China Grand Pharmaceutical
and Healthcare Holdings Limited
遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00512

Care Upgrade Breakthrough
Embrace Tomorrow Light Up The Future

Annual Report **2015**

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Liu Chengwei *(Chairman)*
Mr. Hu Bo *(Deputy Chairman)*
Dr. Shao Yan *(Chief Executive Officer)*
Dr. Zhang Ji

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie
Mr. Lo Kai, Lawrence
Dr. Pei Geng

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr. Liu Chengwei
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Lo Kai, Lawrence
Dr. Pei Geng

REMUNERATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Liu Chengwei
Mr. Lo Kai, Lawrence

NOMINATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Dr. Shao Yan
Mr. Lo Kai, Lawrence

WEBSITE

www.chinagrandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

As to Bermuda Law:
Conyers Dill & Pearman

As to Hong Kong Law:
Locke Lord

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

HSBC
China Merchants Bank
Bank of China

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Units 3302, The Center
99 Queen's Road Central, Hong Kong

Management Discussion and Analysis

Business Review

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are mainly engaged in research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialised pharmaceutical raw materials and healthcare products. The core products of the Group mainly cover three areas including emergency cardiovascular medicines and Eye, Nose & Throat (the "ENT"), etc., pharmaceutical preparations products, medical devices and those specialized pharmaceutical raw materials which produced with advanced biotechnology.

The Group's strategic objectives are being a leader in the field of the ENT treatment in the PRC and also being a pioneer in the field of Cardiovascular and Cerebrovascular in term of the advanced technology. The Group always focuses on developing potential advanced technology and innovative pharmaceutical, together with continuously exploring more international markets. In July and November in 2015, the Group entered into two agreements with 寧波鼎暉錦繡投資管理有限公司 (Ningbo CDH Jinxiu Investment Management Company Limited#) (the "Ningbo CDH") to acquire 67.0% and 30.0% equity interest respectively in 北京九和藥業有限公司 (Beijing Jiu He Pharmaceutical Limited#) (the "Jiu He"). Jiu He's main products have a leading position in the oral administration treatments of chronic rhinosinusitis, acute rhinosinusitis and the respiratory diseases field, its products in dealing with disease preventions and treatments on PM2.5 related illnesses have a broad market opportunity and are listed on the national medical insurance drugs list of more than 20 provinces and/or cities in the PRC. It is anticipated Jiu He's products will become one of the Group's core products in the future.

In addition, the Group had acquired 73.0% equity interest in Cardionovum GmbH (the "Cardionovum") in April 2015 through Cardionovum Holding Co., Limited (the "Hong Kong JV") which the Group holds 33.3% equity interest. Cardionovum mainly engaged in the development, production and distribution of Cardiovascular interventional medical devices and currently mainly operating in the European market. The Group together with the Hong Kong JV had setup a new company in the PRC which responsible for establishing a production platform and distribution network in order to introduce Cardionovum's advanced products and technology for the treatment of coronary artery disease, pherpherial artery disease and haemodialysis induced stenosis to the PRC market. It is anticipated it can enlarge the Group's products range in the field of the cerebro-cardiovascular medical devices and provide more advanced pharmaceutical products for patients.

In the past few years, the Group not only focused on developing new products and enlarging the number of self-core products, but also introduced a variety of products with great potential through the means of acquisitions and joint venture, which may enable the Group's products tend to be more diversified in the area of core therapeutic. In January 2015, the Group completed the acquisition of 73.3% equity interest in 天津晶明新技術開發有限公司 (Tianjin Jingming New Technology Development Co., Ltd.#) (the "Tianjin Jingming"). Tianjin Jingming is a company with international advanced technology which specializing in developing and distributing ophthalmic medical devices and surgical supplies. For the year ended 31 December 2015, the total revenue contributed to the Group was approximately RMB27.5 million.

During the current review period, the Group completed several new GMP certification processes, and those products have commenced contributing to the Group. Under the circumstance of gradually replacing the aged products and the intensive competitions caused by the market price down turn of certain individual medicines, the Group by the use of continuous acquisition and self-development to develop more new products and actively explore more new markets in order to maintain steady profit growth and competitive advantage.

Management Discussion and Analysis

Since 6 August 2015, the board lot size of the Company's ordinary shares (the "Shares") listed in the Stock Exchange of Hong Kong Limited (the "Stock Exchange") was changed from 20,000 shares to 4,000 shares. The change in the board lot size will not result in any changes in the relative rights of the holders of the Shares and is expected to improve the trading liquidity in the Shares and facilitate the trading in the Shares.

