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 2015

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

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CORPORATE CALENDAR OF 2015

January

Levetiracetam, a Category 3.1 new drug by The Untied Laboratories passed the drug registration and production site inspection conducted by SFDA.

March

1. Zhuhai United Laboratories was again recognized as a "Guangdong High-technology Company".

2. The quality control center of Zhuhai United Laboratories was awarded the title of "Workers' Pioneer" of Guangdong Province.

April

1. The 6-APA project of United Laboratories (Inner Mongolia) successfully passed the FDA certification.

2. The official flagship store of The United Laboratories gained access to various e-commerce platforms including suning.com and yhd.com.

June

1. Levetiracetam, a new anti-epileptic drug self-developed by The United Laboratories acquired the SFDA approval for production and new drug certificate.

2. The United Laboratories was awarded the title of "Top API Exporter in 2014" and "CPHI API Production and Trading Gold Exhibitor".

3. The United Laboratories was ranked No.23 among the "2014 Top 100 Chinese Pharmaceutical Companies" published by the SMERI.

4. Zhuhai United Laboratories was awarded the title of "Guangdong Engineering Research Centre for Biopharmaceuticals Treating Diabetes".

July

Doripenem for Injection (standard: 0.25g), a new Category 3.1 drug by The United Laboratories, acquired permission document for clinical trials.

August

1. The Ground Breaking Ceremony of the Major Health Industry Base of the United Laboratories International Holdings Limited was held at Sanzao Science & Technology Park, Zhuhai, Guangdong.

2. Jingui Pharmaceuticals Co., Ltd. a veterinary drugs enterprise under the Group passed the GMP certification and site inspection of tablets and powdered drugs workshops.

3. After the explosions at Tianjin Port International Logistic Centre, The United Laboratories immediately implemented plans for disaster relief and donated vital medicines to the disaster-struck area.

4. The United Laboratories was awarded as the member of "Top 10 Most Popular Listed Pharmaceutical Companies 2015".

September

The amoxicillin workshop of the United Laboratories (Inner Mongolia) passed the new GMP site inspection.

October

1. The "technological development of new antitussive drug of Dimemorfan Phosphate Capsule" was awarded with 2015 Zhongshan City fund subsidies for major scientific projects with The United Laboratories being the only pharmaceutical enterprise among the projects.

2. Zhuhai United Laboratories was awarded with the honorary title of "Clean Production Enterprise" of Guangdong Province.

November

1. Mr. Tsoi Hoi Shan, the Chairman of The United Laboratories, was awarded the title of "Ninth Honorary Citizen of Zhuhai".

2. The United Laboratories was awarded the "Top 100 Industrial Enterprises with the Best Comprehensive Pharmaceutical Industry in 2015" and the "Outstanding Enterprise Brands of API exporting in China's Chemical Pharmaceutical Industry in 2015".

3. The United Laboratories (Inner Mongolia) passed the "Integration of Three Standards (quality, environment and occupational health and safety) Management System" certification audit.

December

"The research, development and industrialization of the genetic engineering of recombinant human insulin (therapeutic drug for diabetes) product series" and "The technological development and industrialization of insulin aspart (therapeutic drug for diabetes) and its finished products", the Group's insulin R&D projects, were awarded with the Zhongshan City Scientific and Technology Second Honor Award 2014 and the 2015 Fund Subsidies for R&D Project of Applied Science and Technology Project of Guangdong Province.

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
Ping An Bank Co., Ltd., Zhuhai Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of China Limited, Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Huaxia Bank, Zhuhai 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

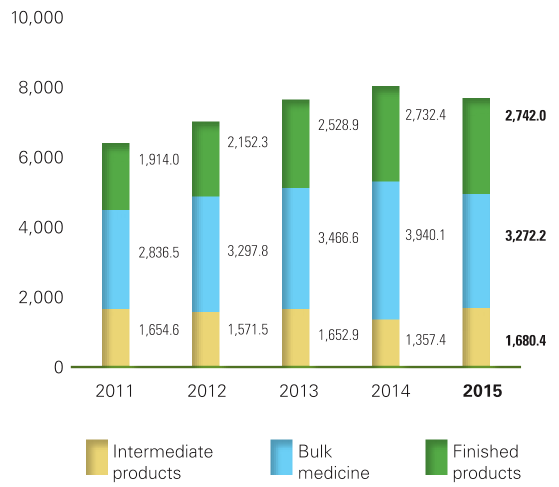
WEBSITE

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

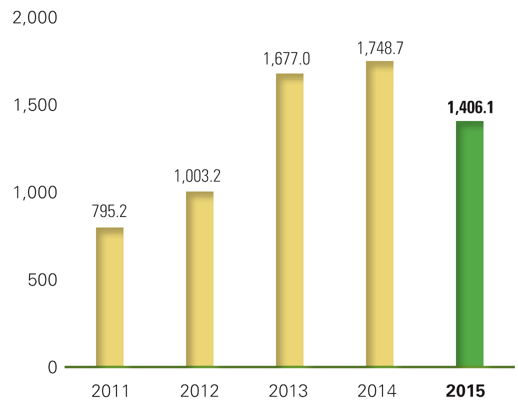
FINANCIAL HIGHLIGHTS

	2015 HK$'000	2014 HK$'000	Decrease %
Turnover	**7,694,563**	8,029,835	(4.2%)
EBITDA	**1,406,145**	1,748,700	(19.6%)
Profit before taxation	**235,422**	663,546	(64.5%)
Profit for the year attributable to owners of the Company	**110,358**	681,076	(83.8%)
Earnings per share			
Basic	**HK6.78cents**	HK41.86cents	(83.8%)
Diluted	**HK6.78cents**	HK41.86cents	(83.8%)

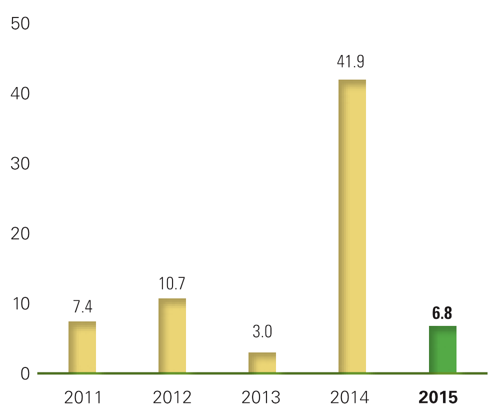
TURNOVER
(HK$ million)



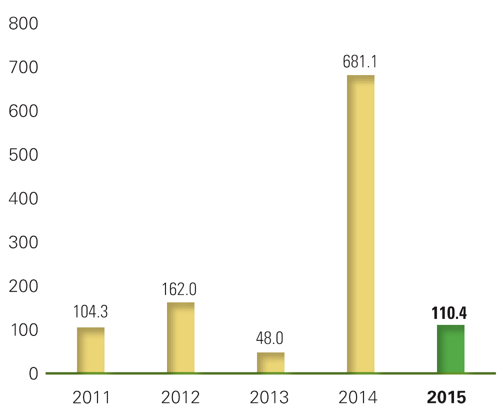
EBITDA
(HK$ million)



BASIC EARNINGS PER SHARE
(HK Cents)



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



OTC

The United Laboratories "Zheng Tong" Cream®

Used for relief of

sprain, contusion, pull and strain

Working fast, feeling comfortable and relaxed

CHAIRMAN'S STATEMENT

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 2015.

Mr. Tsoi Hoi Shan
Chairman

The year 2015 witnessed a slow-down in the global economic growth, with the global trade remaining at a low level since the financial crisis. While the economy of the United States managed with a relatively steady growth, that of Japan and the Euro Zone was struggling to stay above the line, with all the major economic systems in the world facing critical issues such as high unemployment rate and economic restructuring. Notwithstanding the complex international situation and economic down-turn, China's economy continued to sail on against the wind. Heading into 2016, which marks the first year of its "13th Five-Year" Planning, China is expecting both critical strategic opportunities and severe challenges along the course, with countless conflicts and hidden risks. During the "13th Five-Year" Period, the Chinese Government will strive to implement its strategic guideline known as "Building a Vigorous China", which is meant to provide its people with basic medical and health insurance as public welfare and set up a more sophisticated regulatory system covering public health, medical services, medical insurance and drug supply, as well as a better regulatory system and operational mechanism for the medical institutions, so as to satisfy the people's anticipation. Such an initiative is expected to support the long-term and sustained development of the pharmaceutical industry, and ensure the future growth of the Group in an optimized business environment.

Leveraging on its leading position in the industry, United Laboratories has been earnestly improving its core capacity and pursuing opportunities in a volatile market, with an aim to maintain consistent growth. During the year, the Group's turnover amounted to approximately HK$7,694.6 million, representing an decrease of 4.2% over 2014. EBITDA and profit before taxation were approximately HK$1,406.1 million and HK$235.4 million respectively, representing a decrease of 19.6% and 64.5% respectively as compared with last year. Profit attributable to owners of the Company was approximately HK$110.4 million, representing a decrease of 83.8% as compared with last year. Earnings per share amounted to HK6.78 cents. The Board does not recommend payment of final dividend for the year ended 31 December 2015.

Sales of intermediate products and bulk medicine products (including inter-segment sales) were decreased during the year. The decreasing prices of the primary raw materials of our intermediate products, i.e. corn and coal, led to the decrease of selling price of 6-APA, an intermediate product, during the second half of the year. During the year, our 6-APA project in Inner Mongolia Plant successfully passed the FDA certification of the United States, providing a strong quality guarantee to the overseas sales of the product.

CHAIRMAN'S STATEMENT

As for the finished products, with the policies on new medical reform becoming clear, the Chinese Government is exploring new paths for its medical work. In response to the adjustments to the pharmaceutical procurement practices across China, the Group took active steps to cope with the changes in the bidding policies on and price adjustments to the pharmaceutical products, with the promotion and bidding campaign for its finished products being carried on smoothly. During the year, China started a new round of pharmaceutical products procurement through open bidding, during which the Group won the bids in more than 10 provinces. We had 41, 50 and 39 product specifications winning the bid in Hunan province, Sichuan province and Hubei Province, respectively. Our recombinant human insulin prevailed in Anhui, Sichuan, Hubei and Fujian provinces in all its product specifications in the new round of bidding. Encouraging bidding results has laid a solid foundation for the sales and marketing of our products. We are expecting to prevail in even more provinces in 2016 and further expand our market share, so as to take advantage of the outstanding performance of our sales team in penetrating the bottom-level medical institutions and rendering high-quality services.

During the year, in addition to our success in bidding campaigns, we continued to receive orders for our recombinant human insulin products from the medium-to-large hospitals, basic pharmacy market, OTC market and rural market, and our performance in Shandong, Henan, Anhui, Guangdong and Jilin provinces was particularly satisfactory. The sales revenue of our recombinant human insulin products for the year increased over the last year, topping the sales target for 2015, our insulin products are expected to be the main driving force for the Group's expansion in the coming years, with its profitability rising further.

During the year, the Group was making great efforts to expand the market share of memantine hydrochloride, a drug to treat Alzheimer's disease, which is currently being sold in 19 provinces and cities nationwide and has won the bids in 11 provinces and cities, such as Shandong, Chongqing and Hubei. In addition, the Group is making continuous efforts to develop new specifications and preparations of the series to further expand its market share as well as increasing its proportion in the total revenue. As for our highly-anticipated antibiotics products, notwithstanding the influence of China's bidding requirements and tightened control over antibiotics, the sale of our Piperacillin Sodium and Tazobactam Sodium for Injection increased over the last year. Moreover, our Biapenem-based high-end antibiotics preparations rendered remarkable performance, achieving a significant growth in sales revenue over the last year. With the onset of the Big Health era as well as introduction of the concept of "Internet Plus", our flagship stores were officially opened on a number of e-commerce platforms such as tmall.com, jd.com and yhd.com, as an effort to better promote our brand as well as our products through the Internet, which witnessed the launch of "Yin Dan" Effervescent Tablets. We plan to gradually develop the Internet sales mode to further expand our market share.

