of 2015. It is expected that United Laboratories will become the fourth company in China which is approved to manufacture such product, and more patients will benefit from this. The Group possesses a strong sales team with nearly 3,000 employees, effectively shortening the time for new products to enter the market and also provides the strongest driving force for the Group's new products on the market. The Group is currently developing 56 new products. As at 31 December 2014, 2 production approval documents and 2 documents for clinical trials have been obtained, 16 patents have been granted, while 9 patent applications are currently under review.

For overseas sales, the Group focused on expanding its export sales and overseas business progressed smoothly with export sales continuing to bring satisfactory contributions to the Group. Since 2013, all drugs imported into the EU must be produced by factories with EU or GMP certification. The Group has already obtained EU-CEP certification, FDA certification, official certification from Mexico and GMP certification from Japan and certification from Russia and India. Leveraging on our internationally approved production capabilities and products possessing significant price advantage. Although the Group's overseas sales had a slightly decrease of around 2.8% in 2014 due to unstable global economy, export sales of the Group with a promising prospect are expected to be one of the drivers for future profitability.

For financial strategy, the Group seized market opportunities and optimised the financial structure during the year through measures such as three-year financing leases to ensure adequate working capital. In January 2015, the Company as borrower entered into two additional facility agreements with China Development Bank Corporation Hong Kong Branch for a HK$300 million guaranteed term-loan facility and a HK$300 million unsecured term-loan facility respectively. Besides, the Group and AYERS Alliance Securities (HK) Limited entered into a placing agreement in January 2015, pursuant to which the Company established a bond issue programme for the issuance from time to time, of bonds with a term of three years in an aggregate principal amount of up to HK$1 billion. The purpose of establishing the bond issue programme is to enhance the Company's flexibility and efficiency for future funding or capital management.

On 24 April 2014, the amendment to the Environmental Protection Law was adopted by the Standing Committee of the National People's Congress ("NPCSC"), and the new Environmental Protection Law came into force in 2015. As a giant in the PRC pharmaceutical industry, United Laboratories continued to be committed to promoting environmental protection.

According to the report of Frost & Sullivan, the compound annual growth rate of China's pharmaceutical market for 2014 to 2017 will be 16%. In addition, the Ministry of Health of the PRC recently pointed out

CHAIRMAN'S STATEMENT

a total of RMB400 billion will be used in the seven major medical system projects before 2020 with an average annual investment amount of RMB50 billion, and expected expenses relating to medical to be in an upward trend in future. On the other hand, with the Chinese government's increasingly stringent regulation on the industry, integration of the industry will be accelerated. Under such operation circumstance, the Group, leveraging its advantages as one of the top players in the industry, is anticipated to benefit from the integration of the industry.

Looking forward, with the further enrichment of its insulin product line, profitability of the United Laboratories is expected to be further enhanced. Through active development of new products and constant technological innovation, the Company progressively increased the proportion of sales attributable to finished products and significantly extended the cost advantage of antibiotics products, as a result, the Company's profitability got gradually enhanced and product structure further enriched. For new production capacities, phase V of the Inner Mongolia plant has commenced full operation. Not only does the expansion of production capacity lower production cost and raise efficiency, it is also expected that planned production capacity can meet future development needs to effectively accommodate the rate of expansion of the export and domestic markets. Overall gross profit of the Group will be improved due to the further decrease in production costs resulting from the commencement of full operation of the Inner Mongolia plant, which enables us to drive on the advantages lying in the production efficiency of integrated production, and its production technology of enzymatic bulk amoxicillin being mature.

In the future, the Group shall continue to implement its existing business development strategies. We will strengthen penetration in rural market and essential drugs market in China by making good use of our competitive price advantage as well as the extensive sales networks, and put great efforts to increase overseas sales, and actively explore new markets with growth potentials. The Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. At the same time, we will continue to regard the recombinant human insulin products as the key product of the Group and invest substantial resources to capture a larger market share. We will consider promoting the sales of related products to overseas markets as the Group's recombinant human insulin products have reached international standards in terms of quality and production technology. Also, the Group will focus on expanding the sale of OTC products, Chinese medicine and health products, driving the growth of finished products.

Leveraging on the Group's advantages in economies of scale, we are confident that we can seize market opportunities, accelerate the cultivation of innovation ability and reinforce our scientific research ability by taking advantage of the great opportunity of industrial transformation and upgrading, and maintain the Group's sustainable growth momentum, hence creating the highest value for our shareholders, clients and stakeholders.

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

Tsoi Hoi Shan
Chairman

Hong Kong, 30 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

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

For the year ended 31 December 2014, the Group's turnover was approximately HK$8,029.8 million, an increase of 5.0% as compared with last year. The profit attributable to shareholders was approximately HK$681.1 million, representing an increase of 1,317.8% as compared with last year. The substantial increase in annual net profit of the Group for the year ended 31 December 2014 is attributable to a number of factors as below:

– The overall gross profit of the Group was improved due to decrease in production costs through production capacity being steadily released and the production technology of enzymatic bulk amoxicillin being mature of the Inner Mongolian's plant;

– In light of cessation of the operations of the Chengdu plant last year, a subsidy income from the local government of approximately HK$390,660,000 was received during the year;

– The construction of the new facilities in Inner Mongolia plant gradually completed and commenced production this year. The amount of interest capitalised was decreased in the year. Thus, it resulted in increase in financial costs for the current year as compared with last year; and

– The fair value of the investment properties in Chengdu decreased as at 31 December 2014 compared with last year as the real estate market in China continued to be sluggish this year.

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Leung Wing Hon, Vice-Chairman

During the year, segmental turnover (including inter-segment sales) of intermediate products decreased by 2.3% and bulk medicine and finished products increased by 13.9% and 8.0% respectively as compared with last year. Segmental result of intermediate products, bulk medicine and finished products increased by 214.4%, 705.3% and 20.3% respectively as compared with last year.

Looking back, China's pharmaceutical market remained basically stable in 2014. The government continued to reform and improve the domestic medical system, enhance public medical services and enhance medical level, which expanded the demands from different sectors of the community for medical services and products, especially the Group's high quality pharmaceutical products which possess market advantages. The Group's operations during the year are summarized as follows:

Higher gross profit margin of intermediate and bulk medicine products

Prices of intermediate and bulk medicine products continued to increase in the first half of the year and remained steadily in the second half of the year. Moreover, the full production of the Group's Inner Mongolia plant, the efficient vertically integrated production and the increasingly sophisticated enzymatic amoxicillin production technologies further reduced production costs, all contributing to a higher gross profit margin of bulk medicine products.

Increased sales of finished products

The Group's recombinant human insulin products was officially included in the Essential Drugs List (2012 edition) in May 2013, which accelerated the Group's promotion and bidding work in various levels of medical institutions across the country. In the second half, the Group's bidding work with public medical institutions in various provinces and municipalities proceeded smoothly and successfully bid for a number of new contracts. Moreover, the Group's insulin products explored the domestic market and captured a larger market share.

Completion of the change of the land usage of Chengdu plant

During the first half of 2013, the Group has decided to relocate its 6-APA production lines in Chengdu plant to the Inner Mongolia production plant. The Group had applied to relevant government authorities to change the usage of the land in Chengdu plant into commercial, service industry facility and residential uses and obtained the approval. During the period, the Group obtained government subsidies of approximately HK$390,660,000, and the related plant has undergone necessary procedures in respect of its land use and is ready for redevelopment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had pledged bank deposits and cash and bank balances amounted to HK$2,217.8 million (2013: HK$1,967.5 million).

As at 31 December 2014, the Group had interest-bearing bank borrowings of approximately HK$5,892.7 million (2013: HK$6,379.6 million), which were denominated in Hong Kong dollars, Renminbi and United States dollars with maturity within five years. Bank borrowings of approximately HK$4,155.0 million are fixed rates loans while the remaining balance of approximately HK$1,737.7 million is at floating rates. The directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2014, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2014	2013
	HK$'000	HK$'000
Property, plant and equipment	**196,957**	172,128
Land use rights	**38,747**	34,965
Bills receivables	**1,100,872**	1,368,669
Pledged bank deposits	**1,214,683**	886,824
	2,551,259	2,462,586

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2014, current assets of the Group amounted to approximately HK$6,623.8 million (2013: HK$6,541.6 million). The Group's current ratio was approximately 0.74 as at 31 December 2014, as compared with 0.66 as at 31 December 2013. As at 31 December 2014, the Group had total assets of approximately HK$18,918.2 million (2013: HK$19,600.2 million) and total liabilities of approximately HK$11,949.1 million (2013: HK$13,118.4 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less pledged deposit against finance leases, pledged bank deposits and cash and bank balances to total equity) of 72.3% as at 31 December 2014, as compared with 87.1% as at 31 December 2013.

CURRENCY EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

As at 31 December 2013 and 2014, the Group had no material contingent liabilities.

CAPITAL COMMITMENT

At 31 December 2014, the Group had commitments for capital expenditure of HK$995,247,000 (2013: HK$990,844,000) in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements.

OUTLOOK FOR 2015

Looking into 2015, we remain cautiously optimistic on the development of China's pharmaceutical market. It is expected that the Chinese government will adopt quality-prioritized reform policies on the PRC pharmaceutical industry, and thus the Group will possess market advantage leveraging our high quality products. The Group is prepared to continue to increase its market share in China and overseas markets. Our development strategies in various aspects are as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group continued to strengthen research and development on biological finished products. Insulin Glargine (third generation insulin) has currently entered the registered pharmaceutical production site inspection stage prior to application for approval, and is anticipated to receive approval documents for and commence production within 2015. As for new products, Levetiracetam, our Category 3.1 new drug, which is used for the treatment of epilepsy, successfully passed the registered pharmaceutical production site inspection early in 2015. It is expected that the Group will become the fourth domestic company to be approved to produce such type of drugs, which will benefit more patients. Currently, we have 56 new products being developed, and received 2 approval documents for production and 2 for clinical trials, and had 16 patent registration applications been approved and another 9 pending approval in the year ended 31 December 2014. The Group will further enhance marketing and sales efforts for its recombinant human insulin products, to win a larger market share leveraging the price advantage of these products, which is expected to bring in substantial revenue for the Group in the long run.

Reorganising product lines and enhancing efficiency of the Inner Mongolia plant

The Group will continue to enhance the production efficiency of the Inner Mongolia plant and produce more amoxicillin, the major bulk medicine products with higher profit margin, so as to improve the gross profit margin of the Group on the whole. In addition, the Group will actively research new production technology and improve the existing production process to enhance efficiency and lower cost in order to enhance the competitiveness of the Group's product on the market.