Revenue

For the year ended 31 December 2015, the Group recorded a revenue amount of approximately HK$3,245.55 million, which increased by approximately 4.0% as compared with the same period of 2014. The main contributors were those new acquired companies such as Jiu He, commenced to provide contribution to the Group and also certain products have gradually restarted the production after completing the new version GMP certification. In the meantime, thanks for the Group shifting the sales focus to those high-end pharmaceutical preparations including ENT and Cardiovascular emergency medicines and biotechnological raw materials pharmaceutical, the average gross profit margin of the Group continuously increased and recorded at approximately 41.6%, which increased by approximately 3.4% as compared with the same period of 2014.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products are cerebro-cardiovascular, ENT medicines, antibiotics and antibacterial and analgesic and antipyretic. For the year ended 31 December 2015, the revenue amount of pharmaceutical preparations was approximately RMB1,136.09 million and increased by approximately 17.5% as compared with the same period of last year.

– Cerebro-cardiovascular medicines

The cerebro-cardiovascular medicines are the core product and the business growth engine of the Group. The investments in exploring the market and organizing the training campaign in earlier stage started to provide returns to the Group, as at 31 December 2015, the revenue of the Group's cerebro-cardiovascular medicines products was approximately RMB417.47 million, increased by approximately 5.8% as compared with the same period of last year. In which, mainly used as an emergency purpose product Noradrenaline Bitartrate injection recorded at approximately RMB123.80 million in revenue, increased by approximately 21.0% as compared with the same period of last year. Another key product Methoxamine Hydrochloride Injection which was used for surgical emergency purpose also contributed approximately RMB33.71 million in revenue, increased by approximately 88.6% compared to 2014. It is anticipated that certain cerebro-cardiovascular medicines after completing the new GMP version certification will become a new business growth engine of the Group.

– ENT medicines

ENT medicines will become one of the Group's key development projects. During the current fiscal year, the total revenue of ENT medicines were approximately RMB400.54 million, increased by approximately 71.4% as compared with the same period of 2014. The Ophthalmic medicines of the Group still recorded a rapid growth with the revenue of approximately RMB276.37 million, which increased by approximately 29.8% compared to 2014. In addition, the Group had completed the acquisition of Jiu He's equity interest in the second half of 2015, its core product Qie Nuo is an exclusive product that used in the treatments of chronic rhinosinusitis, acute rhinosinusitis and respiratory diseases, and listed in more than 20 Province-level Reimbursement Drug Lists in the PRC, which has a leading position in the PRC market and is one of the Group's core innovative products. After the completion of Jiu He's acquisition, the revenue of Jiu He's products brought in approximately RMB100 million to the Group.

Pharmaceutical Intermediates

The Group's another key products, pharmaceutical intermediates and the specialised pharmaceutical raw materials which produced with advanced biotechnology, will be another key selling area in the future, mainly including Amino Acids products. For the twelve months ended 31 December 2015, the revenue of pharmaceutical intermediates was approximately RMB612.04 million, which recorded at approximately RMB658.22 million in the same period of 2014. The difference mainly contributed by the market adjustment on the price of pharmaceutical raw materials together with the shifting of the key selling area.

– Amino acids products

In 2015, the revenue amount of the amino acids products of the Group was approximately RMB330.72 million, which increased by approximately 7.1% as compared with the same period of last year. The major product N-acetyl-L-cysteine recorded a steady growth and its revenue amount recorded at approximately RMB70.77 million, increased by approximately 54.1%. And the revenue of another key product L-cysteine hydrochloride was increased by approximately RMB9.29 million to approximately RMB96.31 million. With the fact that the continuous enhancement in the production technique, it is anticipated the Group can launch more products in the high-end market and enhance the general acceptability of its products.

Steroid Hormones and its Intermediates

In 2015, the Group obtained the GMP certifications of two new products Betamethasone Dipropionate and Betamethasone Valerate, and also completed the renewal of Betamethasone's GMP certification. All these three products were launched in the market in the second half of 2015, and will provide the contribution to the Group soon. In 2015, the revenue of the Group's Steroid Hormones and its intermediates was approximately RMB242.03 million, which recorded at approximately RMB267.96 million in 2014.

Other Products

Apart from manufacturing the pharmaceutical preparations and pharmaceutical intermediates, the Group also engaged in manufacturing and sale of medical devices, healthcare and chemical products, including ophthalmic medical devices and surgical supplies, Taurine, Calcium Superphosphate and Dimethyl Sulfate and the bio-pesticides and bio-feed additives products, etc, which already have certain market shares and are well recognized by customers. In 2015, the related products' revenue was approximately RMB639.53 million, increased by approximately 21.2% as compared with the same period of last year.

– Taurine

Benefiting the continuous technical and production improvements to enhance the products quality and efficiency, together with the growth in export sales, the Group being one of the largest Taurine suppliers, its Taurine products continuously recorded a steady growth. During the current year, the revenue of Taurine was approximately RMB223.36 million, increased by approximately 17.2% as compared with the same period of last year.

– Medical Devices

Tianjin Jingming joined the Group in 2015 as a new member, being a momentous event of the Group's ENT medical devices sector, its key products are ophthalmic medical devices and surgical supplies which including the PRC exclusive products Medical Sodium Hyaluronate Gel and Schirmer Strip, etc. In 2015, Tianjin Jingming contributed approximately RMB27.49 million in revenue to the Group and it is anticipated after it fully integrated into the Group's national-wide sales network, the contribution will be further enhanced.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the year were approximately HK$641.66 million and HK$431.58 million respectively, while it were approximately HK$608.16 million and HK$372.44 million respectively in the same period of last year. The increment of these two expenses were mainly due to the Group's marketing campaign on shifting the sales focus point and also strengthen the investment in research and development.