We currently have 52 new products under development. In 2015, we received one approval for production and one for clinical trial of our products. As of now, we had 18 patent registration applications approved, with another 11 applications pending approval. Our finished products reserve is expected to be further expanded. We have a strong sales team consisting of nearly 3,000 professional sales representatives, which has obviously shortened the time of product launch, being a strong driving force for the promotion of the Group's new products in the market. The Group has been committed to pharmaceutical research and development, and as a proof, our subsidiary The United Laboratories Limited Zhuhai won the 2015 Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China (二零一五年中國醫藥研發產品線最佳工業企業) while ranking 23rd among the Top 100 Pharmaceutical Enterprises in China, receiving high recognition from the industry for its the comprehensive strength.

CHAIRMAN'S STATEMENT

As for the research and development of biological preparations, the Group has passed the inspection of registered production site for insulin glargine (third generation insulin), and clinical trial for insulin aspart (third generation insulin) has also been completed successfully, which is now in the stage of preparing for application for production approval, and will further complement our insulin product line. Meanwhile, the Group is researching a variety of biological preparations, including the third generation of insulin aspart, insulin Degludec and liraglutide, which will be gradually put in the market to benefit more diabetics in China in the future.

For the research and development of chemical pharmaceuticals, levetiracetam, which is classified under class 3.1 of State Class New Medicine and is used for the treatment of epilepsy, was granted the production approval and the new pharmaceutical certificate from China Food and Drug Administration in May 2015. It is expected that the Group will become the fourth licensed manufacturer of the products in China. With good clinic efficacy and high safety, the levetiracetam tablets are suitable for adult and children epileptics above the age of four. We believe that it will contribute considerable economic benefits to the Group after being approved for production and more epileptics are expected to benefit from it.

Doripenem, Class 3.1 of State Class New Medicine developed by the United Laboratories for Injection with specifications of 0.25g/vial, was granted the approval from China Food and Drug Administration for clinical trial in July 2015. Doripenem is a new type of Carbapenem broad spectrum antibiotics. Originating from Japan, it is sold in U.S. and European countries, but not available in China. The United Laboratories applied for the approval of this drug for clinical trial in November 2011. With good anti-microbial efficacy and low-level of antibacterial resistance, Doripenem can effectively fight against various types of bacteria that have resistance to Cepharosporins and other types of Carbapenem. It is considered the most promising product in the field of antibacterial drugs.

For overseas sales, leveraging on our internationally approved production capabilities and products possessing significant price advantage, the Group's export business progressed smoothly and recorded steady contribution to its sales. During the year, our overseas sales was HK$2,415.0 million, accounting for 31.4% of the Group's sales. The United Laboratories was granted accolades of "Leading API Exporters in 2014" (二零一四年原料藥出口龍頭企業) by China Chamber of Commerce For Import & Export of Medicines and Health Products (中國醫藥保健品進出口商會), 2015 Top 100 Enterprisers among China Pharmaceutical Industry (2015年中國化學製藥工業企業綜合實力百強) and "Leading API Exporter's Brand among China pharmaceutical Industry in 2015 (2015中國化學製藥行業原料藥出口型優秀企業品牌). 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.

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. From the date of inception of the programme to 2 February 2016, the Group issued bonds at a total principal amount of HK$166.8 million and entered into a new placing agreement (the "Placing Agreement") with Vision Finance (Securities) Limited (the "Placing Agent") for issuance and allotment of bonds under the programme. The Placing Agent shall have the right to allot tranches of bonds in accordance with the prevailing market conditions within one year from the date of the Placing Agreement.

According to the report of Frost & Sullivan, China's pharmaceutical expenditure is expected to further increase from RMB3.9 trillion in 2015 to RMB6.3

CHAIRMAN'S STATEMENT

trillion in 2019 at a compound annual growth rate of 11.9%. According to the estimates for 2015, China's pharmaceutical market is rapidly expanding, China is lagging far behind most of the major countries in terms of the amount of medical expenditure and its percentages to GDP and per capita expenditure. Therefore, there is plenty room for development in the future. In addition, increasing disposable personal income and public health awareness are the drivers of rapidly expanding China's pharmaceutical market in terms of total expenditure and per capital expenditure. It is expected that the market would maintain a double-digit growth for the next few years. The Group believes that it will benefit from increasing pharmaceutical expenses and accelerated industry consolidation as a leading player among the pharmaceutical industry.

To enhance industry standards and to ensure safety and efficacy of pharmaceuticals, the State has been putting the assessment on generics in terms of quality and efficacy on its agenda. In March 2016, the State of Council promulgated the *Opinions of the General Office of the State Council on Carrying out Quality and Efficacy Consistency Assessment of Generic Drugs*, pursuant to which all generics approved and sold before the enactment of the new requirements related to registration of chemical pharmaceuticals but not approved on the same principles under the Opinions in relation to assessment of the quality and efficacy consistency are required to undergo consistency assessment. The Group believes that an assessment of generic drugs is a clear trend. The enactment of such requirement will lead to consolidation of pharmaceutical industry and industrial upgrading. The Group will actively promote the related development. Looking forward, the Group will strive to strengthen its overall competitiveness and position in the industry on its vertical integration, which is its competitive edge in the industry.

Looking forward, the Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. With the continuous enrichment of its insulin product line, insulin product will continue to be its key strategic product. The Group will keep an eye on all favourable policies related to pharmaceuticals for critical diseases such as diabetes and invest more resources in the related field so that we can win the tenders in other provinces and expand its market presence. We will consider promoting the sales of related products to overseas markets as the Group's insulin products have reached international standards in terms of quality and production technology. For R&D of chemical pharmaceuticals, the Group will focus on research and development on new pharmaceuticals such as anti-hepatitis, anti-cancer, high-end anti-infective and neurological drugs. The Inner Mongolia Plant commenced its full operation, and the vertical integration resulted in higher production efficiency. In addition, as production technology of enzymatic bulk amoxicillin became mature, production costs were further reduced.

The Group shall continue to implement its existing business development strategies. We will strengthen penetration in large and medium-sized hospitals, essential drugs market, OTC markets and rural market by making good use of our competitive advantage as well as the extensive sales networks, and put great efforts to increase overseas sales through expansion of overseas markets, and actively explore new markets with growth potentials in an effort to enhance our leading position in the market. In addition, the Group has also proactively expanded the sales of OTC products, Chinese medicine and healthcare products in chain pharmacies. That has further driven the growth of finished products.

With continuous efforts to enhance our competitiveness, 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, 22 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2015, the Group's turnover was approximately HK$7,694.6 million, a decrease of 4.2% as compared with last year. The profit attributable to shareholders was approximately HK$110.4 million, representing a decrease of 83.8% as compared with last year. The substantial decrease in net profit for the year ended 31 December 2015 is attributable to a number of factors as below:

– One-off subsidy income of approximately HK$391 million from Chengdu local government was received last year but there is no such subsidy income in current year;

– Loss arising from RMB forward contracts due to depreciation of RMB during the year 2015; and

– Decrease in turnover of intermediate products and bulk medicine products (including inter-segment sales) thus resulting decrease in gross profit.

During the year, segmental turnover (including inter-segment sales) of intermediate products and bulk medicine and finished products decreased by 5.4% and 16.7% respectively as compared with last year. Segmental turnover of finished products increased by 0.4% as compared with last year. Segmental result of intermediate products increased by 29.8%.Segmental result of bulk medicine and finished products decreased by 49.8% and 7.6% respectively as compared with last year.

Mr. Leung Wing Hon,
Vice-Chairman

The Group's operations during the year are summarized as follows:

Decrease in sales and gross profit margin of intermediate and bulk medicine products

Sales of intermediate products and bulk medicine products (including inter-segment sales) decreased as the selling prices of them decreased as compared with last year. The major raw materials are corn and coal which are principal intermediate products, 6-APA, its cost prices decreased as a result offsetting some of the impact of the gross margin declined. The export sales of intermediate and bulk medicine products kept stable, the overseas pharmaceutical manufactures kept stable demand on the Group's products.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Stable in sales of finished products

Since the Group successfully obtained bidder contracts through tenders in the healthcare system of difference provinces and urban areas in China, the Group's sales of finished products was stable by obtain these bidder contracts. In additions, the Group's sales of recombinant human insulin were in line with the sales strategic targets, the sales increased and contributed to the Group's overall turnover. During the year, in addition to our success in bidding campaigns, we continued to receive orders for our recombinant human insulin products from the medium-to-large hospitals, basic pharmacy market, OTC market and rural market, and our performance in Shandong, Henan, Anhui, Guangdong and Jilin provinces was particularly satisfactory.

Cost savings by optimization of the Group's debt structure

The Group restructured the debt components during the year, enhanced more channel of fund financing by reducing financing of discounted bills and restructured to finance from middle to long term difference loans financing, reducing the interest expenses and therefore finance costs saved. The Group seized market opportunities and optimized the financial structure during the year through difference financing measures 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.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group had pledged bank deposits and cash and bank balances amounted to approximately HK$2,084.9 million (2014: HK$2,217.8 million).

As at 31 December 2015, the Group had interest-bearing borrowings of approximately HK$5,022.6 million (2014: HK$5,892.7 million), which were denominated in Hong Kong dollars, Renminbi and United States dollars with maturity within five years. Borrowings of approximately HK$1,776.1 million are fixed rates loans while the remaining balance of approximately HK$3,246.5 million is at floating rates. The directors expect that all such 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 2015, current assets of the Group amounted to approximately HK$5,760.7 million (2014: HK$6,623.8 million). The Group's current ratio was approximately 0.68 as at 31 December 2015, as compared with 0.74 as at 31 December 2014. As at 31 December 2015, the Group had total assets of approximately HK$17,407.9 million (2014: HK$18,918.2 million) and total liabilities of approximately HK$10,689.3 million (2014: HK$11,949.1 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 60.2% as at 31 December 2015, as compared with 72.3% as at 31 December 2014.

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.

CAPITAL COMMITMENTS

Details of capital commitments of the Group at 31 December 2015 are set out in note 34 to the consolidated financial statements.

PLEDGE OF ASSETS

Details of pledge of assets of the Group at 31 December 2015 are set out in note 35 to the consolidated financial statements.

CONTINGENT LIABILITIES

As at 31 December 2014 and 2015, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK FOR 2016

Looking to the year 2016, we are cautiously optimistic about the development of China's pharmaceutical market. The Group will continue to increase market share in China and overseas, and optimize the plant production efficiency and financial financing structure. Our strategies in various aspects are as follows:

Development of new products to increase market share

The Group will continue to develop the finished products with high demand and high profit margin. In particular, the additional research and development resources will be allocated to develop the new generation of recombinant human insulin products and other biological products, such as 3.1 new drug levetiracetam for the treatment of epilepsy, and others products. The Group will implement the existing business strategy, continue to expand in the medium-sized hospitals, sales of basic medicine market, OTC market and rural markets, and to develop overseas markets to promote overseas sales. We will actively explore new markets with potential to further enhance our market share.

Improvement of production line efficiency

With full operation of the production plant in Inner Mongolia, vertical integration has improved the production efficiency. The Group will enhance the production capacity by the integration of plant utilization, and enhance the Group's productivity. The Group will also actively develop new production technology and improve existing production processes in order to improve efficiency, reduce cost and improve the market competitiveness of the Group's products.

Expansion of sales network

The Group will implement the existing business strategy and, with competitive advantages and extensive sales network, continue to expand in the medium-sized hospitals, sales of basic medicine market, OTC market and rural markets and to develop overseas markets to promote overseas sales. We will actively explore new markets with potential for development and strengthen our market leadership. In addition, the Group is also actively expanding the sales network for OTC products, proprietary Chinese medicines and health products in chain drug stores.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION

As at 31 December 2015, the Group had approximately 11,400 (2014: 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 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (蔡海山), aged 38, 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 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 Mr. Choy Kam Lok (deceased).

Mr. Leung Wing Hon (梁永康), aged 54, is an executive director, the Vice-Chairman, the Chief Financial Officer and the Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a 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 43, 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 sister of Mr. Tsoi Hoi Shan, an executive director and the Chairman of the Company. Ms. Choy is one of the discretionary objects of a discretionary trust established by Mr. Choy Kam Lok (deceased).