Extending the bidding contracts for finished products

The Group will take active approaches to participate in tenders for finished products of medical institutions of various types in various provinces, municipalities and prefectures, in order to further increase the sales of our finished products and reinforce our profitability. In view of our advantages in product quality and price and our excellent sales team of around 3,000 talents, we are confident about the outcome of our bidding work in the coming year.

EMPLOYEES AND REMUNERATION

As at 31 December 2014, the Group had approximately 12,000 (2013: 12,000) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2014.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (蔡海山), aged 37, is an executive director and the Chairman of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible to supervise the production process at the Hong Kong Yuen Long Plant and ensure that it is in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is the son of Mr. Choy Kam Lok, who is the former Chairman of the Company, and the brother of Ms. Choy Siu Chit, who is an executive director of the Company. Mr. Tsoi is one of the discretionary objects of a discretionary trust established by the settlement deed dated 7 February 2007 made between Mr. Choy Kam Lok (as settler) and Nautilus Trustees Asia Limited (formerly known as DBS Trustee H.K. (Jersey) Limited) (as trustee).

Mr. Leung Wing Hon (梁永康), aged 53, is an executive director, the Vice-Chairman, the Chief Financial Officer and Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Association of International Accountants and a fellow member of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom respectively. Mr. Leung had previously worked for an international accounting firm and had also held the position of accounting manager in a subsidiary of Chinney Investment Ltd., a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung has over 20 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Ms. Choy Siu Chit (蔡紹哲), aged 42, is an executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the daughter of Mr. Choy Kam Lok, the former Chairman of the Company, and the sister of Mr. Tsoi Hoi Shan, an executive director and Chairman of the Company.

Mr. Fang Yu Ping (方煜平), aged 52, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. Mr. Fang joined the Group in 1995 and was promoted to vice president of the Group in 2008. He is the general manager of China Sales Division.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Ms. Zou Xian Hong (鄒鮮紅), aged 50, is an executive director and a vice president of the Group. Ms. Zou graduated from Nanjing Medical College of China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science and engineering at the Business School of Central South University. Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group.

Ms. Zhu Su Yan (朱蘇燕), aged 50, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor of medicine and surgery degree in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu Province, manager and vice president of national hospital development department and the deputy general manager of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Independent non-executive directors

Mr. Chong Peng Oon (張品文), aged 66, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee and remuneration committee and a member of the nomination committee. Mr. Chong qualified as a Chartered Accountant in 1974 and has been in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small enterprises to large listed groups in the service and manufacturing sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax consulting for companies in Hong Kong and China. He has been a member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants since 1998 and a Registered Accountant of the Malaysian Institute of Accountants since 1981. He was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and has been a Fellow Member of the Institute since 1981.

Mr. Huang Bao Guang (黃寶光), aged 67, was appointed as an independent non-executive director on 25 May 2007, and is a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Huang has over 30 years' experience in the PRC pharmaceutical industry. Mr. Huang graduated from the PRC Party College in Guangdong Province with tertiary education qualification in July 2002. Mr. Huang was the deputy general manager of Zhuhai Pharmaceutical Corporation since April 1990, and was the general manager of Zhuhai Pharmaceutical Corporation from October 1992 to October 1997. Mr. Huang was the deputy head of the Administration Bureau of Pharmaceuticals of Guangdong Province from October 1997 to June 2001. From June 2001 to October 2004 Mr. Huang was the deputy head of the Zhuhai SFDA.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Prof. Song Ming (宋敏), aged 53, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Prof. Song Ming graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. He is now a university professor, a PhD supervisor and director of the Finance Department in School of Economics of Peking University. He has served as a professor of finance in Faculty of Business and Economics of The University of Hong Kong since 1997. He has been director of HKU-the Centre of China Financial Research since 2002, and vice-chairman of Chinese Financial Association of Hong Kong since 2008. Professor Song concurrently holds different positions such as a postdoctoral mentor of China Securities Regulatory Commission and Shenzhen Stock Exchange, and a member of the Advisory Committee of Qianhai Shenzhen-Hong Kong Modern Service Cooperation Zone of Shenzhen. He has published a number of monographs on his research fields of financial market, bank, financial regulation and management as well as the financial development of China. He also published dozens of academic articles in top international journals such as Journal of Financial Economics, The Journal of Business, The Economic Journal and well-known Chinese journals such as Social Sciences in China (《中國社會科學》) and Economic Research Journal (《經濟研究》). He also acts as editor in chief or a member of the editorial board of various domestic and international finance and economics journals. He often accepts interviews with domestic and foreign mainstream media. As an economic advisor to the government, He also participates in the advisory work and research on major economic and financial policies. Prof. Song is also an independent non-executive director of Guotai Junan International Holdings Limited (Stock Code: 1788) and Wuzhou International Holdings Limited (Stock Code: 1369), both are listed in the main board of the Stock Exchange of Hong Kong.

Ms. Fu Xiao Nan (傅小楠), aged 44, has been appointed as an independent non-executive director of the Company on 10 December 2012. She is a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Fu has over ten years of experience in investment banking and financial services. She is currently an assistant to the Chief Executive Officer of 華泰聯合證券有限責任有限公司 (Huatai United Securities Co., Ltd.) ("Huatai United Securities"), the holding company of Huatai Securities Co., Ltd., a company listed on the Shanghai Stock Exchange. She joined the investment banking division of Huatai United Securities in May 2011 and was appointed to her current position in July 2012. Prior to joining Huatai United Securities, Ms. Fu held senior management positions in various investment banks. Ms. Fu is a registered sponsor representative of China Securities Regulatory Commission since 2007. From June 2008 to March 2010, Ms. Fu was also appointed as an independent non-executive director of Blue Star Cleaning Co., Ltd. (藍星清洗股份有限公司) (now known as Chengdu Xingrong Investment Co., Ltd. (成都市興蓉投資股份有限公司)), a company listed on the Shenzhen Stock Exchange. Ms. Fu obtained a bachelor degree in Economics from Minzu University of China (中央民族大學), a master degree in Accounting from the Central University of Finance and Economics (中央財經大學) and a degree in Executive Master in Business Administration (EMBA) from the Cheung Kong Graduate School of Business.

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷), aged 48, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Liu Bing Yang (劉炳楊), aged 64, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Zhang Wen Yu (張文玉), aged 46, is the general manager of United Laboratories (Inner Mongolia) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Inner Mongolia factory.

Mr. Dou Zhen Guo (竇振國), aged 39, is the factory manager of the Group's production plant in Zhuhai. Mr. Dou graduated from Shenyang Pharmaceutical University in July 1999, majoring in chemical pharmacy; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from Jilin University in 2010, with a master in pharmaceutical engineering. From 1999 to 2011, Mr. Dou worked on different positions in the Group's production plant in Zhuhai, such as technician, quality inspector, manager of production department, workshop supervisor and assistant factory manager, and received the Zhuhai Labour Model award in 2007. Since 2012, Mr. Dou has been chairman of the management committee as well as factory manager of the Group's production plant in Zhuhai, primarily responsible for the overall management and operation of the Group's bulk medicine plant in Zhuhai.

Ms. Su Li Hong (蘇麗紅), aged 46, is the general manager of the Group's bulk medicine sales department. Ms. Su graduated from China Pharmaceutical University in July 1991, majoring in Chinese traditional medicine; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from The University of International Business and Economics in 2007, with a master in international trade. From 1996 to 2011, Ms. Su worked on different positions in the Group's branch plant in Zhongshan and bulk medicine plant in Zhuhai, such as manager of the administrative personnel department, manager of the procurement department, manager of the bulk medicine sales department, manager of the foreign trade department, assistant factory manager, Chief Marketing Officer and Chief Foreign Trade Officer. Since 2012, Ms. Su has been general manager of the international bulk medicine sales department of the United Laboratories, primarily responsible for sales and management of the Group's intermediate and bulk medicine products on the overseas market.

Mr. Zheng Shun Teng (**鄭順騰**), aged 38, is the operating general manager of the Group's bulk medicine sales department. Mr. Zheng graduated from China Pharmaceutical University in 2002, majoring in Pharmacy. Joining in 1997, he worked successively as the head of the orally-taken solid workshop, the assistant to manager of the production department, the manager of the procurement department, and the director of the powder injection workshop of Zhongshan factory. In July 2006, he was re-designated to the Group's bulk medicine sales department as the manager of the Eastern China region, the manager of the senior region, the sales director of the Eastern China region and the Southern China region, and the sales director of the regions of India, Middle East and Africa. Mr. Zheng has been the operating general manager of the Group's bulk medicine sales department since 2014, primarily responsible for sales and management of the Group's intermediate and bulk medicine products on the Chinese market.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in note 40 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2014 is set out in note 8 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36 of this annual report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2014.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 123 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements and reasons of the movements in the share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE PREMIUM AND RESERVES

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

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately HK$4,183.0 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 39 and 40 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarised in note 32 to the consolidated financial statements.

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2014, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

In 2014, the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

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

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2014 and up to the date of this report were as follows:

Executive Directors

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

Independent Non-Executive Directors

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

In accordance with article 87 of the Company's articles of association, Ms. Zou Xian Hong, Mr. Chong Peng Oon, Mr. Huang Bao Guang, and Ms. Fu Xiao Nan will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors of the Company are set out on pages 17 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract with the Company. Mr. Tsoi shall be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$3,840,000 per annum.

Mr. Leung Wing Hon has entered into a service contract with the Company under which the annual salary payable by the Company to Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. He will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

REPORT OF THE DIRECTORS

The basic emolument of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive directors of the Company with reference to performance of the Group. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company.

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

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

Each of Mr. Chong Peng Oon, Mr. Huang Bao Guang and Prof. Song Ming has entered into a letter of appointment with the Company. The annual director's fee for each of the above three independent non-executive directors is HK$240,000.

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

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

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

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

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

As at 31 December 2014, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	225,000	Personal interest	0.00%
Mr. Leung Wing Hon	657,500	Personal interest	0.04%
Ms. Choy Siu Chit	36,000	Personal interest	0.00%
Mr. Fang Yu Ping	460,000	Personal interest	0.03%
Ms. Zou Xian Hong	100,000	Personal interest	0.01%
Ms. Zhu Su Yan	150,179	Personal interest	0.01%
Prof. Song Ming	75,000	Personal interest	0.00%

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

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

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

Name	*Notes*	**Number of shares held**	**Percentage of Interest**
Mr. Choy Kam Lok, deceased ("Mr. Choy")	*(1)*	1,193,127,500 (L)	73.34%
	(2)	118,750,000 (S)	7.30%
Ms. Ning Kwai Chun ("Ms. Ning")	*(3)*	1,193,127,500 (L)	73.34%
		187,890,000 (L)	11.55%
		118,750,000 (S)	7.30%
Heren Far East Limited ("Heren")		1,006,250,000 (L)	61.85%
Gesell Holdings Limited ("Gesell")	*(4)*	1,006,250,000 (L)	61.85%
Nautilus Trustees Asia Limited	*(5)*	1,006,250,000 (L)	61.85%

L/S: Long position/short position

Note:

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

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

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

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

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

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2014.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 28 to 33 of this annual report.

PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board

Tsoi Hoi Shan
Chairman and Executive Director

Hong Kong, 30 March 2015

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2014, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, except for certain deviations which are summarized below:

– Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2014, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director was unable to attend the annual general meeting of the Company held on 3 June 2014 due to other important engagement.

THE BOARD

The Board comprises six executive directors and four independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 17 to 19. The Board has established three Board committees namely Audit Committee, Remuneration Committee and Nomination Committee. The attendance rates of individual directors at board meetings, annual general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Tsoi Hoi Shan	4/4	1/1	N/A	N/A	N/A
Mr. Leung Wing Hon	4/4	1/1	N/A	N/A	N/A
Ms. Choy Siu Chit	4/4	1/1	N/A	N/A	N/A
Mr. Fang Yu Ping	4/4	1/1	N/A	N/A	N/A
Ms. Zou Xian Hong	4/4	1/1	N/A	N/A	N/A
Ms. Zhu Su Yan	4/4	1/1	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Chong Peng Oon	4/4	1/1	2/2	1/1	1/1
Mr. Huang Bao Guang	3/4	1/1	1/2	1/1	1/1
Prof. Song Ming	4/4	1/1	2/2	1/1	1/1
Ms. Fu Xiao Nan	4/4	0/1	2/2	1/1	1/1

CORPORATE GOVERNANCE REPORT

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

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

CHAIRMAN

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE REPORT

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

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The members of the Remuneration Committee comprise of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the Chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the CG Code, but with a deviation from the code provision of the Remuneration Committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

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

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

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

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

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

AUDIT COMMITTEE

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

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

NOMINATION COMMITTEE

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

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2014.

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

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2014, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

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

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2014, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit service in 2014 amounted to approximately HK$4,438,000 and HK$1,546,000 respectively.

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Making Enquiry to the Board

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

INVESTOR RELATIONS

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

With the Company's Vice-Chairman, Mr Leung Win Hon, fully on board, the Company is well positioned with an experienced investor relations team supporting the various investor relations initiatives. Ms Karen Yang joined the team as the Investor Relations Officer in August 2014. The new team will continue to work towards further enhancing the communication with investors through various platforms such as roadshows, meetings, plant visits, conference calls and other forms of engagement. In addition, the investor relations department will continue to implement various exercises towards building a targeted shareholders base that supports the investment proposition of the company to correctly reflect its valuation.

Effective investor relations communication is an integral part of the Company's management philosophy. In 2015, the Company will continue to maintain effective communication with investors. Through the investor relations department's efforts, the Company aspired to instill further confidence among investors and enhance their understanding of our business.

On behalf of the Board

Leung Wing Hon
Vice-Chairman and Executive Director

Hong Kong, 30 March 2015

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 122, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of the Group's profit and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	*8*	**8,029,835**	7,648,443
Cost of sales		**(4,801,444)**	(5,010,782)
Gross profit		**3,228,391**	2,637,661
Other income	*9*	**509,151**	78,253
Other gains and losses	*10a*	**(10,079)**	14,573
Selling and distribution expenses		**(1,252,067)**	(1,231,296)
Administrative expenses		**(719,065)**	(556,073)
Other expenses	*10b*	**(291,839)**	(387,146)
Impairment loss recognised in respect of property, plant and equipment	*17*	**(110,064)**	(808,363)
(Loss) gain on fair value change on investment properties	*19*	**(315,730)**	1,355,261
Loss on fair value change of embedded derivative components of convertible bonds		**(3,191)**	(376)
Finance costs	*11*	**(371,961)**	(201,146)
Profit before taxation		**663,546**	901,348
Tax credit (expenses)	*13*	**17,530**	(853,311)
Profit for the year attributable to owners of the Company	*14*	**681,076**	48,037
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(193,788)**	217,135
Fair value change upon transfer of land use rights to investment properties		**–**	318,852
Taxation relating to fair value change upon transfer of land use rights to investment properties		**–**	(196,884)
Total comprehensive income for the year attributable to owners of the Company		**487,288**	387,140
Earnings per share (HK cents)	*16*		
– Basic		**41.86**	2.95
– Diluted		**41.86**	2.95

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	17	**9,616,785**	9,807,079
Investment properties	19	**1,634,245**	2,320,316
Properties held for development	19	**318,707**	–
Prepaid lease payments	18	**268,271**	114,275
Goodwill	20	**3,777**	3,866
Intangible assets	21	**54,517**	60,674
Deposit for land use rights		**7,602**	169,094
Deposits for acquisition of property, plant and machinery		**186,572**	464,635
Pledged deposit against finance leases	27	**162,019**	100,772
Deferred tax asset	29	**41,929**	17,911
		12,294,424	13,058,622
Current assets			
Inventories	22	**1,417,886**	1,271,855
Trade and bills receivables, other receivables, deposits and prepayments	23	**2,981,580**	3,290,653
Derivative financial instruments	24	**227**	7,917
Prepaid lease payments	18	**6,307**	3,632
Pledged bank deposits	25	**1,214,683**	886,824
Bank balances and cash	25	**1,003,079**	1,080,713
		6,623,762	6,541,594
Current liabilities			
Trade and bills payables and accrued charges	26	**3,570,047**	4,274,793
Derivative financial instruments	24	**27,590**	7,364
Obligations under finance leases – due within one year	27	**696,019**	549,357
Tax payables		**62,831**	32,870
Borrowings – due within one year	28	**4,557,651**	4,998,359
		8,914,138	9,862,743
Net current liabilities		**(2,290,376)**	(3,321,149)
Total assets less current liabilities		**10,004,048**	9,737,473

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Deferred tax liabilities	*29*	**768,120**	983,132
Deferred income in respect of government grants	*26*	**103,315**	107,271
Obligations under finance leases			
– due after one year	*27*	**704,960**	669,145
Borrowings – due after one year	*28*	**1,335,013**	1,381,240
Convertible bonds	*30*	**123,523**	114,856
		3,034,931	3,255,644
		6,969,117	6,481,829
Capital and reserves			
Share capital	*31*	**16,269**	16,269
Reserves		**6,952,848**	6,465,560
Equity attributable to owners of the Company		**6,969,117**	6,481,829

The consolidated financial statements on pages 36 to 122 were approved and authorised for issue by the Board of Directors on 30 March 2015 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Revaluation reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2013	16,269	2,656,294	286,032	531,213	–	774,437	1,830,444	6,094,689
Changes in equity during the year:								
Exchange differences arising on translation to presentation currency	–	–	–	–	–	217,135	–	217,135
Fair value change upon transfer of land use right to investment properties	–	–	–	–	318,852	–	–	318,852
Taxation relating to fair value change upon transfer of land use rights to investment properties (Note 29)	–	–	–	–	(196,884)	–	–	(196,884)
Profit for the year	–	–	–	–	–	–	48,037	48,037
Total comprehensive income for the year	–	–	–	–	121,968	217,135	48,037	387,140
Appropriations	–	–	–	42,754	–	–	(42,754)	–
At 31 December 2013	16,269	2,656,294	286,032	573,967	121,968	991,572	1,835,727	6,481,829
Changes in equity during the year:								
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**–**	**(193,788)**	**–**	**(193,788)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**681,076**	**681,076**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(193,788)**	**681,076**	**487,288**
Appropriations	**–**	**–**	**–**	**45,603**	**–**	**–**	**(45,603)**	**–**
At 31 December 2014	**16,269**	**2,656,294**	**286,032**	**619,570**	**121,968**	**797,784**	**2,471,200**	**6,969,117**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Operating activities		
Profit before taxation	**663,546**	901,348
Adjustments for:		
Provision (reversal) of allowance for inventories	**8,026**	(3,841)
Write-down of long aged deposit and prepayment	**32,434**	21,128
Provision of allowance for doubtful debts	**16,956**	7,510
Amortisation of intangible assets	**5,112**	2,221
Amortisation of prepaid lease payments	**5,756**	4,563
Depreciation of property, plant and equipment	**702,325**	567,771
Fair value change on investment properties	**315,730**	(1,355,261)
Government grants in relation to cessation of production in Chengdu	**(390,660)**	–
Impairment loss recognised in respect of property, plant and equipment	**110,064**	808,363
Finance costs	**371,961**	201,146
Interest income	**(31,708)**	(25,196)
Net (gain) loss on disposal of property, plant and equipment	**(5,245)**	21,290
Fair value loss on derivative financial instruments	**834**	1,588
Loss on fair value change of embedded derivative components of convertible bonds	**3,191**	376
Operating cash flows before movements in working capital	**1,808,322**	1,153,006
(Increase) decrease in inventories	**(185,408)**	553,855
Decrease (increase) in trade and bills receivables, other receivables, deposits and prepayments	**230,643**	(450,554)
Change in derivative financial instruments	**27,080**	(2,384)
Increase in trade and bills payables and accrued charges	**121,591**	342,253
Cash generated from operations	**2,002,228**	1,596,176
Income taxes paid	**(169,999)**	(116,726)
Net cash from operating activities	**1,832,229**	1,479,450
Investing activities		
Payments for purchase of property, plant and equipment	**(691,716)**	(2,046,117)
Proceeds on disposal of property, plant and equipment	**82,952**	49,763
Placement of pledged bank deposits	**(2,793,208)**	(1,869,098)
Receipt of government subsidy relating to property, plant and equipment	**–**	8,811
Receipt of government grants in relation to cessation of production in Chengdu	**390,660**	–
Release of pledged bank deposits	**2,445,494**	2,252,822
Interest received	**31,708**	25,196
Acquisition of intangible assets	**(324)**	–
Payment for deposit of land use rights	**(7,643)**	(377)
Payment of premium for change of use of land	**(609,129)**	–
Net cash used in investing activities	**(1,151,206)**	(1,579,000)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Financing activities		
Interest paid	**(472,210)**	(439,982)
Finance leases raised	**876,516**	859,061
Repayments of obligations under finance leases	**(664,937)**	(301,509)
Placement of pledged deposits against finance leases	**(75,174)**	(100,772)
New borrowings raised	**5,566,424**	6,129,096
Repayment of borrowings	**(5,975,864)**	(4,757,815)
Partial redemption of principal of convertible bond	**–**	(875,149)
Net cash (used in) from financing activities	**(745,245)**	512,930
Net (decrease) increase in cash and cash equivalents	**(64,222)**	413,380
Effect of foreign exchange rate changes	**(13,412)**	21,208
Cash and cash equivalents at beginning of the year	**1,080,713**	646,125
Cash and cash equivalents at end of the year	**1,003,079**	1,080,713
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,003,079**	1,080,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 40.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014, the Group had net current liabilities of HK$2,290,376,000 which included borrowings due within one year of HK$4,557,651,000. The directors believe the existing bank borrowings included in current liabilities at the end of the reporting period could be successfully renewed on maturity date based on prior experiences. In addition, the Group had available unutilised borrowing facilities of HK$6,635,120,000 at 31 December 2014 which can be utilized before maturity of the facilities and will be subject to review upon maturity. The directors are of the opinion that the Group has a good track record and maintains good relationship with banks which enhance the Group's ability to renew the borrowing facilities upon expiry.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

For the purpose of preparing and presenting the consolidated financial statements, the Group has adopted the amended Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), and interpretations ("HK(IFRIC) – Int") for the first time in this year, which are mandatorily effective for the accounting period beginning on 1 January 2014.