Finance Costs

For the year ended 31 December 2015, the finance costs of the Group were approximately HK$157.16 million, while they were approximately HK$114.09 million during the same period of 2014. The increment was mainly due to the increase of bank loans to cope with the Group expansion and general working capital needs.

Outlook and Future Prospects

According to CMH's recently announced data, China pharmaceutical industry's total terminal market sales in 2015 amounted to RMB1.3775 trillion, representing a year-on-year growth of 7.6%. When compared to 2014, this growth rate showed a decrease of 5.6%, and was the first time recording under 10% in the past 15 years.

The reasons for the pharmaceutical industry's growth rate slowdown, apart from the adverse effect presented by the slowdown of GDP growth in China's overall economic development, are policy and market pressures that have been brought to bear on the industry. The "two reductions and three controls" policy against the backdrop of Medicare Cost Control includes price reduction through local bidding activities, reduction of hospital administered drug proportions, control of the use of adjuvants, control of the use of patented traditional Chinese medicinal injectants and control of the quantities of anti-biotics in applications.

The PRC market is one where pharmaceutical products are principally generic drugs, and there exists homogeneous competition as well as relenting quality. In order to address this problem, the China Food and Drug Administration (CFDA) has requested that generic drugs be evaluated for quality and efficacy consistency, and those that do not meet standards by the end of 2018 will have their production approvals revoked.

China's pharmaceutical market in the next few years will be met with earth-shattering changes, in the process of which both crisis and opportunity will present themselves to pharmaceutical enterprises.

There were important reforms in the international pharmaceutical market in the past year. Some blockbuster drug patents of international renowned pharmaceutical companies will soon expire, and the FDA of the United States will soon activate generic drug price reviews. Both will have significant impact on the international pharmaceutical market. Against this backdrop, 2015 saw numerous and continual major organizational restructuring and mergers and acquisitions, changing the international pharmaceutical market development and competition.

Management Discussion and Analysis

This Group took preemptive measures in the past year to address changes in China's pharmaceutical market, and started early planning and action. First, regarding professionalism cultivation and live operational training of personnel, the Group adopted the mode of the training camp of China Grand Pharmaceutical and Healthcare Holdings Limited, and cultivated and trained a senior management team that now possess actual operational skills, professionalism, high morality and leadership skills; second, regarding production safety and environmental governance system, investment and building of the relevant facilities are now completed; third, regarding product quality, preparatory work was started to meet the upcoming challenge of the generic drugs consistency evaluation; fourth, regarding product research and evaluation, investment was increased on independent product research and development in such core therapeutic areas as the ophthalmology/otorhinolaryngology and cardiovascular divisions, while the Group's cooperation with the Chinese Academy of Medical Sciences in orphan drugs R&D projects is already in full swing; fifth, regarding merger and acquisition and restructuring, the Group successfully completed the acquisition of Jiu He and Cardionovum, achieving preliminary results in its strategies in the areas of innovative medicines, blockbuster drugs and its international development.

Faced with the numerous pressures and challenges presented by China's pharmaceutical market in the near future, the Group will proactively do its own part to accomplish the following tasks: first, the Group will plan in earnest and proactively prepare bidding activities of the products in various parts of China; second, the Group will expedite the preparation and implementation of the generic drugs consistency evaluation; third, the Group will enhance bidding management standards and market penetration of its drugs and medical instruments, and improve and strengthen the sales capabilities of its sales and marketing network; fourth, the Group will continue to adopt reinforcement and synergy strategies in the core therapeutic areas, enriching product mix through its own R&D, and product or asset acquisition, placing special emphasis on innovative and blockbuster product investment and acquisition activities; fifth, the Group will improve its visibility, reputation and market influence of corporate products brands; sixth, conforming to the trend of the globalization of the world's pharmaceutical industry, and its structural reforms, the Group will focus on and actively participate in the investment, and merger and acquisition activities of the global pharmaceutical market.

The Group has already completed the first stage of the construction of foundation for industry development, and is entering the second phase of high speed development. It is anticipated that within the next three years, the Group revenue and profit will significantly improve, and will have the potential to be listed among the top 20 Chinese pharmaceutical enterprises.

Financial Resources and Liquidity

As at 31 December 2015, the Group had current assets of HK$2,405.89 million (31 December 2014: HK$2,133.23 million) and current liabilities of HK$3,248.76 million (31 December 2014: HK$2,272.81 million). The current ratio was 0.74 at 31 December 2015 as compared with 0.94 at 31 December 2014.

The Group's cash and bank balances as at 31 December 2015 amounted to HK$653.99 million (31 December 2014: HK$460.40 million), of which approximately 3.7% were denominated in Hong Kong Dollars, United States Dollars (the "USD") and Euro and 96.3% in Renminbi.