Mr. Fang Yu Ping (方煜平), aged 53, 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 51, 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 51, 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 67, 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 68, 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 54, 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 45, 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. Ms. Fu is an independent non-executive director of V.S. International Group Limited (Stock Code: 1002), a company listed in the main board of the Stock Exchange of Hong Kong. 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 49, 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 65, 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 47, 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 40, is the factory manager of the Group's production plant in Zhuhai. Mr. Dou graduated from Shenyang Pharmaceutical University in July 1999, majoring in chemical pharmacy; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from Jilin University in 2010, with a master in pharmaceutical engineering. From 1999 to 2011, Mr. Dou worked on different positions in the Group's production plant in Zhuhai, such as technician, quality inspector, manager of production department, workshop supervisor and assistant factory manager, and received the Zhuhai Labour Model award in 2007. Since 2012, Mr. Dou has been chairman of the management committee as well as factory manager of the Group's production plant in Zhuhai, primarily responsible for the overall management and operation of the Group's bulk medicine plant in Zhuhai.

Mr. Zheng Shun Teng (**鄭順騰**), aged 39, is the operating general manager of the Group's intermediate and 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 2015.

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 2015 is set out in note 8 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 46 of this annual report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2015.

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 139 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 the share capital of the Company 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$4,194.4 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 49 and 50 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 2015, 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 2015, the aggregate purchases attributable to the Group's largest and five largest suppliers accounted for 26.6% and 39.1% 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 2015 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, Mr. Leung Wing Hon, Mr. Fang Yu Ping, Ms. Zhu Su Yan and Prof. Song Ming will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract 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, Prof. Song Ming and Ms. Fu Xiao Nan has entered into a letter of appointment with the Company. The annual director's fee for each of the above independent non-executive directors is HK$240,000.

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).

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

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

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

As at 31 December 2015, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	225,000	Personal interest	0.01%
Mr. Leung Wing Hon	153,500	Personal interest	0.01%
Ms. Choy Siu Chit	3,318,125	Personal interest	0.20%
Mr. Fang Yu Ping	260,000	Personal interest	0.02%
Ms. Zou Xian Hong	100,000	Personal interest	0.01%
Ms. Zhu Su Yan	150,179	Personal interest	0.01%

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

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, 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 positions in the ordinary shares of the Company:

Name	*Notes*	**Number of shares held**	**Percentage of Interest**
Heren Far East Limited ("Heren")		1,006,250,000	61.85%
Gesell Holdings Limited ("Gesell")	*(1)*	1,006,250,000	61.85%
Nautilus Trustees Asia Limited	*(2)*	1,006,250,000	61.85%

Notes:

(1) 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.

(2) The Choy Family Trust 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 Kam Lok (deceased). Nautilus Trustees Asia 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 2015.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

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

OTHER CHANGE OF DIRECTOR'S INFORMATION

Ms. Fu Xiao Nan was appointed as an independent non-executive director of V.S. International Group Limited (Stock Code: 1002) with effect from 12 June 2015.

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, 22 March 2016

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 2015, 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 2015, 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 2015 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 16 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	4/4	1/1	2/2	1/1	1/1
Prof. Song Ming	4/4	0/1	2/2	1/1	1/1
Ms. Fu Xiao Nan	4/4	1/1	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 independent 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.

CORPORATE GOVERNANCE REPORT

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 2015.

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 2015, 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 2015, 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 2015 amounted to approximately HK$4,661,000 and HK$1,491,000 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 a 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.

CORPORATE GOVERNANCE REPORT

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 2016, 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, 22 March 2016

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

WORKPLACE QUALITY

Equality, Care and Joint Development

The Group has 5 production bases in China, including The United Laboratories Co., Ltd., Zhuhai United Laboratories Co., Ltd., Zhuhai United Laboratories (Zhongshan) Co., Ltd., The United Laboratories (Inner Mongolia) Co., Ltd. and Guangdong Kaiping Kingly Capsule Co., Ltd., and a total of 11,400 staff. Our united, hardworking and energetic staff enables the Group to fully grasp every development opportunities. The Group has always dedicated to cultivate talents and provide fair remuneration, benefits, training and promotion prospect for each staff. In the meantime, the Group assesses its staff remuneration system from time to time to ensure its fairness and competitiveness. Furthermore, the Group purchases various insurances for its staff, including medical, endowment and maternity insurances.

Product	Production Base
Intermediate products, bulk medicines and finished products	The United Laboratories (Inner Mongolia) Co., Ltd.
Bulk Medicines, biological and finished products	Zhuhai United Laboratories Co., Ltd.
Finished products	Zhuhai United Laboratories (Zhongshan) Co., Ltd.
Finished products	The United Laboratories Co., Ltd.
Empty Capsule casings	Guangdong Kaiping Kingly Capsule Co., Ltd.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Health and Workplace Safety

The United Laboratories persists in safe production and devotes itself to providing a healthy and safe working environment for its staff. The Group has put in place safe production SOP for all production-related positions, and organized activities on safety for staff from time to time, such as safe production fire drill, workshop safety training and occupational health training. The safety awareness and skills of the staff are constantly improved, ensuring safe operation for the Group and building a satisfying and safe production environment. In addition, the Group regularly arranges full medical check-up for its staff, invites experts to lecture on health and hygiene and provide comprehensive health guidelines and related trainings for our staff.

Staff fire emergency drill

Staff Training

Staff training and education is key to maintain an energetic enterprise. The United Laboratories considers staff training a constant propeller for the enterprise to improve efficiency and thus provides induction training and a variety of individualized on-the-job trainings for each staff. In line with the national pharmaceutical policies, and in accordance with the training needs of each functional department, the Group formulates annual training program to continually enhance our staff's professional standard. Our daily training program includes team outward bound, GMP training, management training and product specialist training. Drug safety concerns the life and health of the public, therefore, being the first pharmaceutical enterprise in China with all workshops passed the national GMP certification on the first attempt, The United Laboratories aims to produce the best quality products, foster deeper understanding of GMP management standard for our staff, prudently handle each step of the drug manufacturing process and ensure the quality and safety of our product.

Furthermore, the Group encourages its staff to engage in advanced studies and acquire relevant professional qualifications. As of this date, our staff comprises 0.71% of master degree and PhD holders, 13.97% of undergraduate degree holders and 85.22% of college degree holders and others, 93 of which possess licensed pharmacist qualification.

New employee induction training

New employee outward bound

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Staff Participation

The Group attaches great importance to the work-life balance of its staff. In order to enrich staff's leisure time, the Group has assisted in setting up various clubs and hobby groups, including the ping-pong club, the badminton club, the football club, the billiards club, the mountaineering club, the cycling club and the dancing club, among others. During the year, numerous cultural and sports activities were held by such groups and an increasing number of people were drawn to take part in their activities.

In order to promote our corporate culture, the Group has successively set up in-house publications since 1997, namely *The TUL's People and Pictorials*, all contents of which were originated from staff contributions. Such publications provide a valuable platform to promptly follow news and trends of the enterprise, and enhanced our cohesion in a considerable manner.

Dancing performance

In-house publications *The TUL's People and Pictorials*

The subordinate units of the Group has in succession set up groups to organize various corporate cultural activities on a regular basis, such as basketball, badminton, fun marathon and TUL Cup Skill Competition, holidays and festivals-themed activities including Women's Day Speech Contest, Mid-Autumn Festival Garden Party and evening party for New Year. Such activities not only boost festivity, but also encourage exchanges among staff and increase their sense of belonging.

Badminton tournament

Fun marathon

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

Green Production and Sustainable Development

Environmental protection is the lifeline of an enterprise. The United Laboratories, with a strong sense of social responsibility, adheres to the sustainable development concept of "environment priority" and properly handle the relationship between development and environment. Embracing the national environmental protection strategy, the Group invested resources, imported international advanced technology and equipment and assembled first-rate professional team to build green productivity and an economic industry chain of environmental friendliness and recycling and achieve a win-win for both environment and economic development.

Well-established Environmental Protection System

The environmental protection system of The United Laboratories, as compared with those of its peers in China, is among the better configured and has a higher proportion in the investment. It is a large comprehensive wastewater treatment system that integrates biochemistry, physical chemistry, aerobiotic and anaerobic, with wastewater and exhaust gas emission both in conformity with relevant national standard and environmental requirements. In order to elevate our level of environmental management, improve our environmental performance and environmental awareness of the staff, the Group has successfully adopted the ISO14001 International Standard for Environmental Management Systems. In light of the considerable attention and innovativeness the Group attached to environmental protection, it was invited to become a "governing unit of China Environmental Friendly Enterprise Alliance" in 2014.

Governing unit of China
Environmental Friendly Enterprise Alliance

Outstanding Enterprise in
Environmental Protection

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater Treatment

The United Laboratories always adheres to green environment and sustainable development and considers environment friendliness as a priority in the process of engineering construction, enterprise development and production and operation. Wastewater is treated with the "preprocessing – hydrolytic acidification – Upflow Anaeroic Sludge Blanket (UASB) – Cyclic Activated Sludge System (CASS) – catalytic oxidation – secondary sedimentation tank – measuring tank" procedure, with multiple workshop sections including biochemical operation, environmental detection room, four-effect evaporation, machine maintenance, polarization instrument scrutinizing at every step, assisted with various contingency plans and management systems to ensure to the utmost extent the 24-hour continuous functioning of sewage treatment facility and up-to-standard wastewater discharge. Moreover, the Group invested in and set up COD online monitoring system, through which wastewater is monitored at the outfall and discharged if its COD is up to standard. The system is interconnected with the government environment online monitoring platform and achieved real-time data transmission and monitoring.

The Group's environmental indexes, including chemical oxygen demand (COD), biochemical oxygen demand (BOD_5), suspended solids (SS) and pH value are all in accordance with national and governmental standards.

Waste Gas Treatment

The Group established deodorization system and biogas desulphurizing system which primarily comprise induced draught system, plasma decomposition system, caustic soda liquid spray absorption, biosorption, etc., to undertake sealed treatment to the emission source of odorous gas originating from the running environmentally protective facilities, such as anaerobic UA reaction tank and hydrolysis acidification pool. Complete deodorization is achieved by collecting gas with sealed pipeline to be discharged after being processed up to standard.

The Group's environmental indexes of sulfur dioxide (SO_2), oxynitride (NO_X) and dust are all in accordance with relevant national standards.

Solid Waste Treatment

The Group, strictly in compliance with the national administrative regulations on hazardous and solid waste and with corresponding management system, records and contingency plans for hazardous and solid waste, disposes its wastes in a legal, appropriate and explicit manner. Among the wastes, zymophyte residue is transferred and disposed of at a company with hazardous waste business license qualification to be recycled for organic fertilizer production; and sludge is transferred to a company with hazardous waste business license qualification to be comprehensively disposed of and utilized.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental Sustainability

The Group strives to forge a sustainable business model which is "safe, environmentally friendly and efficient", with an aim to improve its production process in both advancement and environment-friendliness. With persistent innovation and exploration, we will keep up our endeavour to be an admired company celebrated for its environment-friendliness, energy saving and internationalized management while continuing our pursuit of green production and sustainable development.

Cyclic Economic & Industrial Chain

Our subsidiary in Inner Mongolia managed to boost local economy through purchase of local premium corn, which in turn enhanced the income of the farmers. Up to now, it has established a cyclic economic & industrial chain that runs Corn Fermentation – 6-APA Intermediate Products – Amoxicillin Bulk Medicine – Amoxicillin Finished Products, the upper end of which connects with the origins of corn and starch processors, the middle section connects with intermediate bulk medicine and finished products, and the lower end connects with the organic fertilizer producers, with the by-products (fungi residue) turned into organic compound fertilizer after non-hazardous treatment, undergoing a magic conversion from waste to wealth. By forging such a beneficial cyclic economy & industrial chain, we strive to achieve higher standard.

Optimization of Production Process

Our proprietary "Green Enzymatic Method" Amoxicillin bulk medicine process is the most advanced production process in the world. It underwent significant improvements in environmental friendliness compared with the traditional chemical processes.

Optimization in Waste Water and Gas Treatment

By recycling the reclaimed water, we have reduced the consumption of one-off water; and we deployed MVR (ultra-condensation for high-density waste water) technology in high-density waste water treatment, which enabled us to significantly reduce the production of pollutants such as COD, BOD and inorganic salts at source. In respect of waste gas treatment, we applied the low-temperature plasma technology in the end treatment and subsequent treatment of waste gas.