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

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

HKFRS 9	Financial Instruments[6]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[5]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
Amendments to HKAS 1	Disclosure Initiative[4]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[4]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[4]

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

Other than HKFRS 15 disclosed below, the directors of the Company anticipate that the application of other new and revised standards, amendments and interpretations will have no material impact on the Group.

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

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance (Cap. 32).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are measured at fair values at the end of 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.

The principal accounting policies are set out below.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

Property, plant and equipment

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

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

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

Leases

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Sale and leaseback resulting in a finance lease

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined use, which is regarded as held for capital appreciation purpose. Investment properties are initially measured at cost, including any directly attributable expenditure.

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

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

Leasehold land and building

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building *(Continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditures

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Inventories

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

Properties held for development

Properties held for development are stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights or the fair value of investment properties upon the date of transfer and other directly attributable costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated its investment in unlisted equity security as an available-for-sale financial asset. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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

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

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

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

Borrowing costs

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

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

Government grants

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

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

Retirement benefit costs

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

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies as described in Note 4, the directors of the Company are required to make judgements, estimations and key assumptions about the classification, carrying amounts of assets and liabilities that are not readily apparent from other sources. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

Conversions of lands situated in Chengdu, the PRC ("Chengdu Lands") to investment properties

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

Thus, the Chengdu Lands would no longer be under owner-occupation but instead be used for the development of commercial and/or residential properties which will not be held for the Group's own use purposes. On that basis, the Chengdu Lands were reclassified from "prepaid lease payments as owner-occupied properties for industrial use" to "investment properties" in the consolidated financial statements (the "Conversion") and measured at fair value upon the Conversion during the year ended 31 December 2013. Details of the Conversion of the Chengdu Lands and subsequent fair value measurement have been disclosed in Note 19.

Development of Chengdu Lands

During the year ended 31 December 2014, the Group submitted the development plan of Chengdu Lands to local authority for approval. The development plan details the composition of residential and commercial properties to be constructed on the Chengdu Lands and estimated construction periods, etc.

The portion of land attributable to the residential properties, which are expected to be sold upon completion, had their respective land area reclassified as "property held for development" in the consolidated financial statements at its fair value upon the reclassification during the year ended 31 December 2014. The carrying amount of property held for development is disclosed in Note 19.

As at 31 December 2014 and at the date of approval for issuance of these financial statements, the Group had not yet received the final approval on the planning design scheme.

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

Key sources of estimation uncertainty

Useful lives of property, plant and equipment

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

Impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. The management is satisfied that no impairment loss is required to be recognised during both years.

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

Impairment of property, plant and equipment

During the year ended 31 December 2013, the Group ceased operations in its production facilities in Chengdu, the PRC, so that the Group could consolidate its production of antibiotics products, 6-APA and T-octylammonium clavulanate in the Group's Inner Mongolia site in accordance with the Group's long term business strategy. Further, the directors of the relevant subsidiary and of the Company confirmed the intention for the Group to cease permanently the production in Chengdu and to change the use of the Chengdu Lands upon which the production facilities are situated from industrial use to commercial and residential uses.

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

Key sources of estimation uncertainty *(Continued)*

Impairment of property, plant and equipment *(Continued)*

The properties and production facilities in Chengdu (the "Chengdu Production Plant") became idle during the year ended 31 December 2013 which represented a material impairment indicator. The directors of the Company assessed the recoverable amounts of Chengdu Production Plant based on fair value less costs of disposals, the excess of the carrying amount of the Chengdu Production Plant at the end of 2013 and 2014 reporting periods over the corresponding recoverable amounts at those dates were recognized as impairment in the profit or loss in the respective year. During the year ended 31 December 2014, an impairment on Chengdu Production Plant of HK$90,911,000 (2013: HK$808,363,000) was recognised.

Other than Chengdu Production Plant, an impairment loss recognised in respect of property, plant and equipment in the year amounted to HK$19,153,000 (2013: HK$ nil). Except those mentioned above, management is confident that the carrying amount of the other property, plant and equipment will be recovered in full based on the results of assessment of the estimates of anticipated cash flow generated by those property, plant and equipment. The situation will be closely monitored, and further impairment will be made in future periods when an indication of such adjustments arises.

Investment properties situated in the PRC

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

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

The Group makes allowance for the write-down of inventories based on assessments of the net realisable values of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value of certain items is lower than the cost of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. During the year ended 31 December 2014, allowance of inventories of HK$8,026,000 (2013: a reversal of HK$3,841,000) was recognised. The carrying amount of inventories is disclosed in Note 22.

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

Key sources of estimation uncertainty *(Continued)*

Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables, and other receivables. Allowances are applied to trade and bills receivables, and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade and bills receivables, and other receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables, and other receivables and allowance for doubtful debts in the year in which such estimate has changed. The carrying amount of trade and bills receivables, and other receivables and change of the allowance for doubtful receivables is disclosed in Note 23.

Valuation of the embedded derivatives in convertible bonds

The fair values for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the personnel that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit risk, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the embedded derivatives in convertible bonds. The carrying amount of embedded derivatives is disclosed in Note 30.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the obligations under finance leases (Note 27), borrowings (Note 28), convertible bonds (Note 30), net of bank balances, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

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

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

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2014 **HK$'000**	2013 HK$'000
Financial assets		
Loans and receivables	**4,803,141**	4,712,171
Derivative financial instruments	**227**	7,917
Financial liabilities		
Amortised cost	**10,403,461**	11,754,921
Convertible bonds	**123,523**	114,856
Derivative financial instruments	**27,590**	7,364

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

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

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

Market risk

Foreign currency risk

The Group has certain balances denominated in United States dollars ("USD"), Euro and HK$ other than the functional currency of respective group entities, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to eliminate the currency exposures.

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

	2014	2013
	HK$'000	HK$'000
USD	**(203,946)**	505,605
Euro	**9,922**	4,082
HK$	**(910,331)**	(558,325)

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against USD, Euro and HK$. 5% is the sensitivity rate used which represents management's assessment of the possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 5% against USD, Euro and HK$. For a 5% weakening of RMB against USD, Euro and HK$, there would be an equal but opposite impact on the profit for the year.

	2014 **HK$'000**	2013 HK$'000
Profit for the year		
USD	**9,020**	(21,472)
Euro	**(492)**	(282)
HK$	**40,333**	23,729

Forward exchange rate sensitivity analysis

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

The sensitivity analyses below had been determined based on the exposure to the Group's forward buying rate risk at the end of the reporting period. If the forward exchange rate of RMB strengthen 1% (2013: 1%) against USD while all other input variables of the valuation models were held constant, the Group's profit for the year would increase by HK$10,228,000 (2013: HK$20,236,000). If the forward exchange rate had been lower by 1% (2013: 1%), the Group's profit for the year would decrease by HK$7,087,000 while the impact on the Group's profit for the year ended 31 December 2013 would be insignificant.

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

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risks

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

Interest rate sensitivity analysis

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

At the end of the reporting period, if interest rates had been increased/decreased by 50 (2013: 50) basis points and all other variable remained constant, the Group's profit for the year would decrease/increase by HK$8,688,000 (2013: HK$7,761,000).

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

Other price risk

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

Equity price risk sensitivity analysis

If the share price of the Company inputted to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% (2013: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2014 would decrease/increase by approximately HK$4,510,000/HK$4,018,000 (2013: HK$4,252,000/HK$4,550,000).

If the expected volatility of share price of the Company inputted to the valuation model for assessing the fair value of such derivatives had been 10% (2013: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2014 would decrease/increase by approximately HK$2,711,000/HK$3,857,000 (2013: HK$4,502,000/HK$5,131,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

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

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

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

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

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

Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2014, the Group has available unutilised banking facilities of HK$6,635,120,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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

	Weighted average interest rate	On demand	0 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	1 – 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2014									
Non-interest bearing									
Trade, bills and other payables	–	–	1,780,760	1,329,059	–	–	–	3,109,819	3,109,819
Interest bearing									
Obligations under finance leases	6.09%	–	99,978	130,136	230,109	356,329	740,338	1,556,890	1,400,978
Borrowings									
– fixed rate	6.40 – 7.20%	–	783,190	641,307	1,432,758	1,415,598	–	4,272,853	4,154,974
– variable rate	3.03 – 7.04%	390,213	9,984	4,992	14,976	29,951	1,389,342	1,839,458	1,737,690
Convertible bonds									
– fixed rate	15.8%	–	–	–	4,618	4,618	132,385	141,621	123,523
		390,213	2,673,912	2,105,494	1,682,461	1,806,496	2,262,065	10,920,641	10,526,984
Derivative – net settlement		–	27,590	–	–	–	–	27,590	27,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The table below summarises the maturity analysis of term loans of HK$266,468,000 (2013: HK$755,992,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates or variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments						
	0 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	1 – 2 years	2 – 5 years	Total undiscounted cash flows
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2014	**1,599**	**799**	**2,398**	**260,939**	**10,457**	**–**	**276,192**
As at 31 December 2013	6,606	3,303	234,617	297,975	196,407	50,762	789,670

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

Fair value

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

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

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

Other than those disclosed in Note 30, the following table presents the Group's (liabilities) assets that are measured at fair value at the end of the reporting period:

	2014	
	Level 2 **HK$'000**	**Total** **HK$'000**
Derivative financial instruments – assets	**227**	**227**
Derivative financial instruments – liabilities	**(27,590)**	**(27,590)**
Total	**(27,363)**	**(27,363)**

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

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

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities is set out in Note 30.