As at 31 December 2015, the Group had outstanding bank loans of approximately HK$2,724.62 million (31 December 2014: HK$1,503.58 million) and bank overdraft recorded at nil (31 December 2014: HK$12.46 million). Included in the bank loans, there were bank loans of approximately HK$519.35 million were denominated in USD. All other bank loans are denominated in RMB and granted by banks in the PRC and Hong Kong. The interest rates charged by banks ranged from 0.83% to 7.45% (31 December 2014: 1.92% to 7.80%) per annum, in which approximately HK$564.54 million bank loans were charged at fixed interest rates. These bank loans were pledged by assets of the Group with a net book value of HK$364.73 million (31 December 2014: HK$118.44 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 234.9% at 31 December 2015 as compared with 135% at 31 December 2014.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2015, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. To the best of knowledge and belief, the Directors consider that the following are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risks

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices, like foreign exchange rates and interest rates. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Exchange Rates Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2015, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

For interest-sensitive investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through variety of means.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

Economic Environment

All of the Group's facilities, operations and its revenue are located in and derived from Hong Kong and the PRC. The Group's results of operations and financial condition therefore depend on the economies of Hong Kong and the PRC. The economy of Hong Kong is significantly affected by the developments in the Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative economic developments, and other regional economies may also deteriorate.

The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

Environmental Policies

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize its environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2015, as far as the Company is aware, there was no material breach of or noncompliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

Key Relationships

(i) *Employees*

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

(ii) *Suppliers*

The Group has developed long-standing relationships with a number of suppliers and take a great care to ensure that they share its commitment to quality and ethics. The Group carefully selects its suppliers and requires them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) *Customers*

The Group is committed to offer quality products to its customers and keep them updated of its latest business developments.

Management Discussion and Analysis

Employees and Remuneration Policy

As at 31 December 2015, the Group employed about 6,117 staff and workers in Hong Kong and the PRC (31 December 2014: about 5,400). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Material Acquisitions and Disposals

On 21 April 2015, the Company entered into an agreement with 上海沐翼投資管理合夥企業(有限合伙) (Shanghai Muyi Investment Management Partnership (Limited Partners)#), a subsidiary of China Development Bank Capital Co., Ltd, and agreed to acquire approximately 33.3% equity interest in the Hong Kong JV at the total consideration of USD24.30 million. According to the relevant agreements, Hong Kong JV will acquire 73.0% equity interest in Cardionovum at the total consideration of USD73.00 million. After the completion of the above two transactions, Hong Kong JV and Cardionovum will become associates of the Group. Furthermore, the Group will establish a new company in the PRC with Hong Kong JV. The registered capital is USD1.00 million in which the Group will subscribed 67.0%. It will then become an indirect non-wholly owned subsidiary of the Company. The transactions of subscribing the Hong Kong JV and Cardionovum together with the establishment of a new company in the PRC have been completed during 2015.

On 17 July 2015 and 27 November 2015, the Group entered into subscription agreements with Ningbo CDH, and agreed to acquire 67.0% and 30.0% equity interest in Jiu He at the cash consideration of RMB452.00 million and RMB210.08 million respectively. These two transactions have been completed in July 2015 and December 2015 respectively.

Future Plans For Material Investments

Except for those set out in the "Events after the Reporting Period" in this report, the Group had authorised but not provided for capital expenditure commitments of approximately HK$58.91 million in respect of acquisition of non-current assets as at 31 December 2015.

Significant Investment

There was no other significant investment during the year.

Events after the Reporting Period

No subsequent events occurred after 31 December 2015, which may have a significant effect, on the assets and liabilities or future operations of the Group.

Contingent Liabilities

As at 31 December 2015, the Directors were not aware of any material contingent liabilities.

Appreciation

On behalf of the board of Directors (the "Board"), I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Liu Chengwei
Chairman

Hong Kong, 30 March 2016

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Liu Chengwei, aged 42, was appointed as an executive Director in July 2008. Mr. Liu is the Chairman of the Company and is a director of Grand Pharmaceutical (China) Co., Ltd. ("Grand Pharm (China)"), the principal subsidiary of the Company. Mr. Liu has over 10 years of financial and management experience in the PRC. Mr. Liu is currently a director of the China Grand Enterprises Incorporation ("China Grand"). Mr. Liu worked for General Electric Company's China subsidiaries for 5 years before joining China Grand in 2001. Mr. Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr. Hu Bo, aged 31, was appointed as an executive Director in July 2008. Mr. Hu has over 10 years of experience in network project management and property management. Mr. Hu is currently the deputy general manager of a real estate company in the PRC. Mr. Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr. Hu is a nephew of Mr. Hu Kaijun, the beneficial owner of Outwit, which is the controlling shareholder of the Company.