Resource Recycle

Methane, the product of solid waste treatment, can be piped to the burner for heating the boilers after desulphurization, saving 15 tons of standard coal a day. It contributes to energy saving, emission reduction and resource recycling.

Landscape Gardening

We have been constantly increasing the area of plant coverage, trying to make our factory a green and comfortable workplace.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES

Quality Forges Our Corporate Image and Integrity Shapes Our Future

Since its inception, the Group has established an operation management and supervision mechanism and has been constantly improving it, so as to ensure its sustainable development. It is the common goal of the United Laboratories people to develop products of superior quality for the benefit of human life, and "making life more valuable" is our perpetual endeavour.

Vertically-integrated Production and Operating Model

Intermediate products	
6-APA	**T-Octylammonium Clavulanate**

Bulk medicines				
Semi- synthetic penicillins typs	Cephalosporins type	β -lactamase inhibitors type	Carbapenems type	Insulin API
				

Finished products					
Semi-synthetic penicillins antibiotics	Cephalosporins antibiotics	β -lactamase inhibitors antibiotics	Carbapenems antibiotics	Insulin products	Others (including capsule casings)
					

Note: areas in the same colour represent products of the same series, which will go through the production process of intermediates products – bulk medicine – finished products from upstream to downstream.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supply Chain Management

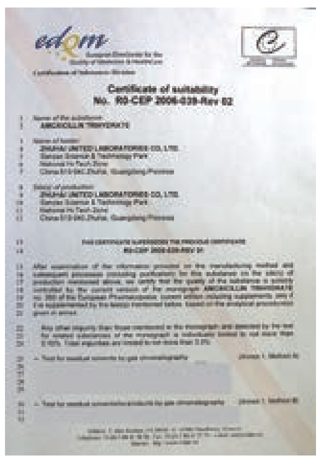
We have a strict internal control system in place, which is in compliance with the applicable laws and regulations of the state. In selecting our suppliers, we always resort to fair and transparent bidding process. We believe in fair competition under good business practices, and aim to establish long-term cooperation with our suppliers and partners based on mutual trust. Accordingly, our selection of suppliers is based on a number of criteria, i.e. demand, price, quality and reliable service. In addition, we have a vertically integrated production model, and the pharmaceutical intermediate products and bulk medicine we produce can be used in the production of finished products at the lower section of the chain, with which the costs are under good control while the product quality can be assured, giving us remarkable competitive advantages.

Product Responsibility

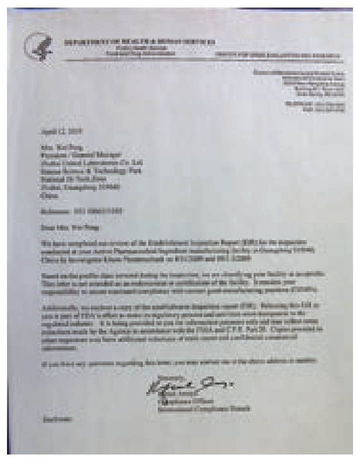
We explore the market under the brand of The United Laboratories and secure it with quality. We carry out our production and management in strict compliance with the GMP standards. We have established a complete quality assurance system and after-sales service system, and we are the first pharmaceutical company in China that passed GMP certification. In addition, we have many bulk medicine products which have obtained certification of EU CEP and USFDA as well as the authorities of Japan and Russia. We are committed to providing consumers with safe, effective and high quality drugs.


第十七届中国国际高新技术成果交易会
CHINA HI-TECH FAIR 2015
CHTF
优秀产品奖证书

Certificate of Outstanding Product Award


Certificate of suitability

CEP Certificate of Amoxicillin



Certification of Ampicillin from USFDA

Anti-corruption

We place great emphasis on integrity and impartiality, which is reflected in our policies and operational procedures. We have set up a comprehensive internal control mechanism, which aims to prevent the occurrence of corruption and fraud.

Our internal auditing and supervision departments perform independent audits in a timely manner, conducting in-depth analysis of the causes of events, processes and solutions, and continue to seek and promote preventive and management measures with better effects, and make regular arrangements for the staff to receive training and education in relation to the subjects, which works to make the mechanism more reliable and effective, and protect the assets and interests of our shareholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY INVOLVEMENT

Love China and For China

We have adhered to our motto known as "Love China and For China" since the Group's inception. While providing our customers with quality drugs, we got actively involved in the charity cause, repaying the society whole-heartedly. As of December 2015, we have made over 30 donations, amounting to nearly RMB80 million, mainly for education, disaster relief and poverty alleviation projects.

The United Laboratories Education Scholarship

Since 1998, the Group has donated a total of RMB46 million and set up dedicated "The United Laboratories Education Scholarship" in 38 medical and pharmaceutical universities all over China, as a support to the development of China's pharmaceutical education. According to the statistics, the Group donated RMB30 million from 1998 to 2008 and RMB16 million from 2001 to 2015 to fund the scholarships, benefiting 48,000 students in more than 50 colleges and universities, including China Medical University, Capital Medical University, China Pharmaceutical University, Shenyang Pharmaceutical University, Chongqing Medical University, Tongji Medical College. We will continue to champion the development of medical education and support the training of medical personnel in the future.

Since 1998, we awarded scholarships amounting to **RMB46 million**

We have established the "The United Laboratories Education Scholarship" in **38 universities** all over the country

We financially supported more than **50 colleges** and universities

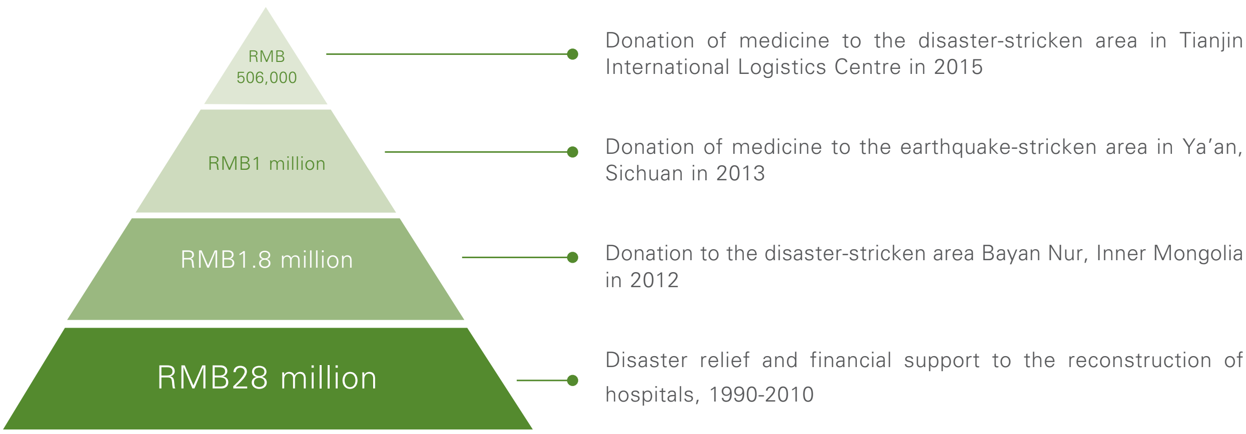
48,000 students benefited from our contribution

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Connection to Disaster-Stricken Areas

Donation to Tianjin disaster-stricken area in 2015

For over 20 years from the early days of the Group to 2010, we have donated money and supplies amounting to RMB28 million to the people suffering from serious disasters, such as SARS, the earthquake in Wenchuan and Yushu in Qinghai province. In 2008, we donated RMB12 million to build a United Laboratories Hospital in the eastern earthquake-stricken area of Sichuan, in addition to the medical and supporting equipment including X-ray machines, multi-function anesthetic machine, fully-automatic biochemical analyzer and ambulances worth RMB1.2 million, with an aim to better cater for the needs of the hospital. In 2012, the Group donated RMB1.8 million to help Bayan Nur, Inner Mongolia with flood relief and reconstruction. In 2013, the Group donated medicine worth RMB1 million to the earthquake-stricken area in Ya'an, Sichuan in support of the disaster relief efforts. Since the massive explosion of the Dangerous Goods Warehouse in Tianjin Port International Logistic Centre in August 2015, we have been paying close attention to the progress of the rescue work, preparing the most-needed medicine for the disaster-stricken area, during which we have donated drugs worth RMB506,000 for the treatment of respiratory tract and skin tissue infection. We adhered to our motto known as "Love China and For China", and won widespread recognition of all the sectors of society.



Volunteer Activities

As an enterprise enthusiastic about public welfare cause and with a strong sense of social responsibility, The United Laboratories has organized its employees to donate blood for a number of times, for which it was dubbed a company with love "enthusiastic at charity and blood donation". During the year, the Group's labour union also organized its members to donate blood for a number of times. In September 2015 alone, over one hundred employees answered the call and donated more than 50,000 ml of blood, showing their great love in selfless dedication and serving the community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPAY THE SOCIETY

Care for Our Children

We care about the poverty-stricken young generation, and are committed to the construction of the Hope Project. On the 2015 World Book and Copyright Day, we launched a campaign and encouraged our employees to participate in the "donate a good book and help a group of children" campaign, and collected books for the poor children in Zhuhai city. Our people even trucked the books to the volunteers' base in person, extending their deep love and care to the children.

Care for the Elderly

We advocate the Chinese traditional culture of "charity begins at home", and are always ready to undertake the social responsibility, whereby we make social support for the elderly our top priority. Our employees answered the call enthusiastically by visiting and taking care of the elderly, making every effort to make it a common scene.

In July 2015, our Inner Mongolia subsidiary and Zhuhai subsidiary paid a joint visit to the Home of the Elderly in Bayan Nur City, Inner Mongolia, bringing gifts to the old people living there and staging a special performance for them.

Helping the Poor and Disabled

We advocate the spirit of "Enjoying helping and loving people". In 2015, we initiated the movement of clothing donation to the poverty-stricken areas in Bome, Nyingchi, Tibet, which met with positive response from our employees. A wide range of items (totalling over 1,000 pieces) were gathered, including clothing, stationery, books and sporting equipment. We were honoured by the Seventh Tibet Support Workgroup of Guangdong Province with the award of "Helping Tibet with Love".

Strengthening Relations with the Army

The United Laboratories puts into practice its in-depth understanding of mutual support between the garrison and local people in the new era, and in adherence to its commitment to "A strong enterprise should never forget to payback the country and contribute to national defence", it donated RMB500,000 to help the PLA border regiment build a "United Laboratories Frontier Post", which significantly improved the living conditions of the soldiers there, and further inspired their willingness to stay at and defend the country's border, representing its care and concern on national defence. In addition, on the Army Day in 2015, the Group organized a greeting team to visit the local Armed Forces Department in Guangdong Province, presenting them with gifts in cash and festive greetings.