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

8. TURNOVER AND SEGMENT INFORMATION

Turnover

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

	2014	2013
	HK$'000	HK$'000
Sales of pharmaceutical products	**8,029,835**	7,648,443

Segment information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

(a) Segment turnover and results:

Year ended 31 December 2014

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,357,381	3,940,056	2,732,398	8,029,835	–	8,029,835
Inter-segment sales	1,935,420	418,945	–	2,354,365	(2,354,365)	–
	3,292,801	4,359,001	2,732,398	10,384,200	(2,354,365)	8,029,835
RESULT						
Segment profit	209,858	330,871	634,823			1,175,552
Unrealised profit elimination	(20,135)	(25,747)	(13,901)			(59,783)
	189,723	305,124	620,922			1,115,769
Unallocated other income						454,133
Unallocated corporate expenses						(95,331)
Other gains and losses						(10,079)
Impairment loss recognised in respect of property, plant and equipment						(110,064)
Loss on fair value change of embedded derivative components of convertible bonds						(3,191)
Loss on fair value change on investment properties						(315,730)
Finance costs						(371,961)
Profit before taxation						663,546

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

Year ended 31 December 2013

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

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

Measurement

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

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

Other than the segment revenue and segment profit analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment turnover is charged at prevailing market rates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2014

	Intermediate products HK$'000	**Bulk medicine HK$'000**	**Finished products HK$'000**	**Consolidated HK$'000**
Amortisation of prepaid lease payment	**3,336**	**1,312**	**1,108**	**5,756**
Amortisation of intangible assets	**–**	**–**	**5,112**	**5,112**
Depreciation of property, plant and equipment	**556,821**	**90,536**	**54,968**	**702,325**
Loss (gain) on disposal of property, plant and equipment	**5,031**	**(160)**	**374**	**5,245**
Write-down of long aged deposit and prepayment	**32,434**	**–**	**–**	**32,434**
Impairment loss recognised in respect of property, plant and equipment	**90,911**	**–**	**19,153**	**110,064**

For the year ended 31 December 2013

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

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information

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

	Turnover from external customers	
	2014	2013
	HK$'000	HK$'000
PRC (country of domicile)	**5,400,957**	4,943,565
Europe	**808,865**	837,008
India	**618,440**	654,311
Hong Kong	**71,617**	24,401
Middle East	**90,184**	87,331
South America	**236,036**	437,921
Other Asian regions	**610,131**	529,345
Other regions	**193,605**	134,561
	8,029,835	7,648,443

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

(d) Information about major customers

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

9. OTHER INCOME

	2014 HK$'000	2013 HK$'000
Bank interest income	**31,708**	25,196
Sales of raw materials	**19,839**	32,884
Subsidy income *(Note)*	**446,282**	18,030
Sundry income	**11,322**	2,143
	509,151	78,253

Note: Included in the amount of subsidy income for the year ended 31 December 2014 mainly consists of (i) approximately HK$390,660,000 (2013: HK$nil) representing compensation received by a group entity in Chengdu in 2014 which is for compensating losses incurred in relation to cessation of production in 2013 in Chengdu, that resulted in an impairment loss of approximately HK$808,363,000 on property, plant and equipment and approximately HK$64,961,000 loss concerning staff redundancy and removal costs recognised in the profit or loss during the year ended 31 December 2013 (Notes 19 and 37), and (ii) approximately HK$54,244,000 (2013: HK$5,889,000) incentives as immediate financial support with no future related costs expected to be incurred nor related to any assets.

10. OTHER GAINS AND LOSSES/OTHER EXPENSES

	2014 HK'000	2013 HK'000
a. Other gains and losses		
Fair value (loss) gain on forwards contracts	**(9,276)**	23,383
Net foreign exchange (loss) gain	**(6,048)**	12,480
Gain (loss) on disposal of property, plant and equipment	**5,245**	(21,290)
	(10,079)	14,573
b. Other expenses		
Research and development expenditures	**147,608**	138,545
Staff redundancy costs and removal costs upon cessation of production	**4,919**	64,961
Temporary production suspension costs	**99,048**	160,664
Write-down of long aged deposit and prepayment	**32,434**	21,128
Others	**7,830**	1,848
	291,839	387,146

11. FINANCE COSTS

	2014 **HK$'000**	2013 HK$'000
Interest on borrowings wholly repayable within five years	**387,018**	317,466
Interest on convertible bonds wholly repayable within five years *(Note 30)*	**15,622**	105,618
Interest on finance leases wholly repayable within five years	**75,995**	48,237
	478,635	471,321
Less: amounts capitalised in property, plant and equipment	**(106,674)**	(270,175)
	371,961	201,146

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.76% (2013: 6.68%) per annum to expenditure on qualifying assets.

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

(a) Directors and chief executive

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

Year ended 31 December 2014

	Tsoi Hoi Shan HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Fu Xiao Nan HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	240	240	240	240	960
Other emoluments:											
Salaries and other benefits	3,957	3,710	1,915	1,800	1,800	1,800	–	–	–	–	14,982
Bonus*	–	–	–	902	902	902	–	–	–	–	2,706
Retirement benefit scheme contributions	17	17	17	17	13	43	–	–	–	–	124
	3,974	3,727	1,932	2,719	2,715	2,745	–	–	–	–	17,812
Total emoluments	3,974	3,727	1,932	2,719	2,715	2,745	240	240	240	240	18,772

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

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

Year ended 31 December 2013

	Choy Kam Lok HK$'000	Tsoi Hoi Shan HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Fu Xiao Nan HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	240	240	240	240	960
Other emoluments:												
Salaries and other benefits	1,400	3,288	3,720	1,800	1,800	1,800	1,800	–	–	–	–	15,608
Bonus*	–	–	–	–	906	906	906	–	–	–	–	2,718
Retirement benefit scheme contributions	–	15	15	22	17	14	43	–	–	–	–	126
	1,400	3,303	3,735	1,822	2,723	2,720	2,749	–	–	–	–	18,452
Total emoluments	1,400	3,303	3,735	1,822	2,723	2,720	2,749	240	240	240	240	19,412

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

Note:

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

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

(b) Employees

For the year ended 31 December 2014 and 2013, all the five highest paid individuals of the Group are directors of the Company, details of which are set out above.

No emolument was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year ended 31 December 2014 and 2013.

13. TAX (CREDIT) EXPENSES

	2014 HK$'000	2013 HK$'000
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax	**9,960**	7,119
PRC Enterprise Income Tax	**157,729**	86,300
PRC withholding tax	**32,194**	24,149
	199,883	117,568
Under(over) provision in prior years		
Hong Kong	**981**	(1,461)
PRC	**–**	619
	981	(842)
Sub-total	**200,864**	116,726
Deferred tax *(Note 29)*	**(218,394)**	736,585
	(17,530)	853,311

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

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

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, the tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled a reduced rate of 15% and such qualification is subject to renew for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2014 and 2013.

13. TAX (CREDIT) EXPENSES *(Continued)*

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

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

	2014	2013
	HK$'000	HK$'000
Profit before taxation	**663,546**	901,348
Tax at PRC Enterprise Income Tax rate of 25% (2013: 25%)	**165,887**	225,337
Tax effect of expenses not deductible for tax purpose	**38,919**	2,940
Tax effect of income not taxable for tax purpose	**(25,578)**	(17,858)
Under (over) provision in prior years	**981**	(842)
Tax effect of land appreciation tax ("LAT") and other associated tax arising on fair value change of investment properties	**(26,761)**	464,252
Tax effect of tax losses not recognised	**5,579**	141,098
Utilisation of tax losses previously not recognised	**(63,268)**	(5,222)
Tax effect of deductible temporary difference not recognised	**12,159**	140,794
PRC withholding tax on distributable profits of PRC subsidiaries	**32,343**	32,422
PRC withholding tax on interest income	**3,571**	143
Effect of tax concessionary rates granted to the PRC subsidiaries	**(151,572)**	(129,638)
Effect of different tax rates of subsidiaries	**(6,986)**	(1,828)
Others	**(2,804)**	1,713
Income tax (credit) expenses for the year	**(17,530)**	853,311

14. PROFIT FOR THE YEAR

	2014 HK$'000	2013 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Provision (reversal) of allowances for inventories (included in cost of sales)	**8,026**	(3,841)
Provision of allowance for doubtful debts, net	**16,956**	7,510
Auditor's remuneration	**5,913**	5,503
Amortisation of prepaid lease payments	**5,756**	4,563
Depreciation and amortisation		
Depreciation of property, plant and equipment	**702,325**	567,771
Amortisation of intangible assets (included in administrative expenses)	**5,112**	2,221
	707,437	569,992
Less: amount included in temporary production suspension costs in other expenses	**(77,773)**	(37,327)
Less: amount included in research and development expenditures in other expenses	**(35,044)**	(27,075)
	594,620	505,590
Operating lease payments in respect of rented premises	**2,119**	1,851
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**882,047**	782,181
Retirement benefit costs	**100,092**	79,209
	982,139	861,390
Less: amount included in research and development expenditures in other expenses	**(22,530)**	(19,928)
Less: amount included in temporary production suspension costs in other expenses	**(3,551)**	(18,270)
	956,058	823,192

15. DIVIDENDS

The board of directors do not recommend payment of final dividend for the year ended 31 December 2014 (2013: nil).