Dr. Shao Yan, aged 53, was appointed as an executive Director in October 2008. Dr. Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr. Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr. Shao has over 20 years of experience in corporate management and venture capital investment. Dr. Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr. Zhang Ji, aged 54, was appointed as a non-executive Director in November 2008 and was redesignated as executive Director in February 2010. Dr. Zhang has over 17 years of experience in conducting drug discovery, research and development in the US pharmaceutical industry. Dr. Zhang is currently the president of the China Grand Wuhan General Pharmaceutical Research Institute. Dr. Zhang had worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years. Dr. Zhang holds both a bachelor degree in Microbiology and a master degree in Virology from Wuhan University, and a doctor degree (PhD) in Pharmacology and Molecular Biology from Chicago Medical School.

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie, aged 53, was appointed as an independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Lo Kai, Lawrence, aged 59, was appointed as an independent non-executive Director in June 2008. Mr. Lo has over 25 years of experience in wealth and asset management business. Currently, he is the CEO of UBP Asia Limited. Prior to that, he was the CEO of BSI-Generali Asia ("BSI") and was responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr. Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Dr. Pei Geng, aged 56, was appointed as an independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Foo Tin Chung, Victor, aged 47, joined the Company in September 2011 as a company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is a company secretary of Huisheng International Holdings Limited (stock code: 1340) and an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited (stock code: 8058) and Sino Haijing Holdings Limited (stock code: 1106). Mr. Foo was an executive director of Jinheng Automotive Safety Technology Holdings Limited (stock code: 872) and an independent non-executive director of Ngai Shun Holdings Limited (stock code: 1246) but already resigned on Sept 2014 and July 2015 respectively. All these companies are listed on the Stock Exchange.

Mr. Xie Guofan, aged 65, joined the principal subsidiary Grand Pharm (China) since 1970 and was appointed as its director since 1994. Mr. Xie is responsible for overseeing entire operations and management of Grand Pharm (China), and has over 30 years of experience in corporate management and pharmaceutical manufacturing. Mr. Xie holds a practicing pharmacist license in the PRC.

Mr. Shi Xiaofeng, aged 49, joined the principal subsidiary Grand Pharm (China) since 2003 and was appointed as its director and general manager. Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA degree at China Europe International Business School.

Mr. Zhang Bangguo, aged 48, joined the principal subsidiary Grand Pharm (China) since 1989 and used to work for it as a senior management, was currently appointed as director of Zhejiang Xianju Xianle Pharmaceutical Company Limited (“Zhejiang Xianle”), has over 20 years of experience in pharmaceutical industry and sales and marketing. Mr. Zhang is responsible for overseeing the entire operation and management of Zhejiang Xianle. Mr. Zhang holds a MBA degree at Huazhong University of Science & Technology and holds a practicing pharmacist license in the PRC.

Mr. Feng Yonghua, aged 48, joined Zhejiang Xianle since 2002 and currently was appointed as its general manager. Mr. Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr. Feng holds a practicing pharmacist license in the PRC.

During the year ended 31 December 2015, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as follows:

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2015.

Board of Directors

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive Directors – Mr. Liu Chengwei, Mr. Hu Bo, Dr. Shao Yan and Dr. Zhang Ji and 3 independent non-executive Directors – Ms. So Tosi Wan, Winnie, Mr. Lo Kai, Lawrence and Dr. Pei Geng. Mr. Liu Chengwei is the Chairman and Dr. Shao Yan is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Liu, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Dr. Shao, as the Chief Executive Officer, focuses on the day-to-day management of the Group's business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive Directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent and meet the independent guidelines set out in the Listing Rules.

All Directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company's Bye-Laws.

Training, Induction and Continuing Development of Directors

Each Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure the he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

Audit Committee

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The audit committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the audit committee consists of three independent non-executive Directors namely, Ms. So Tosi Wan, Winnie (Chairwoman), Mr. Lo Kai, Lawrence and Dr. Pei Geng. Ms. So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The audit committee held two meetings during the year ended 31 December 2015 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference. Currently, the remuneration committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Mr. Liu Chengwei and an independent non-executive Director Mr. Lo Kai, Lawrence as members.

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and reviewing specific remuneration package of all Directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The remuneration committee met once during the year to review the remuneration policy for all Directors and senior management.

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2015 are set out in note 15 to the consolidated financial statements.

Nomination Committee

The Company has established a nomination committee with written terms of reference. Currently, the nomination committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Dr. Shao Yan and an independent non-executive Director Mr. Lo Kai, Lawrence as members.

The nomination committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The nomination committee held a meeting in 2015 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

Attendance Record at Meetings

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2015 are set out as below:

	Meetings Attended/Held					
Directors	Special General Meeting	Annual General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Liu Chengwei	1/1	1/1	9/9	N/A	1/1	N/A
Mr. Hu Bo	1/1	1/1	9/9	N/A	N/A	N/A
Dr. Shao Yan	1/1	1/1	9/9	N/A	N/A	1/1
Dr. Zhang Ji	1/1	1/1	9/9	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	1/1	1/1	9/9	2/2	1/1	1/1
Mr. Lo Kai, Lawrence	1/1	1/1	8/9	1/2	0/1	0/1
Dr. Pei Geng	1/1	1/1	9/9	2/2	N/A	N/A

Auditors' Remuneration

During the year, the auditors performed the work of statutory audit for the year of 2015 and were also involved in non-audit assignment of acting as the reporting accountants of a Company's proposed transaction as disclosed in the announcement dated 23 June 2014 and 17 July 2015.