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 46 to 138, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Turnover	8	7,694,563	8,029,835
Cost of sales		(4,733,378)	(4,801,444)
Gross profit		2,961,185	3,228,391
Other income	9	174,451	509,151
Other gains and losses	10a	(249,929)	(10,079)
Selling and distribution expenses		(1,289,856)	(1,252,067)
Administrative expenses		(733,683)	(719,065)
Other expenses	10b	(203,474)	(291,839)
Impairment loss recognised in respect of property, plant and equipment	17	(564)	(110,064)
Donation of properties	19	(29,782)	–
Loss on fair value change on investment properties	19	(50,173)	(315,730)
Gain (loss) on fair value change of embedded derivative components of convertible bonds		6,755	(3,191)
Finance costs	11	(349,508)	(371,961)
Profit before taxation		235,422	663,546
Tax (expense) credit	13	(125,064)	17,530
Profit for the year attributable to owners of the Company	14	110,358	681,076
Other comprehensive expense			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		(360,842)	(193,788)
Total comprehensive (expense) income for the year attributable to owners of the Company		(250,484)	487,288
Earnings per share (HK cents)	16		
– Basic		6.78	41.86
– Diluted		6.78	41.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**9,263,771**	9,616,785
Investment properties	*19*	**1,482,789**	1,634,245
Properties held for development	*19*	**297,153**	318,707
Prepaid lease payments	*18*	**248,950**	268,271
Goodwill	*20*	**3,605**	3,777
Intangible assets	*21*	**95,994**	54,517
Deposit for land use rights		**7,597**	7,602
Deposits for acquisition of property, plant and machinery		**54,446**	186,572
Pledged deposits against finance leases	*27*	**154,674**	162,019
Available-for-sale investment		**595**	–
Deferred tax asset	*29*	**37,663**	41,929
		11,647,237	12,294,424
Current assets			
Inventories	*22*	**1,415,109**	1,417,886
Trade and bills receivables, other receivables, deposits and prepayments	*23*	**2,195,214**	2,981,580
Derivative financial instruments	*24*	**–**	227
Prepaid lease payments	*18*	**6,021**	6,307
Pledged bank deposits	*25*	**970,316**	1,214,683
Pledged deposits against finance leases	*27*	**59,490**	–
Bank balances and cash	*25*	**1,114,537**	1,003,079
		5,760,687	6,623,762
Current liabilities			
Trade and bills payables and accrued charges	*26*	**3,294,663**	3,570,047
Derivative financial instruments	*24*	**203,665**	27,590
Obligations under finance leases – due within one year	*27*	**698,999**	696,019
Tax payables		**33,950**	62,831
Borrowings – due within one year	*28*	**4,109,911**	4,557,651
Convertible bonds	*30*	**116,824**	–
		8,458,012	8,914,138
Net current liabilities		**(2,697,325)**	(2,290,376)
Total assets less current liabilities		**8,949,912**	10,004,048

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current liabilities			
Deferred tax liabilities	*29*	**713,035**	768,120
Deferred income in respect of government grants	*26*	**98,096**	103,315
Obligations under finance leases			
– due after one year	*27*	**507,451**	704,960
Borrowings – due after one year	*28*	**912,697**	1,335,013
Convertible bonds	*30*	**–**	123,523
		2,231,279	3,034,931
		6,718,633	6,969,117
Capital and reserves			
Share capital	*31*	**16,269**	16,269
Reserves		**6,702,364**	6,952,848
Equity attributable to owners of the Company		**6,718,633**	6,969,117

The consolidated financial statements on pages 46 to 138 were approved and authorised for issue by the Board of Directors on 22 March 2016 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 2015

	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 2014	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
Changes in equity during the year:								
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**–**	**(360,842)**	**–**	**(360,842)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**110,358**	**110,358**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(360,842)**	**110,358**	**(250,484)**
Appropriations	**–**	**–**	**–**	**39,058**	**–**	**–**	**(39,058)**	**–**
At 31 December 2015	**16,269**	**2,656,294**	**286,032**	**658,628**	**121,968**	**436,942**	**2,542,500**	**6,718,633**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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 2015

	2015 HK$'000	2014 HK$'000
Operating activities		
Profit before taxation	**235,422**	663,546
Adjustments for:		
Provision of allowances for inventories	**8,290**	8,026
Write-down of long-aged deposit and prepayment	**34,296**	32,434
Provision of allowance for doubtful debts	**3,474**	16,956
Amortisation of intangible assets	**3,687**	5,112
Amortisation of prepaid lease payments	**7,385**	5,756
Depreciation of property, plant and equipment	**810,143**	702,325
Fair value loss on investment properties	**50,173**	315,730
Government grants in relation to cessation of production in Chengdu	**–**	(390,660)
Impairment loss recognised in respect of property, plant and equipment	**564**	110,064
Finance costs	**349,508**	371,961
Other subsidy income	**(31,717)**	(55,622)
Interest income	**(43,638)**	(31,708)
Net gain on disposals of property, plant and equipment	**(20,297)**	(5,245)
Fair value loss on derivative financial instruments	**172,035**	834
(Gain) loss on fair value change of embedded derivative components of convertible bonds	**(6,755)**	3,191
Reversal of impairment loss recognised in respect of property, plant and equipment	**(18,760)**	–
Donation of properties	**29,782**	–
Overprovision of payables	**(25,774)**	–
Overprovision of accrued expenses	**(13,357)**	–
Operating cash flows before movements in working capital	**1,544,461**	1,752,700
Increase in inventories	**(60,340)**	(185,408)
Decrease in trade and bills receivables, other receivables, deposits and prepayments	**670,011**	230,643
Change in derivative financial instruments	**4,267**	27,080
(Decrease) increase in trade and bills payables and accrued charges	**(183,234)**	95,391
Cash generated from operations	**1,975,165**	1,920,406
Income taxes paid	**(165,614)**	(169,999)
Net cash from operating activities	**1,809,551**	1,750,407
Investing activities		
Payments for purchase of property, plant and equipment	**(722,890)**	(691,716)
Proceeds on disposal of property, plant and equipment	**89,809**	82,952
Placement of pledged bank deposits	**(2,467,166)**	(2,793,208)
Receipts of other subsidies	**54,543**	85,378
Receipt of government grants in relation to cessation of production in Chengdu	**–**	390,660
Release of pledged bank deposits	**2,676,830**	2,445,494
Interest received	**43,638**	31,708
Addition to intangible assets	**(49,017)**	(324)
Payment for deposit of land use rights	**(350)**	(7,643)
Payment of premium for change of use of land	**–**	(609,129)
Payment for available-for-sale investment	**(595)**	–
Net cash used in investing activities	**(375,198)**	(1,065,828)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
Financing activities		
Interest paid	**(365,431)**	(472,210)
Proceeds from finance leases – sale and leaseback	**596,715**	876,516
Repayments of obligations under finance leases	**(714,962)**	(664,937)
Placement of pledged deposits against finance leases	**(61,360)**	(75,174)
New borrowings raised	**4,001,695**	5,566,424
Repayment of borrowings	**(4,734,692)**	(5,975,864)
Net cash used in financing activities	**(1,278,035)**	(745,245)
Net increase (decrease) in cash and cash equivalents	**156,318**	(60,666)
Effect of foreign exchange rate changes	**(44,860)**	(16,968)
Cash and cash equivalents at beginning of the year	**1,003,079**	1,080,713
Cash and cash equivalents at end of the year	**1,114,537**	1,003,079
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,114,537**	1,003,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company are 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's 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 ("HK$") 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 2015, the Group had net current liabilities of HK$2,697,325,000 which included borrowings due within one year of HK$4,109,911,000. 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$6,580,001,000 at 31 December 2015 which can be utilised 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 2015

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

Application of new and revised HKFRSs

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

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

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
HKAS 27	Equity Method in Separate Financial Statements[3]
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[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

HKFRS 9 *"Financial Instruments"*

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

Key requirements of HKFRS 9:

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

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

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

HKFRS 15 *"Revenue from Contracts with Customers"*

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

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

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The directors of the Company anticipate that the application of HKFRS 15 in the future may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company do not anticipate that the application of the other amendments to HKFRSs will have a material effect on the amounts recognised in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation *(Continued)*

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

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

Basis of consolidation

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

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

Amortisation 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditures *(Continued)*

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.

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 of disposal 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a 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.

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 (including trade and bills receivables, other receivables, pledged bank deposits, pledged deposit against finance leases and bank balances and cash) 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, obligations under finance leases and borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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.

Convertible bonds contains liability component, conversion option 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

Development of lands situated in Chengdu, the PRC (“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 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2014 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 2014 and 2015 reporting periods over the corresponding recoverable amounts at those dates were recognised as impairment in the profit or loss in the respective year. During the year ended 31 December 2015, no impairment on Chengdu Production Plant was recognised (2014: HK$90,911,000).

Other than Chengdu Production Plant, an impairment loss was recognised in respect of property, plant and equipment in the year amounted to HK$564,000 (2014: HK$19,153,000). 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 2015, allowance of inventories of HK$8,290,000 (2014: HK$8,026,000) was recognised. The carrying amount of inventories is disclosed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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. During the year ended 31 December 2015, allowance of HK$3,474,000 (2014: HK$16,956,000) was recognised. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

	2015 **HK$'000**	2014 HK$'000
Financial assets		
Loans and receivables	**4,060,434**	4,803,141
Available-for-sale investment	**595**	–
Derivative financial instruments	**–**	227
Financial liabilities		
Amortised cost	**9,043,360**	10,403,461
Convertible bonds	**116,824**	123,523
Derivative financial instruments	**203,665**	27,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, pledged deposits against finance leases, bank balances and cash, available-for-sale investment, 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 net 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:

	2015	2014
	HK$'000	HK$'000
USD	**(609,350)**	(203,946)
Euro	**(192,091)**	9,922
HK$	**(1,809,605)**	(910,331)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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% (2014: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against USD, Euro and HK$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 5% against USD, Euro and HK$. 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.

	2015 **HK$'000**	2014 HK$'000
Profit for the year		
USD	**26,676**	9,020
Euro	**8,187**	(492)
HK$	**76,970**	40,333

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk (Continued)

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/weaken 5% (2014: 5%) against USD while all other input variables of the valuation models were held constant, the Group's profit for the year would increase/decrease by HK$118,800,000 (2014: HK$97,641,000).

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risks (Continued)

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 of People's Bank of China and Hong Kong Inter-bank Offered Rates had been increased/decreased by 50 (2014: 50) basis points, respectively and all other variable remained constant, the Group's profit for the year would decrease/increase by HK$2,558,000 and HK$8,730,000, respectively (2014: HK$ 2,742,000 and HK$5,946,000).

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% (2014: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2015 would decrease/increase by approximately HK$3,305,000/HK$3,498,000 (2014: HK$4,510,000/HK$4,018,000).

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% (2014: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2015 would decrease/increase by approximately HK$2,879,000/HK$2,072,000 (2014: HK$2,711,000/HK$3,857,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2015, 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 2015, the Group has available unutilised banking facilities of HK$6,580,001,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 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 2015									
Non-interest bearing									
Trade, bills and other payables	–	–	1,774,249	1,040,052	–	–	–	2,814,301	2,814,301
Interest bearing									
Obligations under finance leases	4.97%	–	61,846	201,951	155,817	354,532	546,844	1,320,990	1,206,450
Borrowings									
– fixed rate	4.79%-7.85%	–	72,647	5,090	–	1,595,321	192,650	1,865,708	1,776,134
– variable rate	1.50%-4.75%	566,838	–	–	1,012,145	963,544	793,736	3,336,263	3,246,475
Convertible bonds									
– fixed rate	15.8%	–	–	–	4,346	120,238	–	124,584	116,824
		566,838	1,908,742	1,247,093	1,172,308	3,033,635	1,533,230	9,461,846	9,160,184
Derivative – net settlement		–	203,665	–	–	–	–	203,665	203,665

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	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 2015

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$566,838,000 (2014: HK$266,468,000) 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 HK$'000	61 – 90 days HK$'000	91 – 180 days HK$'000	181 – 365 days HK$'000	1 – 2 years HK$'000	2 – 5 years HK$'000	Total undiscounted cash flows HK$'000
As at 31 December 2015	**94,566**	**11,911**	**233,066**	**38,525**	**80,085**	**133,091**	**591,244**
As at 31 December 2014	1,599	799	2,398	260,939	10,457	–	276,192

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 2015

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:

	2015	
	Level 2 **HK$'000**	**Total** **HK$'000**
Derivative financial instruments – liabilities	**(203,665)**	**(203,665)**

	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)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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.