16. 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:

Earnings

	2014	2013
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to owners of the Company	**681,076**	48,037

Number of shares

	2014	2013
Basic and diluted	**'000**	'000
Number of ordinary shares for the purpose of basic and diluted earnings per share	**1,626,875**	1,626,875

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

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17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2013	2,678,516	5,794,595	120,093	66,331	2,675,323	11,334,858
Exchange adjustments	84,825	158,812	3,246	1,678	58,161	306,722
Additions	15,967	65,607	5,034	6,431	2,552,173	2,645,212
Disposals	(11,609)	(200,856)	(7,191)	(5,319)	(1,760)	(226,735)
Reclassification	1,473,091	1,513,381	24,427	2,797	(3,013,696)	–
At 31 December 2013	**4,240,790**	**7,331,539**	**145,609**	**71,918**	**2,270,201**	**14,060,057**
Exchange adjustments	**(96,354)**	**(169,426)**	**(4,459)**	**(1,587)**	**(38,873)**	**(310,699)**
Additions	**47,361**	**89,506**	**5,225**	**3,120**	**767,196**	**912,408**
Disposals	**(108,446)**	**(227,822)**	**(10,742)**	**(5,108)**	**–**	**(352,118)**
Reclassification	**507,074**	**1,691,821**	**11,208**	**71**	**(2,210,174)**	**–**
At 31 December 2014	**4,590,425**	**8,715,618**	**146,841**	**68,414**	**788,350**	**14,309,648**
DEPRECIATION						
At 1 January 2013	454,691	2,353,006	92,927	55,010	–	2,955,634
Exchange adjustments	12,221	61,090	2,262	1,319	–	76,892
Charge for the year	122,205	434,311	6,996	4,259	–	567,771
Eliminated on disposals	(2,323)	(147,045)	(401)	(5,913)	–	(155,682)
At 31 December 2013	**586,794**	**2,701,362**	**101,784**	**54,675**	**–**	**3,444,615**
Exchange adjustments	**(13,068)**	**(61,778)**	**(3,404)**	**(1,243)**	**–**	**(79,493)**
Charge for the year	**130,744**	**543,178**	**18,434**	**9,969**	**–**	**702,325**
Eliminated on disposals	**(28,467)**	**(124,229)**	**(1,364)**	**(4,237)**	**–**	**(158,297)**
At 31 December 2014	**676,003**	**3,058,533**	**115,450**	**59,164**	**–**	**3,909,150**
IMPAIRMENT						
At 1 January 2013	–	–	–	–	–	–
Charge for the year and at 31 December 2013 *(Note)*	**449,373**	**357,666**	**526**	**798**	**–**	**808,363**
Exchange adjustments	**(9,899)**	**(8,568)**	**(12)**	**(20)**	**(101)**	**(18,600)**
Addition *(Note)*	**–**	**90,911**	**–**	**–**	**19,153**	**110,064**
Eliminated on disposals	**(80,341)**	**(35,651)**	**(44)**	**(78)**	**–**	**(116,114)**
At 31 December 2014	**359,133**	**404,358**	**470**	**700**	**19,052**	**783,713**
CARRYING AMOUNTS						
At 31 December 2014	**3,555,289**	**5,252,727**	**30,921**	**8,550**	**769,298**	**9,616,785**
At 31 December 2013	3,204,623	4,272,511	43,299	16,445	2,270,201	9,807,079

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

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

	2014	2013
	HK$'000	HK$'000
Leasehold land and buildings in Hong Kong:		
Medium-term lease	**104,079**	107,103
Buildings located on the leasehold land in the PRC:		
Medium-term lease	**3,451,210**	3,097,520
	3,555,289	3,204,623

Note:

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

During the year ended 31 December 2014, certain machineries and plants were damaged during the demolition process and hence the directors of the Company further assessed the recoverable amounts of property, plant and equipment in relation to the Chengdu Production Plant based on the management's best estimate with reference to their fair value estimated by reference to the expected proceeds from disposal of relevant assets with quote from an independent party less costs to disposal and an impairment loss of approximately HK$90,911,000 has been recognised in the profit or loss for the current year.

At 31 December 2014, the Group is in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of HK$1,428,276,000 (2013: HK$2,629,206,000).

At 31 December 2014, the carrying value of plant and machinery includes an amount of HK$2,384,288,000 (2013: HK$1,001,409,000) in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS

	2014	2013
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC:		
Medium-term lease	**274,578**	117,907
Analysed for reporting purposes as:		
Non-current asset	**268,271**	114,275
Current asset	**6,307**	3,632
	274,578	117,907

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

19. INVESTMENT PROPERTIES

	HK$'000
At 1 January 2013	–
Addition upon transfer from prepaid lease payments	347,601
Premium payable for change of use of land	617,454
Fair value change	1,355,261
At 31 December 2013	2,320,316
Fair value change	(315,730)
Exchange adjustments	(51,634)
Reclassification to property held for development	(318,707)
At 31 December 2014	1,634,245

As detailed in Notes 5 and 17, the Chengdu Lands amounting to approximately HK$28,749,000 were transferred during the financial year ended 31 December 2013 from "prepaid lease payments as owner-occupied properties for industrial use" to investment properties in the consolidated financial statements and measured at fair value on the date of transfer and at subsequent dates.

19. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Chengdu Lands as at the date of transfer was measured by reference to a valuation carried out by Roma Appraisals Limited ("ROMA"), an independent qualified professional valuer listed on the Hong Kong Stock Exchange which is not connected with the Group and is a member of the Hong Kong institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was measured on the basis of the state of the properties immediately following the Conversion, using direct comparison approach assuming sales of the properties in their then state and making references to comparable sales transactions of industrial land as available in the relevant markets and adjusted to reflect the conditions and locations of the subject land, amounting to approximately HK$347,601,000 and a revaluation surplus of approximately HK$318,852,000 and associated deferred taxation amounting to approximately HK$196,884,000 (Note 29) were recognised in "revaluation reserve" in equity upon the Conversion on the assumption that the fair value of Chengdu Lands will be recovered entirely through sale.

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

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

On 31 December 2013, the Chengdu Lands were revalued, taking into consideration the effect of the Change of Land Use, at approximately HK$2,320,316,000. The valuation was performed by ROMA, using fair value model as detailed below, and resulted in a fair value gain of approximately HK$1,355,261,000 and an associated deferred tax change of approximately HK$713,179,000 (Note 29) being recognised in the profit and loss for the year ended 31 December 2013.

In light of the cessation of operations of the Chengdu Production Plant, the Group had been granted a financial subsidy in an aggregate amount of RMB311,804,000 (equivalent to approximately HK$390,660,000). Such financial subsidy had not been recognised in the consolidated financial statements for the year ended 31 December 2013 as the Group had not received such grants as at 31 December 2013 and up to the date of approval of the 2013 consolidated financial statements. The Group subsequently received the subsidy during the year ended 31 December 2014 which was recognised as "other income".

19. INVESTMENT PROPERTIES *(Continued)*

During the year ended 31 December 2014, the Group made land premium payment of RMB484,050,000 (equivalent to approximately HK$609,129,000) to respective authority according to the Contracts and obtained all land use right certificates indicating that the period for which the lands could be used for commercial and residential purposes would expire on 27 December 2053 and 2083, respectively.

In 2014, the Group applied to local authority for extension of the commencement of property development which was approved by respective government authority in February 2015 with an extended period to no later than December 2017.

On 31 December 2014, the fair value of Chengdu Lands was determined by the directors of the Company by reference to a valuation performed by ROMA. The expected selling price per square meter upon completion of construction and the construction period has been revisited by the directors of the Company taking into account the market condition as at the valuation date resulting in a fair value loss of approximately HK$315,730,000.

Pursuant to the Company's development plan as at 31 December 2014, certain lands will be developed into residential properties for sale, the respective portion of lands have been reclassified to "Property held for development" carried at the deemed costs equivalent to the fair value measured at 31 December 2014 immediately prior to its reclassification.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Leasehold land in Chengdu, PRC	Level 3	Residual Method	– Expected selling price of completed units: at an average of RMB9,651 per square meter (an average of RMB3,900 and RMB14,000 per square meter for residential and commercial properties, respectively as at 31 December 2013) – Construction period: 4-6 years (2013: 3.5 years) – Finance cost: 6-6.15% per annum (2013: 6.4% per annum) – Construction cost: RMB6,000 per square meter (2013: RMB2,500/ RMB6,000 per square meter for residential and commercial properties, respectively) – Developer's profit margin: 40% (2013: 40%) – Commercial/Residential portion: 1.2 (2013: 1.2)	– The higher the transaction price of properties in similar locality, the higher the fair value; – The longer the construction period, the lower the fair value; – The higher the costs for completion of the construction, the lower the fair value; – The higher the developer's profit margin, the lower the fair value; – The higher the ratio of commercial over residential portion of the properties, the higher the fair value.

19. INVESTMENT PROPERTIES *(Continued)*

There was no comparable recent sales transactions of lands available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom the development costs to be incurred to arrive at the residual value. The discounted cash flows involve the use of a number of unobservable inputs, as set out in the above table, and expose the Group to fair value measurement risks. The sensitivity analysis below shows the sensitivity of the fair value measurement to reasonably possible changes in the key unobservable inputs underlying the valuation, while all other inputs or factors are held constant:

Unobservable inputs	Increase/decrease by	Fair value of investment properties as at 31 December 2014 (decrease)/increase by
		HK$' million
Construction period	1 year	(162)/172
Finance Cost	10% (to 6.6-6.765%/5.4-5.54%)	(84)/88
Developer's margin	10% (to 44%/36%)	(46)/48

20. GOODWILL

	HK$'000
COST	
At 1 January 2013	3,770
Exchange adjustments	96
At 31 December 2013	**3,866**
Exchange adjustments	**(89)**
At 31 December 2014	**3,777**

20. GOODWILL *(Continued)*

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

	2014	2013
	HK$'000	HK$'000
Bulk medicine	**964**	987
Finished products	**2,813**	2,879
	3,777	3,866

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

The recoverable amounts of the relevant CGUs have been determined on the basis of value in use calculations. The value in use calculations use cash flow projections which are based on approved financial budgets covering a 5-year period and discount rate of 19.5% (2013: 14.3%). Cash flows beyond the 5-year period have been extrapolated using zero growth rate. The key assumption is budgeted gross margin based on the past performance and the Group's expectation for the market development.

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21. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2013 *(Note a)*	27,076
Exchange adjustments	1,512
Addition *(Note b)*	59,257
At 31 December 2013	**87,845**
Exchange adjustments	**(2,019)**
Addition	**324**
At 31 December 2014	**86,150**
AMORTISATION	
At 1 January 2013	24,302
Exchange adjustments	648
Charge for the year	2,221
At 31 December 2013	**27,171**
Exchange adjustments	**(650)**
Charge for the year	**5,112**
At 31 December 2014	**31,633**
CARRYING AMOUNTS	
At 31 December 2014	**54,517**
At 31 December 2013	60,674

21. INTANGIBLE ASSETS *(Continued)*

Note:

The costs of intangible assets comprise:

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

b. An amount of HK$59,257,000, being three externally acquired technical know-how ("Know-how") in identifying processes for manufacturing finished products and protocols for fermentation/purification methodology. During the year ended 31 December 2014, one Know-how at cost of RMB17,043,000 (equivalent to HK$21,241,000) has commenced amortisation starting from the date it was put into production process, over 10 years which is the expected period during which it will bring future economic benefits to the Group. No amortisation of other two Know-how as those technologies are in the registration process.