The audit committee was satisfied that the non-audit services provided by the auditors did not affect its independence.

Audit fees and fees for non-audit services for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$1,500,000, and HK$1,550,000 respectively.

Financial Reporting

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently. Save as the conditions as disclosed on page 38 of this report, the Directors are not aware of any other material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

Internal Control

The Board has the overall responsibility for maintaining an effective internal control system to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and ensure compliance with applicable legislation and regulations. The internal control system provides a reasonable but not absolute assurance against material errors, losses or fraud.

The Board has reviewed the effectiveness of the internal control system and will conduct an annual review on the system in order to make it effective and practical.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2015 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

Communication with Shareholders and Investors

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend general meetings of the Company which allows the Directors to meet and communicate with them.

Shareholders' Rights

Shareholders 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 a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Unit 3302, The Centre,
99 Queen's Road Central, Hong Kong
Email: victor.foo@chinagrandpharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Constitutional Documents

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye-laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Principal Activities

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associate are set out in notes 22 and 18 to the consolidated financial statements respectively.

Business Review

The business review of the Group for the year ended 31 December 2015 is set out in the section "Management Discussion and Analysis" on pages 3 to 4 of this annual report.

Description of principal risks and uncertainties that may be faced by the Group can be found in the section "Management Discussion and Analysis – Principal Risks and Uncertainties" on pages 8 to 9 of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is set out in the section "Management Discussion and Analysis – Financial Resources and Liquidity" on pages 7 to 8 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which may have a significant impact on the Group are set out in the section "Management Discussion and Analysis – Environmental Policies" and "Management Discussion and Analysis – Compliance with Relevant Laws and Regulations" separately on page 9 of this annual report.

Results

The results of the Group for the year ended 31 December 2015 and the state of affairs of the Group at that date are set out on pages 27 to 111.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil). No interim dividend was declared during the year (2014: Nil).

Reserves

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 39 to the consolidated financial statements respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

Pre-emptive Rights

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

Subsidiaries and Associates

Particulars of the Company's subsidiaries and associates at 31 December 2015 are set out in notes 22 and 18 to the consolidated financial statements respectively.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

Bank Borrowings

Particulars of bank borrowings of the Group during the year are set out in note 32 to the consolidated financial statements.

Directors

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Liu Chengwei
Mr. Hu Bo
Dr. Shao Yan
Dr. Zhang Ji

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie
Mr. Lo Kai, Lawrence
Dr. Pei Geng

Pursuant to bye-law 87(1), Mr. Hu Bo, Dr. Zhang Ji and Mr. Lo Kai, Lawrence will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Competing Interest

Save that Mr. Liu Chengwei, the chairman and an executive Director, who is a director of some pharmaceutical companies in the PRC (including China Grand) and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the Directors are aware of, no other Directors or their associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Related Party Transactions

For the year ended 31 December 2015, the related party transactions entered by the Group are all disclosed note 41 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 41 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

Continuing Connected Transactions

For the year ended 31 December 2015, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

1) On 23 October 2015, Grand Pharm (China) has entered into an agreement (the "Grand Pharm Supply Agreement") with Huadong Medicine Co., Ltd (the "Huadong Medicine"). Pursuant to the Grand Pharm Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations and raw materials to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the Grand Pharm Supply Agreement become effective until 31 December 2015 and for the two years ending 31 December 2017 are RMB22.0 million, RMB25.0 million and RMB29.0 million respectively (the "Grand Pharm Supply Caps"). In 2015, the transaction amount under Grand Pharm Supply Agreement is approximately RMB20.22 million.

2) On 23 October 2015, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement I") with Jiangsu Grand Xin Yi Pharmaceutical Co., Ltd. (formerly known as 鹽城信誼醫藥化工有限公司 (Yan Cheng Xin Yi Pharmaceutical Chemical Limited[#])) (the "Jiangsu Xin Yi"). Pursuant to the Xianle Purchase Agreement I, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Jiangsu Xin Yi or its related companies and the maximum annual amount of products to be purchased by the Group from Jiangsu Xin Yi for each of the periods commencing from the date where the terms of the Xianle Purchase Agreement I become effective until 31 December 2015 and for the two years ending 31 December 2017 are RMB80.0 million, RMB100.0 million and RMB100.0 million respectively (the "Xianle First Purchase Caps"). In 2015, the transaction amount under Xianle Purchase Agreement I is approximately RMB39.22 million.