	2015	2014
	HK$'000	HK$'000
Sales of pharmaceutical products	**7,694,563**	8,029,835

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 2015

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 2015

	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	1,680,418	3,272,179	2,741,966	7,694,563	–	7,694,563
Inter-segment sales	1,434,541	357,182	–	1,791,723	(1,791,723)	–
	3,114,959	3,629,361	2,741,966	9,486,286	(1,791,723)	7,694,563
RESULT						
Segment profit	323,761	187,973	577,560			1,089,294
Unrealised profit elimination	(77,425)	(34,749)	(4,004)			(116,178)
	246,336	153,224	573,556			973,116
Unallocated other income						72,142
Unallocated corporate expenses						(136,638)
Other gains and losses						(249,926)
Impairment loss recognised in respect of property, plant and equipment						(564)
Donation of properties						(29,782)
Gain on fair value change of embedded derivative components of convertible bonds						6,755
Loss on fair value change on investment properties						(50,173)
Finance costs						(349,508)
Profit before taxation						235,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

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 2015

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, donation of properties, gain on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties, sundry income, other gains and losses, corporate expenses and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2015

	Intermediate products HK$'000	**Bulk medicine HK$'000**	**Finished products HK$'000**	**Unallocated expenses/ (income) HK$'000**	**Consolidated HK$'000**
Amortisation of prepaid lease payment	**5,722**	**1,285**	**378**	**–**	**7,385**
Amortisation of intangible assets	**–**	**–**	**3,687**	**–**	**3,687**
Depreciation of property, plant and equipment	**654,057**	**99,771**	**51,674**	**4,641**	**810,143**
Loss (gain) on disposal of property, plant and equipment	**–**	**880**	**(6,938)**	**(14,239)**	**(20,297)**
Write-down of long aged deposit and prepayment	**–**	**3,288**	**–**	**31,008**	**34,296**
Impairment loss recognised in respect of property, plant and equipment	**–**	**564**	**–**	**–**	**564**

For the year ended 31 December 2014

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Unallocated expenses HK$'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	–	(160)	374	5,031	5,245
Write-down of long aged deposit and prepayment	6,678	–	–	25,756	32,434
Impairment loss recognised in respect of property, plant and equipment	–	–	19,153	90,911	110,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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	
	2015	2014
	HK$'000	HK$'000
PRC (country of domicile)	**5,279,534**	5,400,957
Europe	**688,478**	808,865
India	**557,511**	618,440
Hong Kong	**122,333**	71,617
Middle East	**111,889**	90,184
South America	**211,977**	236,036
Other Asian regions	**534,869**	610,131
Other regions	**187,972**	193,605
	7,694,563	8,029,835

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information *(Continued)*

The information about its non-current assets is presented based on the geographical location of the assets, as below:

	Non-current assets	
	2015	2014
	HK$'000	HK$'000
PRC (country of domicile)	**11,355,180**	12,143,219
Hong Kong	**99,125**	109,276
	11,454,305	12,252,495

Note:

Non-current assets exclude pledged deposits against finance leases, available-for-sale investment and deferred tax assets.

(d) Information about major customers

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

9. OTHER INCOME

	2015 HK$'000	2014 HK$'000
Bank interest income	**43,638**	31,708
Overprovision of accrued expenses *(Note 4)*	**39,131**	–
Sales of raw materials	**23,475**	19,839
Sales of scrap materials	**2,443**	–
Subsidy income on Chengdu factory *(Note 1)*	**–**	392,038
Other subsidy income *(Note 2)*	**31,717**	54,244
Sundry income	**15,287**	11,322
Reversal of impairment loss on property, plant and equipment *(Note 3)*	**18,760**	–
	174,451	509,151

Note 1:

Amount mainly represented the compensation of HK$390,660,000 received by a group entity in Chengdu in 2014 which was 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 (Note 37).

Note 2:

Amount represents the incentives as immediate financial support with no future related costs expected to be incurred nor related to any assets.

Note 3:

A reversal of an impairment loss of the construction-in-progress of HK$18,760,000 was recognised in relation to the production plant in Zhongshan due to a change in use of the facilities from producing antibiotics products and anti-cancer products that ceased original operation during 2014 to a research and development plant during the year ended 31 December 2015. The construction-in-progress will be subsequently transferred to plant and machineries and start to depreciate when in use in 2016.

Note 4:

Overprovision of accrued expenses mainly include the reversal of over-accrued staff related expenses and other expenses for sales and production during prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. OTHER GAINS AND LOSSES/OTHER EXPENSES

		2015 HK'000	2014 HK'000
a.	**Other gains and losses**		
	Fair value loss on forwards contracts	**174,475**	9,276
	Net foreign exchange loss	**95,976**	6,048
	Gain on disposal of property, plant and equipment	**(20,297)**	(5,245)
	Others	**(225)**	–
		249,929	10,079
b.	**Other expenses**		
	Research and development expenditures	**73,205**	147,608
	Staff redundancy costs and removal costs upon cessation of production	**3,344**	4,919
	Temporary production suspension costs	**83,703**	99,048
	Write-down of long aged deposits and prepayments	**34,296**	32,434
	Others	**8,926**	7,830
		203,474	291,839

11. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on borrowings	**339,518**	387,018
Interest on convertible bonds *(Note 30)*	**16,317**	15,622
Interest on finance leases	**49,243**	75,995
	405,078	478,635
Less: amounts capitalised in property, plant and equipment	**(55,570)**	(106,674)
	349,508	371,961

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.59% (2014: 6.76%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, are as follows:

Year ended 31 December 2015

	Tsoi Hoi Shan HK$'000 note (i)	Leung Wing Hon HK$'000 note (i)	Choy Siu Chit HK$'000 note (i)	Fang Yu Ping HK$'000 note (i)	Zou Xian Hong HK$'000 note (i)	Zhu Su Yan HK$'000 note (i)	Chong Peng Oon HK$'000 note (ii)	Huang Bao Guang HK$'000 note (ii)	Song Ming HK$'000 note (ii)	Fu Xiao Nan HK$'000 note (ii)	Total HK$'000
Fees	–	–	–	–	–	–	240	240	240	240	960
Other emoluments:											
Salaries and other benefits	3,840	3,700	1,800	1,800	1,800	1,800	–	–	–	–	14,740
Bonus*	–	–	–	884	884	884	–	–	–	–	2,652
Retirement benefit scheme contributions	18	18	18	17	16	42	–	–	–	–	129
	3,858	3,718	1,818	2,701	2,700	2,726	–	–	–	–	17,521
Total emoluments	3,858	3,718	1,818	2,701	2,700	2,726	240	240	240	240	18,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

Year ended 31 December 2014

	Tsoi Hoi Shan HK$'000 note (i)	Leung Wing Hon HK$'000 note (i)	Choy Siu Chit HK$'000 note (i)	Fang Yu Ping HK$'000 note (i)	Zou Xian Hong HK$'000 note (i)	Zhu Su Yan HK$'000 note (i)	Chong Peng Oon HK$'000 note (ii)	Huang Bao Guang HK$'000 note (ii)	Song Ming HK$'000 note (ii)	Fu Xiao Nan HK$'000 note (ii)	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

* 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) The individuals represent the executive directors of the Company and the Group. The executive directors' emoluments shown above were mainly for their services in connection with management of the affairs of the Company and the Group.

(ii) The individuals represent the independent non-executive directors of the Company. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

(b) Employees

For the year ended 31 December 2015 and 2014, 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 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. TAX EXPENSE (CREDIT)

	2015	2014
	HK$'000	HK$'000
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax	**673**	9,960
PRC Enterprise Income Tax	**132,112**	157,729
PRC withholding tax	**5,963**	32,194
	138,748	199,883
(Over) under provision in prior years		
Hong Kong	**(211)**	981
Sub-total	**138,537**	200,864
Deferred tax *(Note 29)*	**(13,473)**	(218,394)
	125,064	(17,530)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits 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 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. TAX EXPENSE (CREDIT) *(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 per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 **HK$'000**	2014 HK$'000
Profit before taxation	**235,422**	663,546
Tax at PRC Enterprise Income Tax rate of 25% (2014: 25%)	**58,855**	165,887
Tax effect of expenses not deductible for tax purpose	**97,743**	38,919
Tax effect of income not taxable for tax purpose	**(28,671)**	(25,578)
(Over) under provision in prior years	**(211)**	981
Tax effect of land appreciation tax ("LAT") and other associated tax arising on fair value change of investment properties	**(35,320)**	(26,761)
Tax effect of tax losses not recognised	**22,169**	5,579
Utilisation of tax losses previously not recognised	**(3,729)**	(63,268)
Tax effect of deductible temporary difference not recognised	**20,068**	12,159
PRC withholding tax on distributable profits of PRC subsidiaries	**29,050**	32,343
PRC withholding tax on interest income	**5,819**	3,571
Effect of tax concessionary rates granted to the PRC subsidiaries	**(70,149)**	(151,572)
Effect of different tax rates of subsidiaries	**30,190**	(6,986)
Others	**(750)**	(2,804)
Income tax expense (credit) for the year	**125,064**	(17,530)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. PROFIT FOR THE YEAR

	2015 HK$'000	2014 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Provision of allowances for inventories (included in cost of sales)	**8,290**	8,026
Provision of allowance for doubtful debts, net	**3,474**	16,956
Auditor's remuneration	**5,633**	5,913
Amortisation of prepaid lease payments	**7,385**	5,756
Depreciation and amortisation		
Depreciation of property, plant and equipment	**810,143**	702,325
Amortisation of intangible assets (included in administrative expenses)	**3,687**	5,112
	813,830	707,437
Less: amount included in temporary production suspension costs in other expenses	**(70,490)**	(77,773)
Less: amount included in research and development expenditures in other expenses	**(10,255)**	(35,044)
	733,085	594,620
Operating lease payments in respect of rented premises	**2,411**	2,119
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**946,362**	882,047
Retirement benefit costs	**114,720**	100,092
	1,061,082	982,139
Less: amount included in research and development expenditures in other expenses	**(21,218)**	(22,530)
Less: amount included in temporary production suspension costs in other expenses	**(2,555)**	(3,551)
	1,037,309	956,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. DIVIDENDS

The board of directors do not recommend payment of final dividend for the year ended 31 December 2015 (2014: 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

	2015	2014
	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	**110,358**	681,076

Number of shares

	2015	2014
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2014	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**
Exchange adjustments	**(222,518)**	**(395,316)**	**(7,055)**	**(3,056)**	**(14,785)**	**(642,730)**
Additions	**154,509**	**336,239**	**7,014**	**2,497**	**598,932**	**1,099,191**
Disposals	**(28,360)**	**(445,292)**	**(307)**	**(2,491)**	**–**	**(476,450)**
Reclassification	**350,058**	**506,690**	**6,434**	**511**	**(863,693)**	**–**
At 31 December 2015	**4,844,114**	**8,717,939**	**152,927**	**65,875**	**508,804**	**14,289,659**
DEPRECIATION						
At 1 January 2014	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**
Exchange adjustments	**(35,410)**	**(151,115)**	**(5,313)**	**(2,695)**	**–**	**(194,533)**
Charge for the year	**174,151**	**620,518**	**11,511**	**3,963**	**–**	**810,143**
Eliminated on disposals	**(9,909)**	**(180,946)**	**(271)**	**(1,810)**	**–**	**(192,936)**
At 31 December 2015	**804,835**	**3,346,990**	**121,377**	**58,622**	**–**	**4,331,824**
IMPAIRMENT						
At 1 January 2014	**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 January 2014	**359,133**	**404,358**	**470**	**700**	**19,052**	**783,713**
Exchange adjustments	**(15,766)**	**(17,828)**	**(21)**	**(35)**	**(309)**	**(33,959)**
Addition	**–**	**–**	**–**	**–**	**564**	**564**
Eliminated on disposals	**(16,901)**	**(20,586)**	**(7)**	**–**	**–**	**(37,494)**
Reversal *(Note)*	**–**	**–**	**–**	**–**	**(18,760)**	**(18,760)**
At 31 December 2015	**326,466**	**365,944**	**442**	**665**	**547**	**694,064**
CARRYING AMOUNTS						
At 31 December 2015	**3,712,813**	**5,005,005**	**31,108**	**6,588**	**508,257**	**9,263,771**
At 31 December 2014	3,555,289	5,252,727	30,921	8,550	769,298	9,616,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

	2015	2014
	HK$'000	HK$'000
Leasehold land and buildings in Hong Kong	**95,097**	104,079
Buildings located on the leasehold land in the PRC	**3,617,716**	3,451,210
	3,712,813	3,555,289

Note:

During the year ended 31 December 2014, certain machineries and plants were damaged during the demolition process in Chengdu 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 had been recognised in the profit or loss for that year.

The impairment loss for the year ended 31 December 2015 amounted to approximately HK$564,000.

A reversal of an impairment loss of the construction-in-progress of HK$18,760,000 was recognised in relation to the production plant in Zhongshan due to a change in use of the facilities from producing antibiotics products and anti-cancer products that ceased original operation during 2014 to a research and development plant during the year ended 31 December 2015. The construction-in-progress will be subsequently transferred to plant and machineries and start to depreciate when in use in 2016.

At 31 December 2015, the Group was in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of HK$1,732,200,000 (2014: HK$1,428,276,000).