22. INVENTORIES

	2014	2013
	HK$'000	HK$'000
Raw materials	**495,552**	338,650
Work in progress	**163,103**	157,603
Finished goods	**759,231**	775,602
	1,417,886	1,271,855

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

	2014	2013
	HK$'000	HK$'000
Trade and bills receivables	**2,596,814**	2,751,998
Value added tax receivables	**166,667**	286,076
Other receivables, deposits and prepayments	**255,526**	273,636
Less: allowance for doubtful receivables		
– trade	**(11,435)**	(7,362)
– non-trade	**(25,992)**	(13,695)
	2,981,580	3,290,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	2014	2013
	HK$'000	HK$'000
Trade receivables		
0 to 30 days	**613,416**	607,924
31 to 60 days	**324,225**	393,976
61 to 90 days	**128,787**	198,875
91 to 120 days	**83,821**	46,645
121 to 180 days	**19,198**	41,075
Over 180 days	**5,028**	11,052
	1,174,475	1,299,547
Bills receivables		
0 to 30 days	**295,838**	248,973
31 to 60 days	**187,496**	253,352
61 to 90 days	**298,977**	279,729
91 to 120 days	**244,937**	380,413
121 to 180 days	**376,216**	280,262
Over 180 days	**7,440**	2,360
	1,410,904	1,445,089

93% (2013: 91%) of the trade and bills receivables that are neither past due nor impaired have either been subsequently settled or there have not been a significant change in credit quality and the amounts are still recoverable based on historical experience.

Included in the Group's trade and bills receivable are debtors with a carrying amount of HK$188,226,000 (2013: HK$235,050,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and has been subsequently settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

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

	2014	2013
	HK$'000	HK$'000
61 – 90 days	**72,739**	133,918
91 – 120 days	**83,821**	46,645
121 – 180 days	**19,198**	41,075
Over 180 days	**12,468**	13,412
	188,226	235,050

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

Movement in the allowance for doubtful debts

	2014	2013
	HK$'000	HK$'000
Balance at beginning of the year	**21,057**	13,110
Exchange adjustments	**(586)**	437
Impairment losses recognised on receivables	**16,956**	8,357
Impairment losses reversed	**–**	(847)
Balance at end of the year	**37,427**	21,057

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

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

At 31 December 2014, trade and other receivables balance totalling HK$37,427,000 (2013: HK$21,057,000) were individually determined to be impaired, which related to customers that were in financial difficulties or the management considered the recoverability is highly unlikely based on historical payment pattern. The management assessed that the full amount of these trade and other receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

As at 31 December 2014, the Group had HK$1,100,872,000 (2013: HK$1,368,669,000) of bills receivables discounted to several banks with full recourse, of which HK$216,233,000 (2013: HK$220,637,000) bills receivables were issued by the Group's debtors, and the remaining HK$884,639,000 (2013: HK$1,148,032,000) were issued by certain subsidiaries of the Company for the purposes of settlement or prepayment of inter-group purchase. Accordingly, the Group continues to recognise the full carrying amount of the Group's receivables from the external debtors and has recognised the cash received on such discounting arrangement as a secured borrowing (see Note 28). In addition, as at 31 December 2014, the Group continues to recognise an amount of HK$569,957,000 (2013: HK$573,756,000) representing bills receivables issued by the Group's external debtors which had been endorsed to the Group's creditors for settlement (see Note 26).

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2014 **HK$'000**	2013 HK$'000
Foreign currency forward contracts – assets	**227**	7,917
Foreign currency forward contracts – liabilities	**(27,590)**	(7,364)
	(27,363)	553

The Group had entered into several USD foreign currency forward contracts (sell USD for RMB) with banks and financial institutions to reduce its exposure to currency fluctuation risk of settlement from trade receivables that are denominated in USD. These derivatives were not accounted for under hedge accounting. At the end of the reporting period, the Group had outstanding foreign currency forward contracts with notional amount in aggregate of USD136,000,000 (equivalent to HK$1,051,280,000) (2013: USD143,500,000 (equivalent to HK$1,119,300,000)). The contracts are subject to net settlement at each maturity date and were measured at fair value at the end of the reporting period. The major terms of these foreign currency forward contracts were as follows:

24. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31 December 2014

Notional amount	**Maturity date**	**Exchange rate**
USD8,000,000	Settlement on specific date in each month From 11 March 2015 to 19 September 2016	RMB6.13/USD to RMB6.20/USD
USD128,000,000	Settlement between 15 January 2015 to 2 November 2016	RMB6.15/USD to RMB6.26/USD

31 December 2013

Notional amount	Maturity date	Exchange rate
USD26,500,000	Settlement on specific date in each month from 4 January 2014 to 21 December 2015	RMB6.13/USD to RMB6.37/USD
USD117,000,000	Settlement between 24 January 2014 to 22 September 2014	RMB6.29/USD to RMB6.40/USD

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

25. PLEDGED BANK DEPOSITS AND BANK BALANCES

During the year ended 31 December 2014, the Group entered into several contracts of structured deposits with banks for a term of one year. The principal of RMB300,000,000 (2013: nil) was guaranteed by the relevant banks and with a guaranteed minimal interest yield ranging between 2.70% to 2.85% per annum. These deposits are also subject to floating return determined by reference to the performance of bullion market price and 3-month London Interbank Offered Rate on USD deposit. At 31 December 2014, the balance of RMB303,141,000 (equivalent to HKD377,805,000) has not been redeemed and was pledged to a bank as security provided for bank facility granted to a group entity for one year.

Certain deposits amounting to HK$836,878,000 (2013: HK$886,824,000) have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see Note 35). The range of effective interest rates of the pledged deposits at 31 December 2014 is 0.4% to 4% (2013: 0.5% to 3%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The range of effective interest rates of the bank balances at 31 December 2014 is 0.001% to 2.6% (2013: 0.001% to 2.6%) per annum.

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

	2014	2013
	HK$'000	HK$'000
Pledged bank deposits and bank balances		
– HK$	**68,043**	–
– USD	**23,907**	133,792
– Euro	**888**	2,082

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

26. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	2014 HK$'000	2013 HK$'000
Trade payables		
0 to 90 days	818,640	962,289
91 to 180 days	306,048	45,015
Over 180 days	162,965	33,258
	1,287,653	1,040,562
Bills payables		
0 to 90 days	510,420	710,500
91 to 180 days	271,693	187,380
	782,113	897,880
Other payables and accruals	442,497	530,308
Deferred income in respect of government grants	174,199	147,999
Payables in respect of the acquisition of property, plant and equipment	986,900	1,147,861
Premium payable for change of use of land in Chengdu *(Note 19)*	–	617,454
	3,673,362	4,382,064
Less: Amount due within one year shown under current liabilities	(3,570,047)	(4,274,793)
Amount shown under non-current liabilities	103,315	107,271

Included in the trade payables and other payables above are HK$550,765,000 and HK$19,192,000 (2013: HK$551,736,000 and HK$22,020,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills have not yet fallen due as at the end of the reporting period (see Note 23).

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27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**816,553**	602,725	**696,019**	549,357
In more than one year but not more than two years	**575,601**	496,393	**544,360**	424,713
In more than two years but not more than five years	**164,736**	249,781	**160,600**	244,432
	1,556,890	1,348,899	**1,400,979**	1,218,502
Less: future finance charges	**(108,945)**	(82,326)	**N/A**	N/A
Present value of lease obligations	**1,447,945**	1,266,573	**1,400,979**	1,218,502
Less: Amount due for settlement within one year (shown under current liabilities)			**(696,019)**	(549,357)
Amount due for settlement after one year			**704,960**	669,145

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.92% to 6.83% (2013: 5.23% to 5.93%) per annum.

HK$162,019,000 (2013: HK$100,772,000) deposits, carrying nil interest, were pledged to respective lessors against finance leases. The deposits will be released upon expiry of respective leases.

28. BORROWINGS

	2014	2013
	HK$'000	HK$'000
Bank loans	**4,668,047**	4,237,151
Discounted bills with recourse *(Note 23)*	**1,100,872**	1,368,669
Bond	**–**	773,779
Bank overdrafts, unsecured	**123,745**	–
	5,892,664	6,379,599
Analysed as:		
Secured	**2,809,262**	3,502,347
Unsecured	**3,083,402**	2,877,252
	5,892,664	6,379,599
Carrying amount repayable within one year	**4,291,183**	4,242,367
Carrying amount repayable more than one year, but not exceeding two years	**811,567**	593,720
Carrying amount repayable more than two years but not more than five years	**523,446**	787,520
Carrying amount of bank loans that contain a repayment on demand clause:		
Repayable within one year from the end of reporting period*	**256,143**	514,794
Not repayable within one year from the end of reporting period but shown under current liabilities*	**10,325**	241,198
	5,892,664	6,379,599
Less: Amount due within one year shown under current liabilities	**(4,557,651)**	(4,998,359)
Amount shown under non-current liabilities	**1,335,013**	1,381,240

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

28. BORROWINGS *(Continued)*

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

Interest rate

	2014	2013
	HK$'000	HK$'000
People's Bank of China lending rate – floating rate	**548,372**	2,677,548
Fixed rate	**4,154,974**	2,207,709
Hong Kong Interbank Offered Rate plus 2.65% to 3.68% (2013: 1% to 2.5%)	**1,189,318**	1,494,342
	5,892,664	6,379,599

The range of effective interest rates of the floating rate borrowings at 31 December 2014 is 3.03% to 7.04% (2013: 2.09% to 8.28%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2014 is 6.40% to 7.20% (2013: 6.15% to 6.40%) per annum.

During the year ended 31 December 2013, an indirectly owned subsidiary of the Company issued a fixed rate bond of HK$773,339,000, equivalent to RMB600,000,000 which was unsecured, carrying fixed coupon rate of 6.90% per annum and payable at the maturity date of the bond which was in October 2014. The bond issued at par, carried effective interest rate of 7.33% per annum. The bond was fully repaid during the year ended 31 December 2014.

Other than HK$443,763,000 (2013: HK$156,166,000) and HK$969,615,000 (2013: HK$1,345,845,000) borrowings are denominated in USD and HK$, respectively, the remaining borrowings are all in RMB.

29. DEFERRED TAXATION

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

	Fair value change on investment properties	Accelerated (tax) accounting depreciation	Unrealised profit on inventories	Undistributed profits of subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2013	–	24,526	7,685	(64,899)	(32,688)
Exchange adjustments	–	669	21	246	936
(Charge) credit to profit or loss for the year	(713,179)	(16,728)	1,738	(32,422)	(760,591)
Charged to other comprehensive income	(196,884)	–	–	–	(196,884)
Reallocated to current tax	–	–	–	24,006	24,006
At 31 December 2013	**(910,063)**	**8,467**	**9,444**	**(73,069)**	**(965,221)**
Exchange adjustments	**19,960**	**(647)**	**(119)**	**1,442**	**20,636**
Credit (charge) to profit or loss for the year	**179,232**	**11,459**	**13,325**	**(32,343)**	**171,673**
Reallocated to current tax	**18,098**	**–**	**–**	**28,623**	**46,721**
At 31 December 2014	**(692,773)**	**19,279**	**22,650**	**(75,347)**	**(726,191)**

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

	2014	2013
	HK$'000	HK$'000
Deferred tax assets	**41,929**	17,911
Deferred tax liabilities	**(768,120)**	(983,132)
	(726,191)	(965,221)

29. DEFERRED TAXATION *(Continued)*

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

	2014	2013
	HK$'000	HK$'000
Tax loss carry forwards	**188,438**	1,097,235
Other deductible temporary differences	**660,071**	611,433

During the year ended 31 December 2014, a tax loss of HK$678,041,000 (2013: HK$ nil) expired or was disallowed by respective local tax authorities. Included in unrecognised tax losses are losses of HK$103,993,000 (2013: HK$792,230,000) that will expire within five years. Other losses may be carried forward indefinitely.