3) On 23 October 2015, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement II") with Grand Group Corporation Limited (the "Grand Group Corporation"). Pursuant to the Xianle Purchase Agreement II, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Grand Group Corporation or its related companies and the maximum annual amount of products to be purchased by the Group from Grand Group Corporation for each of the periods commencing from the date where the terms of the Xianle Purchase Agreement II become effective until 31 December 2015 and for the two years ending 31 December 2017 are RMB8.0 million, RMB10.0 million and RMB10.0 million respectively (the "Xianle Second Purchase Caps"). In 2015, the transaction amount under Xianle Purchase Agreement II is approximately RMB3.21 million.

As Huadong Medicine, Jiangsu Xin Yi and Grand Group Corporation are regarded as connected persons of the Company since they are associates of the China Grand Enterprises Incorporation (which is a connected person of the Company since it is controlled and ultimately and beneficially owned by Mr. Hu Kaijun, who is the sole shareholder of Outwit Investments Limited which is the substantial shareholder of the Company holding approximately 62.63% of the total issued Shares), and the subject matters of each of the Grand Pharm Supply Agreement, Xianle Purchase Agreement I and Xianle Purchase Agreement II (collectively known as "Continuing Connected Transaction Agreements") are similar in nature, pursuant to Rule 14A.81 of the Listing Rules the transactions between the Group and each of these companies would be aggregated. As the aggregated amount of the Grand Pharm Supply Caps and the Xianle Purchase Caps will exceed HK$10,000,000 per annum, the transactions contemplated under the CCT Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed and confirmed that these transactions were entered into:

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

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Continuing Connected Transaction Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

(i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

(ii) obtained the relevant agreements governing each of the continuing connected transactions from management;

(iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcement dated 23 October 2015 made by the Company in respect of each of the continuing connected transactions.

Share Option Scheme

The share option scheme of the Company was adopted on 17 May 2002 under which the Board may, at its discretion, offer to grant employees and directors of the Group and other eligible persons options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. Such share option scheme was expired on 16 May 2012, and the Company did not adopt any new share option scheme and no outstanding share options.

No share options were granted or exercised under any share option scheme during the year ended 31 December 2015 and 2014 and there were no outstanding share options as at 31 December 2015 and 2014.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2015, the Directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long positions in the shares of the Company:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	4,640,000	0.24%

Note: Dr. Shao Yan, a Director, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr. Shao Yan shall be deemed to be interested in such 4,640,000 shares.

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

Report of the Directors

Permitted Indemnity Provision

The articles of associations of the Company provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate insurance cover or other relevant arrangement in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

Substantial Shareholders

As at 31 December 2015, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	1,228,775,094	62.63%
Mr. Hu Kaijun (Note)	1,228,775,094	62.63%

Note: These shares are held by Outwit Investments Limited, the entire issued share capital of which is wholly owned by Mr. Hu Kaijun.

Save as disclosed above, as at 31 December 2015, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Major Customers and Suppliers

For the year ended 31 December 2015, the five largest customers of the Group accounted for less than 30% of the Group's total revenue while the five largest suppliers accounted for less than 30% the Group's total purchases.

The information in respect of the Group's revenue and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2015 is as follows:

	Percentage of the Group's total	
	revenue	**purchases**
The largest customer	1.1%	N/A
The five largest customers in aggregate	4.7%	N/A
The largest supplier	N/A	5.8%
The five largest suppliers in aggregate	N/A	20.2%

So far as the Board are aware, neither the Directors, their close associates nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2015.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 13 to 16.

Auditors

The consolidated financial statements for the year ended 31 December 2015 have been audited by HLB Hodgson Impey Cheng Limited which shall retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Board of Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 30 March 2016

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 111, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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.

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries 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.

Material uncertainty concerning going concern basis of accounting

Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicate that the Group had net current liabilities of approximately HK$842,868,000 at 31 December 2015. These conditions, along with other matters as set forth in note 3 to the consolidated financial statements, indicate that existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 30 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	7	**3,245,546**	3,122,116
Cost of sales		**(1,895,062)**	(1,928,469)
Gross profit		**1,350,484**	1,193,647
Other revenue and income	8	**138,325**	117,192
Distribution costs		**(641,662)**	(608,155)
Administrative expenses		**(431,575)**	(372,436)
Other operating expenses	9	**(12,181)**	(13,804)
Share of results of associates	18	**(5,673)**	569
Finance costs	10	**(157,155)**	(114,092)
Profit before tax		**240,563**	202,921
Income tax expense	11	**(40,156)**	(27,198)
Profit for the year	12	**200,407**	175,723
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(64,759)**	(12,020)
Other comprehensive loss for the year, net of income tax		**(64,759)**	(12,020)
Total comprehensive income for the year, net of income tax		**135,648**	163,703
Profit for the year attributable to:			
– Owners of the Company		**180,906**	175,208
– Non-controlling interests		**19,501**	515
		200,407	175,723
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**116,640**	164,025
– Non-controlling interests		**19,008**	(322)
		135,648	163,703
Earnings per share			
Basic (HK cents)	14	**9.22**	8.93
Diluted (HK cents)	14	**8.89**	8.86