At 31 December 2015, the carrying value of plant and machinery included an amount of HK$2,159,644,000 (2014: HK$2,384,288,000) in respect of assets held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. PREPAID LEASE PAYMENTS

	2015 HK$'000	2014 HK$'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC	**254,971**	274,578
Analysed for reporting purposes as:		
Non-current asset	**248,950**	268,271
Current asset	**6,021**	6,307
	254,971	274,578

Details of the reclassification of prepaid lease payments to investment properties in prior years are set out in Note 19.

19. INVESTMENT PROPERTIES

Movement of investment properties:

	HK$'000
At 1 January 2014	2,320,316
Exchange adjustments	(51,634)
Fair value change	(315,730)
Reclassification to property held for development	(318,707)
At 31 December 2014	1,634,245
Exchange adjustments	(76,361)
Fair value change	(50,173)
Donation of properties	(24,922)
At 31 December 2015	1,482,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. INVESTMENT PROPERTIES *(Continued)*

During the year ended 31 December 2014, the Group made the full land premium payment of RMB484,050,000 (equivalent to approximately HK$609,129,000) to respective authority 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 date of property development which was approved by respective government authority in February 2015, with an extended period to no later than December 2017.

Pursuant to the Group's development plan as at 31 December 2014, certain lands will be developed into residential properties for sale. Accordingly, the respective portion of lands of approximately HK$318,707,000 had 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.

On 31 December 2015, the fair value loss of Chengdu Lands determined by the directors of the Company by reference to a valuation performed by Roma Appraisals Limited ("ROMA") was approximately HK$50,173,000 (2014: HK$315,730,000). ROMA, a member of the Hong Kong Institute of Surveyors, is an independent qualified professional valuer listed on the Hong Kong Stock Exchange which is not connected with the Group and has appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations.

During the year ended 31 December 2015, the Group had donated investment properties and properties held for development amounting to HK$24,922,000 and HK$4,860,000, respectively, located at Chengdu to the local government at nil consideration.

As at 31 December 2015, the carrying amount of the properties held for development for sales purposes amounted to HK$297,153,000 (2014: HK$318,707,000). The carrying amounts of investment properties represent land held for development for investment purposes for which no development work has yet been commenced.

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, inter alia, the estimated development costs to be incurred to arrive at the residual value.

The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost, developer's profit margin and commercial/residential portion, which would expose the Group to fair value measurement risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. INVESTMENT PROPERTIES *(Continued)*

The decrease in fair value of the investment properties of approximately HK$50,173,000 is due to a longer construction period from 4-6 years estimated as at 31 December 2014 to 4-7 years estimated as at 31 December 2015. The expected selling price per square meter upon completion of construction and the construction periods have been revisited by the directors of the Company taking into account the market conditions and construction complexity as at the valuation date.

During the year ended 31 December 2014, the decrease in fair value of the investment properties of approximately HK$315,730,000 was due to a longer construction period from 3.5 years estimated as at 31 December 2013 to 4-6 years estimated as at 31 December 2014. The expected selling price per square meter upon completion of construction and the construction periods have been revisited by the directors of the Company taking into account the market conditions and construction complexity as at the valuation date.

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 RMB9,282 per square meter (an average of RMB9,651 as at 31 December 2014) – Construction period: 4-7 years (2014: 4-6 years) – Finance cost: 4.75-4.9% per annum (2014: 6 – 6.15% per annum) – Construction cost: RMB6,000 per square meter (2014: RMB6,000 per square meter) – Developer's profit margin: 40% (2014: 40%) – Commercial/Residential portion: 1.2 (2014: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. INVESTMENT PROPERTIES *(Continued)*

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:

As at 31 December 2015:

Unobservable inputs	**Increase/decrease by**	**Fair value of investment properties (decrease)/ increase by**
		HK$' million
Construction period	1 year	(122)/122
Finance Cost	10% (to 5.23-5.39%/4.28-4.41%)	(74)/69
Developer's margin	10% (to 44%/36%)	(44)/41

As at 31 December 2014:

Unobservable inputs	**Increase/decrease by**	**Fair value of investment properties (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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. GOODWILL

	HK$'000
COST	
At 1 January 2014	3,866
Exchange adjustments	(89)
At 31 December 2014	**3,777**
Exchange adjustments	**(172)**
At 31 December 2015	**3,605**

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:

	2015	2014
	HK$'000	HK$'000
Bulk medicine	**920**	964
Finished products	**2,685**	2,813
	3,605	3,777

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% (2014: 19.5%). Cash flows beyond the 5-year period have been extrapolated using zero growth rate. The key assumption is budgeted gross margin based on the past performance and the Group's expectation for the market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2014 *(Note a)*	87,845
Exchange adjustments	(2,019)
Addition	324
At 31 December 2014	**86,150**
Exchange adjustments	**(5,399)**
Addition *(Note b)*	**49,017**
At 31 December 2015	**129,768**
AMORTISATION	
At 1 January 2014	27,171
Exchange adjustments	(650)
Charge for the year	5,112
At 31 December 2014	**31,633**
Exchange adjustments	**(1,546)**
Charge for the year	**3,687**
At 31 December 2015	**33,774**
CARRYING AMOUNTS	
At 31 December 2015	**95,994**
At 31 December 2014	54,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. INTANGIBLE ASSETS *(Continued)*

Note:

The costs of intangible assets comprise:

a. An amount of RMB20,237,000, 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 these intangible assets are therefore amortised over the useful lives of five years and were fully amortised in 2014.

   An amount of RMB47,100,000, 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 2015, two of the Know-how at a total cost of RMB29,140,000 have commenced amortisation starting from the date when they were put into production process over 10 years which is the expected period for which they will bring future economic benefits to the Group. Another Know-how has yet to commence amortisation as its technology is in registration process as at 31 December 2015 and 2014.

b. An amount of RMB39,853,000, being the capitalised development costs incurred in obtaining licenses for manufacturing finished products including insulin glargine and insulin. There has been no amortisation of the amount as at 31 December 2015 as the licenses for insulin glargine and insulin are in the registration and clinical trial process stage.

22. INVENTORIES

	2015	2014
	HK$'000	HK$'000
Raw materials	**387,386**	495,552
Work in progress	**206,937**	163,103
Finished goods	**820,786**	759,231
	1,415,109	1,417,886

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For the year ended 31 December 2015

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

	2015	2014
	HK$'000	HK$'000
Trade and bills receivables	**1,986,634**	2,596,814
Value added tax receivables	**66,126**	166,667
Other receivables, deposits and prepayments	**181,553**	255,526
Less: allowance for doubtful receivables		
– trade	**(11,053)**	(11,435)
– non-trade	**(28,046)**	(25,992)
	2,195,214	2,981,580

The Group normally allows a credit period of between 30 days and 120 days (2014: between 30 days and 120 days) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

	2015 HK$'000	2014 HK$'000
Trade receivables		
0 to 30 days	**458,121**	613,416
31 to 60 days	**349,407**	324,225
61 to 90 days	**118,582**	128,787
91 to 120 days	**54,836**	83,821
121 to 180 days	**21,748**	19,198
Over 180 days	**19,634**	5,028
	1,022,328	1,174,475
Bills receivables		
0 to 30 days	**145,306**	295,838
31 to 60 days	**171,957**	187,496
61 to 90 days	**183,048**	298,977
91 to 120 days	**170,406**	244,937
121 to 180 days	**278,173**	376,216
Over 180 days	**4,363**	7,440
	953,253	1,410,904

91% (2014: 93%) 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$173,470,000 (2014: HK$188,226,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and has been subsequently settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

	2015	2014
	HK$'000	HK$'000
61 – 90 days	**72,889**	72,739
91 – 120 days	**54,836**	83,821
121 – 180 days	**21,748**	19,198
Over 180 days	**23,997**	12,468
	173,470	188,226

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

	2015	2014
	HK$'000	HK$'000
Balance at beginning of the year	**37,427**	21,057
Exchange adjustments	**(1,802)**	(586)
Impairment losses recognised on receivables	**3,474**	16,956
Balance at end of the year	**39,099**	37,427

At 31 December 2015, trade and other receivables balance totalling HK$39,099,000 (2014: HK$37,427,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

As at 31 December 2015, the Group had HK$71,737,000 (2014: HK$1,100,872,000) of bills receivables discounted to several banks with full recourse, of which HK$52,043,000 (2014: HK$216,233,000) bills receivables were issued by the Group's debtors, and the remaining HK$19,694,000 (2014: HK$884,639,000) 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 2015, the Group continues to recognise an amount of HK$271,565,000 (2014: HK$569,957,000) 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

	2015	2014
	HK$'000	HK$'000
Foreign currency forward contracts – assets	**–**	227
Foreign currency forward contracts – liabilities	**(203,665)**	(27,590)
	(203,665)	(27,363)

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 USD356,500,000 (equivalent to HK$2,755,745,000) (2014: USD136,000,000 (equivalent to HK$1,051,280,000)). 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:

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For the year ended 31 December 2015

24. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31 December 2015

Notional amount	**Maturity date**	**Exchange rate**
USD356,500,000	Settlement between 7 January 2016 to 14 August 2017	RMB6.15/USD to RMB6.31/USD

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

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.

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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 was guaranteed by the relevant banks with a guaranteed minimal interest yield ranging between 2.70% to 2.85% per annum. These deposits were 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. There were no outstanding structured deposits as at 31 December 2015. As at 31 December 2014, the balance of RMB303,141,000 (equivalent to HK$377,805,000) was pledged to a bank as security provided for bank facility to a group entity for one year. At 31 December 2015, the balance has been fully redeemed and the guarantee has been released.

Certain pledged deposits amounting to HK$970,316,000 (2014: HK$836,878,000) 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 2015 was 0.35% to 2.75% (2014: 0.4% to 4%) 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 2015 was 0.001% to 0.35% (2014: 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:

	2015	2014
	HK$'000	HK$'000
Pledged bank deposits and bank balances		
– HK$	**25,551**	68,043
– USD	**136,831**	23,907
– Euro	**1,817**	888

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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:

	2015	2014
	HK$'000	HK$'000
Trade payables		
0 to 90 days	**782,912**	818,640
91 to 180 days	**163,882**	306,048
Over 180 days	**113,163**	162,965
	1,059,957	1,287,653
Bills payables		
0 to 90 days	**257,140**	510,420
91 to 180 days	**366,069**	271,693
	623,209	782,113
Other payables and accruals	**633,080**	442,497
Deferred income in respect of government grants *(note 37)*	**188,433**	174,199
Payables in respect of the acquisition of property, plant and equipment	**888,080**	986,900
	3,392,759	3,673,362
Less: Amount due within one year shown under current liabilities	**(3,294,663)**	(3,570,047)
Amount shown under non-current liabilities	**98,096**	103,315

Included in the trade payables and other payables above are HK$228,720,000 and HK$42,845,000 (2014: HK$550,765,000 and HK$19,192,000), 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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For the year ended 31 December 2015

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**774,146**	816,553	**698,999**	696,019
In more than one year but not more than two years	**383,929**	575,601	**354,798**	544,360
In more than two years but not more than five years	**162,916**	164,736	**152,653**	160,600
	1,320,991	1,556,890	**1,206,450**	1,400,979
Less: future finance charges	**(72,701)**	(108,945)	**N/A**	N/A
Present value of lease obligations	**1,248,290**	1,447,945	**1,206,450**	1,400,979
Less: Amount due for settlement within one year (shown under current liabilities)			**(698,999)**	(696,019)
Amount due for settlement after one year			**507,451**	704,960

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.27% to 6.22% (2014: 5.92% to 6.83%) per annum.

Deposits of HK$214,164,000 (2014: HK$162,019,000), carrying nil interest, were pledged to respective lessors against finance leases. The deposits will be released upon expiry of respective leases.