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

No deferred tax asset has been recognised because the amount of future taxable profit that will be available to realise such assets is uncertain.

30. CONVERTIBLE BONDS

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

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

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

30. CONVERTIBLE BONDS *(Continued)*

The Company may at any time after 14 November 2013 redeem all, but not some only, of the Convertible Bonds for the time being outstanding at a fixed amount of their RMB principal amount and paid in USD equivalent translated at the spot rate at the settlement date, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 140% of the conversion price then in effect, translated into RMB at the fixed rate of HK$1.00 = RMB0.8137.

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

The Convertible Bonds contain liability component, conversion option and early redemption option derivatives. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option, the Company's and the bond holder's early redemption option derivatives are measured at fair value with change in fair value recognised in profit or loss.

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

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

30. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer on 31 December 2013 and 2014. The movement of liability component and embedded derivatives of the Convertible Bonds for the year is set out as below:

	HK$'000
At 1 January 2013	943,431
Interest charged	105,618
Loss arising on changes of fair value	376
Interest paid	(74,279)
Reduction upon partial redemption of principal	(875,149)
Exchange realignment	14,859
At 31 December 2013	**114,856**
Interest charged	**15,622**
Loss arising on changes of fair value	**3,191**
Interest paid	**(9,197)**
Exchange realignment	**(949)**
At 31 December 2014	**123,523**

At 31 December 2013 and 2014, the fair values of the embedded derivatives are calculated using the Binomial Model. Details of the inputs and assumptions of the model are as follows:

	31 December 2014	31 December 2013
Share price of the Company	**HK$4.53**	HK$2.43
Exercise price	**HK$6.40**	HK$6.40
Remaining life	**1.87 years**	2.87 years
Risk-free rate	**3.396%**	4.407%
Expected volatility	**54.189%**	49.41%
Expected dividend yield	**0%**	0%

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

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

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2013, 31 December 2013 and 31 December 2014	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013 and 31 December 2014	1,626,875,000	16,269

32. SHARE OPTION SCHEME

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

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

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

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33. OPERATING LEASES

The Group as lessee

	2014	2013
	HK$'000	HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**2,120**	207
In the second to fifth year inclusive	**4,240**	–
	6,360	207

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

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

34. CAPITAL COMMITMENTS

	2014	2013
	HK$'000	HK$'000
Capital expenditure in respect of :		
– the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**995,247**	990,844

35. PLEDGE OF ASSETS

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

	2014	2013
	HK$'000	HK$'000
Property, plant and equipment	**196,957**	172,128
Land use rights	**38,747**	34,965
Bills receivables	**1,100,872**	1,368,669
Pledged bank deposits	**1,214,683**	886,824

36. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's basic salary with the maximum contribution of HK$1,500 per month (HK$1,250 per month prior to 1 June 2014). The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of HK$843,000 (2013: HK$664,000) are charged to profit or loss.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of HK$99,249,000 (2013: HK$78,545,000) are charged to profit or loss.

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37. GOVERNMENT GRANTS

During the year ended 31 December 2014, amount of RMB311,804,000 (equivalent to approximately HK$390,660,000) (2013: HK$ nil) representing compensation received by a group entity in Chengdu in 2014 which is for compensating losses incurred in relation to cessation of production in 2013 (details of which are set out in Note 9).

Incentive subsidies of HK$54,244,000 (2013: HK$5,889,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$70,884,000 (2013: HK$40,728,000) which are provided by the PRC government authorities for the purpose of financing the relevant expenses for new products development. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to the profit or loss of HK$nil (2013: HK$12,141,000).

For the year ended 31 December 2014, no government subsidies were granted to the Group (2013: HK$8,811,000 received by the Group) to subsidise the acquisition of property, plant and machinery and prepaid lease payments. The amount has been treated as deferred income and is transferred to income over the useful lives of the relevant assets. As at 31 December 2014, an amount of HK$103,315,000 (2013: HK$107,271,000) were included in non-current liabilities. During the year ended 31 December 2014, HK$1,378,000 (2013: HK$nil) was released to the profit or loss.

38. RELATED PARTY DISCLOSURES

Compensation to key management personnel representing directors' remuneration has been disclosed in Note 12.

39. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Financial assets/financial (liabilities)	Fair value as at 31 December 2014 HK$'000	Fair value as at 31 December 2013 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Foreign currency forward contracts classified as financial instruments accounted for as fair value through profit or loss ("FVTPL") in the consolidated statement of financial position	**Assets – HK$227 and Liabilities – HK$27,590**	Assets – HK$7,917 and Liabilities – HK$7,364	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**HK$19,136**	HK$16,088	Level 3	Binomial Pricing Model Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives component is the difference between the value of the Convertible Bonds and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – company specific discounted rate (the "Rate")	– the higher the dividend yield, the lower the fair value – the higher the Rate, the lower the fair value

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

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

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

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

Fair value measurements and valuation processes

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

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

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40. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2014 and 2013 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2014	2013	Principal activities and place of operation
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holdings Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holdings Hong Kong
Bowden Trading Limited	Samoa	USD1,000	**100%**	100%	Trademark holdings Hong Kong
The United Laboratories, Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holdings and manufacturing and sale of pharmaceutical products Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive

40. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(note a)* 2014	2013	Principal activities and place of operation
聯邦制藥(成都)有限公司 *(note b)*	PRC	RMB400,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
珠海康知樂醫藥有限公司 *(note c)*	PRC	RMB250,000,000	**100%**	100%	Inactive
珠海聯邦制藥股份有限公司 *(note d)*	PRC	RMB1,142,496,000	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海樂邦制藥有限公司 *(note b)*	PRC	RMB12,825,182	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海市萬邦制藥有限公司 *(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
珠海樂康醫藥有限公司 *(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC

40. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(note a)* 2014	2013	Principal activities and place of operation
廣東開平金億膠囊有限公司 *(note b)*	PRC	RMB31,249,864	**100%**	100%	Manufacturing and sale of soft capsules casings PRC
中山金億食品有限公司 *(note b)*	PRC	RMB8,014,500	**100%**	100%	Investment holdings PRC
珠海市金德福企業策劃有限公司 *(note c)*	PRC	RMB15,000,000	**100%**	100%	Investment holdings PRC
聯邦制藥（內蒙古）有限公司 *(note b)*	PRC	2014: RMB2,014,000,000 2013: RMB1,870,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
內蒙古光大聯豐生物科技有限公司 *(note c)*	PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertilizer PRC
金桂制藥有限公司 *(note c)*	PRC	RMB70,000,000	**100%**	N/A	Inactive
聯邦制藥（中國）有限公司 *(note b)*	PRC	RMB90,080,000	**100%**	100%	Investment holdings PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

40. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(note a)* 2014	2013	Principal activities and place of operation
珠海利邦醫藥研發有限公司 *(note c)*	PRC	RMB100,000,000	**100%**	N/A	Research and development of pharmaceutical intermediate products
Zhuhai United Laboratories (India) Private Limited	India	RUPEE100,000	**100%**	100%	Trading of pharmaceutical products India
Zhuhai United Laboratories Europe Import & Export Europe GmbH	Germany	EUR25,000	**100%**	100%	Trading of pharmaceutical products Germany

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited and 聯邦制藥(中國)有限公司, all subsidiaries are indirectly held by the Company.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

	2014	2013
	HK$'000	HK$'000
Assets and liabilities		
Investments in a subsidiary	**165,031**	114,151
Loan to a subsidiary	**1,368,587**	1,271,019
Amounts due from subsidiaries	**4,185,875**	3,088,964
Other receivables and prepayments	**–**	1,002
Derivative financial instruments	**19**	7,107
Bank balances and cash	**63,200**	165,471
Total assets	**5,782,712**	4,647,714
Other payables and accrued charges	**20,999**	9,598
Amount due to a subsidiary	**275,550**	275,551
Derivative financial instruments	**18,587**	6,228
Borrowings – due within one year	**345,644**	–
Convertible bonds	**123,523**	114,856
Borrowing – due after one year	**799,104**	787,520
Total liabilities	**1,583,407**	1,193,753
Total assets less liabilities	**4,199,305**	3,453,961
Capital and reserves		
Share capital	**16,269**	16,269
Reserves	**4,183,036**	3,437,692
	4,199,305	3,453,961

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

(b) Reserves

	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January, 2013	16,269	2,656,294	–	757,517	3,430,080
Profit and total comprehensive income for the year	–	–	–	23,881	23,881
As at 31 December, 2013	**16,269**	**2,656,294**	**–**	**781,398**	**3,453,961**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**770,830**	**770,830**
Exchange difference arising on translation to presentation currency	–	**–**	**(25,486)**	**–**	**(25,486)**
As at 31 December, 2014	**16,269**	**2,656,294**	**(25,486)**	**1,552,228**	**4,199,305**

42. EVENTS AFTER REPORTING PERIOD

On 13 January 2015, the Company raised HK$300,000,000 and HK$300,000,000 of guaranteed term-loan facility and unsecured term-loan facility, respectively. Details of which are set out in the announcement dated 13 January 2015.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	6,502,817	6,405,039	7,021,624	7,648,443	**8,029,835**
Profit before taxation	1,163,280	183,189	248,313	901,348	**663,546**
Tax credit (expenses)	(189,123)	(78,916)	(86,336)	(853,311)	**17,530**
Profit for the year attributable to owners of the Company	974,157	104,273	161,977	48,037	**681,076**

ASSETS AND LIABILITIES

	As at 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	9,607,894	11,864,905	16,141,703	19,600,216	**18,918,186**
Total liabilities	(4,497,952)	(6,688,284)	(10,047,014)	(13,118,387)	**(11,949,069)**
Equity attributable to owners of the Company	5,109,942	5,176,621	6,094,689	6,481,829	**6,969,117**

SUMMARY OF INVESTMENT PROPERTIES

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