Pledged deposits against finance lease of HK$59,490,000 (2014: nil) will be released in 2016 upon the expiry of respective leases in 2016 and are therefore classified as current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. BORROWINGS

	2015	2014
	HK$'000	HK$'000
Bank loans	**3,834,235**	4,668,047
Discounted bills with recourse *(Note 23)*	**71,737**	1,100,872
Bonds	**1,116,636**	–
Bank overdrafts, unsecured	**–**	123,745
	5,022,608	5,892,664
Analysed as:		
Secured	**1,949,862**	2,809,262
Unsecured	**3,072,746**	3,083,402
	5,022,608	5,892,664
Carrying amount repayable within one year	**3,543,073**	4,291,183
Carrying amount repayable more than one year, but not exceeding two years	**668,467**	811,567
Carrying amount repayable more than two years but not more than five years	**244,230**	523,446
Carrying amount of bank loans that contain a repayment on demand clause:		
Repayable within one year from the end of reporting period*	**374,275**	256,143
Not repayable within one year from the end of reporting period but shown under current liabilities*	**192,563**	10,325
	5,022,608	5,892,664
Less: Amount due within one year shown under current liabilities	**(4,109,911)**	(4,557,651)
Amount shown under non-current liabilities	**912,697**	1,335,013

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. BORROWINGS *(Continued)*

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

Interest rate

	2015	2014
	HK$'000	HK$'000
People's Bank of China lending rate – floating rate	**511,614**	548,372
Fixed rate	**1,776,134**	4,154,974
Hong Kong Interbank Offered Rate plus 2.25% to 3.50% (2014: 2.65% to 3.68%)	**1,746,042**	1,189,318
US dollar London Interbank Offered Rate plus 1.25% to 3.6% (2014: nil)	**790,434**	–
EURO London Interbank Offered Rate plus 1.50% (2014: nil)	**198,384**	–
	5,022,608	5,892,664

The range of effective interest rates of the floating rate borrowings at 31 December 2015 is 1.50% to 4.75% (2014: 3.03% to 7.04%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2015 is 4.79% to 7.85% (2014: 6.40% to 7.20%) per annum.

On 12 January 2015, the Group established a bond issue programme for issuance from time to time, of bonds with a term of three years. During the year ended 31 December 2015, the Group issued fixed rate bonds of HK$167,652,000 which are unsecured, carrying a fixed coupon rate of 6% per annum are payable semi-annually in arrears on 31 May and 30 November. The bonds issued at par, carry interest at effective interest rate of 6.81% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. BORROWINGS *(Continued)*

During the year ended 31 December 2015, an indirectly owned subsidiary of the Company issued a fixed rate bond of HK$948,984,000, equivalent to RMB800,000,000 which was unsecured, carrying fixed coupon rate of 7.20% per annum and payable at the maturity date of the bond which was in July 2016. The bond issued at par, carries effective interest rate of 7.85% per annum.

Other than HK$867,775,000 (2014: HK$443,763,000), HK$1,836,354,000 (2014: HK$969,615,000) and HK$198,384,000 (2014: nil) borrowings are denominated in USD, HK$ and EUR, 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 HK$'000	Accelerated (tax) accounting depreciation HK$'000	Unrealised profit on inventories HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1 January 2014	(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)**
Exchange adjustments	**34,186**	**(717)**	**(1,086)**	**4,963**	**37,346**
Credit (charge) to profit or loss for the year	**44,842**	**(4,405)**	**1,942**	**(29,050)**	**13,329**
Reallocated to current tax	**–**	**–**	**–**	**144**	**144**
At 31 December 2015	**(613,745)**	**14,157**	**23,506**	**(99,290)**	**(675,372)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. DEFERRED TAXATION *(Continued)*

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

	2015	2014
	HK$'000	HK$'000
Deferred tax assets	**37,663**	41,929
Deferred tax liabilities	**(713,035)**	(768,120)
	(675,372)	(726,191)

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

	2015	2014
	HK$'000	HK$'000
Tax loss carry forwards	**270,978**	188,438
Other deductible temporary differences	**740,345**	660,071

During the year ended 31 December 2015, a tax loss of HK$56,142,000 (2014: HK$663,392,000) expired or was disallowed by respective local tax authorities. Included in unrecognised tax losses are losses of HK$167,011,000 (2014: HK$103,993,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

30. CONVERTIBLE BONDS *(Continued)*

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.

As at 31 December 2014, Convertible Bonds in an aggregate principal amount of RMB97,400,000 (equivalent to approximately HK$123,523,000) remain outstanding with a maturity date of 14 November 2016 and was reclassified as non-current liability.

As at 31 December 2015, Convertible Bonds in an aggregate principal amount of RMB98,188,000 (equivalent to approximately HK$116,824,000) remain outstanding with a maturity date of 14 November 2016 and is reclassified as current liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2014 and 2015. 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 2014	114,856
Exchange realignment	(949)
Interest charged	15,622
Loss arising on changes of fair value	3,191
Interest paid	(9,197)
At 31 December 2014	**123,523**
Exchange realignment	**(7,296)**
Interest charged	**16,317**
Gain arising on changes of fair value	**(6,755)**
Interest paid	**(8,965)**
At 31 December 2015	**116,824**

At 31 December 2014 and 2015, 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 2015	31 December 2014
Share price of the Company	**HK$4.29**	HK$4.53
Exercise price	**HK$6.40**	HK$6.40
Remaining life	**0.87 years**	1.87 years
Risk-free rate	**2.504%**	3.396%
Expected volatility	**64.19%**	54.189%
Expected dividend yield	**0%**	0%

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

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

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31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2014, 31 December 2014 and 31 December 2015	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2014, 31 December 2014 and 31 December 2015	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. OPERATING LEASES

The Group as lessee

	2015 HK$'000	2014 HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**2,386**	2,120
In the second to fifth year inclusive	**2,076**	4,240
	4,462	6,360

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

	2015 HK$'000	2014 HK$'000
Capital expenditure in respect of:		
– the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**613,260**	995,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. PLEDGE OF ASSETS

Other than deposits made to financing leasing companies disclosed in note 27 of 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:

	2015	2014
	HK$'000	HK$'000
Property, plant and equipment	**104,069**	196,957
Land use rights	**30,614**	38,747
Bills receivables	**71,737**	1,100,872
Pledged bank deposits	**970,316**	1,214,683

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$845,700 (2014: HK$843,000) 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$113,874,000 (2014: HK$99,249,000) are charged to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. GOVERNMENT GRANTS

During the year ended 31 December 2014, an amount of RMB311,804,000 was received (equivalent to approximately HK$390,660,000) representing compensation received by a group entity in Chengdu in 2014 which was 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$29,986,000 (2014: HK$54,244,000) 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$90,336,000 (2014: HK$70,884,000) 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$1,367,000 (2014: HK$nil).

For the year ended 31 December 2015, HK$241,000 government subsidies were granted to the Group (2014: HK$nil) 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 2015, an amount of HK$98,096,000 (2014: HK$103,315,000) were included in non-current liabilities. During the year ended 31 December 2015, HK$364,000 (2014: HK$1,378,000) was released to the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. RELATED PARTY DISCLOSURES

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

On 20 July 2015, the Group entered into an agreement with Mr. Tsoi Hoi Shan, an executive director, to dispose of a property with a carrying amount of HK$2,530,000 to Mr. Tsoi for a cash consideration of HK$8,200,000.

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

- 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).

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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)*

Financial assets/ financial (liabilities)	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December 2015 HK$'000	31 December 2014 HK$'000				
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$Nil and Liabilities – HK$203,665**	Assets – HK$227 and Liabilities – HK$27,590	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$11,459**	HK$19,136	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 2015 and 2014 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) 2015	2014	Principal activities	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%	Inactive	N/A
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive	N/A
聯邦制藥（成都）有限公司 *(note b)*	PRC	RMB400,000,000	**100%**	100%	Investment holdings	PRC

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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)		Principal activities	Place of operation
			2015	2014		
珠海市康知樂醫藥有限公司 *(note c)*	PRC	RMB250,000,000	**100%**	100%	Investment holdings	PRC
珠海聯邦制藥股份有限公司 *(note d)*	PRC	2015: RMB1,328,396,000 2014: 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%	Investment holdings	PRC
珠海市萬邦藥業有限公司 *(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products	PRC
珠海聯邦制藥銷售有限公司 (previously as 珠海樂康醫藥有限公司) *(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading and sale of pharmaceutical products	PRC
廣東開平金億膠囊有限公司 *(note b)*	PRC	RMB31,249,864	**100%**	100%	Manufacturing and sale of soft capsules casings	PRC
中山金億食品有限公司 *(note b)*	PRC	RMB8,014,500	**100%**	100%	Investment holdings	PRC
珠海市金德福企業策劃有限公司 *(note c)*	PRC	RMB15,000,000	**100%**	100%	Investment holdings	PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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)* 2015	2014	Principal activities	Place of operation
聯邦制藥（內蒙古）有限公司 *(note b)*	PRC	2015: RMB2,470,000,000 2014: RMB2,014,000,000	**100%**	100%	Manufacturing and sale of intermediate products and bulk medicine	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	2015: RMB8,700,000 2014: nil	**100%**	100%	Manufacturing and sale of finished products	PRC
聯邦制藥（中國）有限公司 *(note b)*	PRC	2015: RMB160,080,000 2014: RMB130,080,000	**100%**	100%	Investment holdings	PRC
珠海利邦醫藥研發有限公司 *(note c)*	PRC	RMB100,000,000	**100%**	100%	Inactive	N/A
Zhuhai United Laboratories (India) Private Limited	India	RUPEE100,000	**100%**	100%	Inactive	N/A
Zhuhai United Laboratories Europe Import & Export Europe GmBh *(note e)*	Germany	2015: nil 2014: EUR25,000	**N/A**	100%	Trading of pharmaceutical products	Germany

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. LIST OF SUBSIDIARIES *(Continued)*

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited and 聯邦制藥（中國）有限公司, all subsidiaries were indirectly held by the Company as at 31 December 2014 while only The United Laboratories (Hong Kong) Holding Limited is directly held by the Company as at 31 December 2015.

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

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

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

(e) The company has been derecognised during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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:

	2015 HK$'000	2014 HK$'000
Non-current assets		
Investments in a subsidiary	**1**	165,031
Loan to a subsidiary	**1,304,604**	1,013,971
Amounts due from subsidiaries	**2,718,911**	2,604,750
	4,023,516	3,783,752
Current assets		
Amount due from subsidiaries	**1,364,231**	1,581,125
Derivative financial instruments	**–**	19
Bank balances and cash	**453,413**	63,200
Loan to a subsidiary	**275,703**	354,616
	2,093,347	1,998,960
Current liabilities		
Other payables and accrued charges	**10,310**	20,999
Amount due to a subsidiary	**38**	275,550
Derivative financial instruments	**27,986**	18,587
Borrowings – due within one year	**838,289**	345,644
Convertible bonds	**116,824**	–
	993,447	660,780
Net current assets	**1,099,900**	1,338,180
Total assets less current liabilities	**5,123,416**	5,121,932
Non-current liabilities		
Borrowings – due after one year	**912,698**	799,104
Convertible bonds	**–**	123,523
	912,698	922,627
Net assets	**4,210,718**	4,199,305
Capital and reserves		
Share capital	**16,269**	16,269
Reserves	**4,194,449**	4,183,036
	4,210,718	4,199,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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, 2014	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**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**198,430**	**198,430**
Exchange difference arising on translation to presentation currency	–	**–**	**(187,017)**	**–**	**(187,017)**
As at 31 December, 2015	**16,269**	**2,656,294**	**(212,503)**	**1,750,658**	**4,210,718**

FINANCIAL SUMMARY

For the year ended 31 December 2015

RESULTS

	Year ended 31 December				
	2011	**2012**	**2013**	**2014**	**2015**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Turnover	6,405,039	7,021,624	7,648,443	8,029,835	**7,694,563**
Profit before taxation	183,189	248,313	901,348	663,546	**235,422**
Tax (expense) credit	(78,916)	(86,336)	(853,311)	17,530	**(125,064)**
Profit for the year attributable to owners of the Company	104,273	161,977	48,037	681,076	**110,358**

ASSETS AND LIABILITIES

	As at 31 December				
	2011	**2012**	**2013**	**2014**	**2015**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Total assets	11,864,905	16,141,703	19,600,216	18,918,186	**17,407,924**
Total liabilities	(6,688,284)	(10,047,014)	(13,118,387)	(11,949,069)	**(10,689,291)**
Equity attributable to owners of the Company	5,176,621	6,094,689	6,481,829	6,969,117	**6,718,633**

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.