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,543,235**	2,291,205
Prepaid lease payments	17	**269,520**	272,010
Interests in associates	18	**224,520**	6,332
Available-for-sale financial assets	19	**97,332**	39,844
Deposits for acquisition of non-current assets	20	**7,592**	5,018
Goodwill	21	**380,589**	124,682
Intangible assets	23	**651,305**	68,454
Deferred tax assets	24	**1,244**	1,294
Prepayments	25	**37,743**	22,358
Loan receivables	26	**14,414**	26,250
		4,227,494	2,857,447
Current assets			
Financial asset at fair value through profit or loss	27	**1,201**	50,000
Inventories	28	**621,702**	516,565
Trade and other receivables	29	**1,048,763**	981,749
Loan receivables	26	**33,632**	23,750
Prepaid lease payments	17	**7,947**	6,631
Pledged bank deposits	30	**38,659**	94,138
Cash and cash equivalents	30	**653,987**	460,401
		2,405,891	2,133,234
Current liabilities			
Trade and other payables	31	**1,181,915**	1,121,522
Bank borrowings	32	**1,962,484**	1,083,584
Bank overdraft	30	**–**	12,457
Obligations under finance leases	33	**43,616**	5,733
Income tax payable		**60,744**	49,510
		3,248,759	2,272,806
Net current liabilities		**(842,868)**	(139,572)
Total assets less current liabilities		**3,384,626**	2,717,875

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current liabilities			
Bank borrowings	32	**762,136**	420,000
Convertible bonds	34	**258,629**	245,659
Deferred tax liabilities	35	**143,877**	58,976
Amount due to holding company	36	**23,057**	21,866
Deferred income	37	**634,344**	661,014
Obligations under finance leases	33	**158,244**	1,993
		1,980,287	1,409,508
Net assets		**1,404,339**	1,308,367
Capital and reserves attributable to owners of the Company			
Share capital	38	**19,620**	19,620
Reserves		**1,140,048**	1,093,791
Equity attributable to owners of the Company		**1,159,668**	1,113,411
Non-controlling interests		**244,671**	194,956
Total equity		**1,404,339**	1,308,367

The consolidated financial statements on pages 27 to 111 were approved and authorised for issue by the board of directors of the Company on 30 March 2016 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Notes	Attributable to owners of the Company											
		Share capital HK$'000	Share premium HK$'000	Contribution surplus reserve HK$'000	Statutory reserve HK$'000 (Note a)	Safety fund reserve HK$'000 (Note b)	Translation reserve HK$'000	Other reserve HK$'000 (Note c)	Convertible bonds reserve HK$'000 (Note d)	Retained profits HK$'000	Equity attributable to owner of the Company HK$'000	Non–controlling interests HK$'000	Total HK$'000
At 1 January 2014		19,620	281,949	121,273	60,114	11,635	73,650	25,997	–	282,645	876,883	213,906	1,090,789
Profit for the year		–	–	–	–	–	–	–	–	175,208	175,208	515	175,723
Other comprehensive income for the year, net of income tax:													
Exchange difference on translation of foreign operations		–	–	–	–	–	(11,183)	–	–	–	(11,183)	(837)	(12,020)
Total comprehensive income for the year		–	–	–	–	–	(11,183)	–	–	175,208	164,025	(322)	163,703
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(17,285)	(17,285)
Equity component of convertible bonds	34	–	–	–	–	–	–	–	86,918	–	86,918	–	86,918
Deferred tax arising on issue of convertible bonds	35	–	–	–	–	–	–	–	(14,341)	–	(14,341)	–	(14,341)
Acquisition of additional interest in a subsidiary		–	–	–	–	–	–	(74)	–	–	(74)	(1,343)	(1,417)
Transfer		–	–	–	26,830	3,844	–	–	–	(30,674)	–	–	–
At 31 December 2014 and at 1 January 2015		19,620	281,949	121,273	86,944	15,479	62,467	25,923	72,577	427,179	1,113,411	194,956	1,308,367
Profit for the year		–	–	–	–	–	–	–	–	180,906	180,906	19,501	200,407
Other comprehensive income for the year, net of income tax:													
Exchange difference on translation of foreign operations		–	–	–	–	–	(64,266)	–	–	–	(64,266)	(493)	(64,759)
Total comprehensive income for the year		–	–	–	–	–	(64,266)	–	–	180,906	116,640	19,008	135,648
Non-controlling interest arising on the acquisition of subsidiaries	40	–	–	–	–	–	–	–	–	–	–	195,856	195,856
Acquisition of additional interest in subsidiaries	45	–	–	–	–	–	–	(70,383)	–	–	(70,383)	(165,149)	(235,532)
Transfer		–	–	–	24,095	3,793	–	–	–	(27,888)	–	–	–
At 31 December 2015		19,620	281,949	121,273	111,039	19,272	(1,799)	(44,460)	72,577	580,197	1,159,668	244,671	1,404,339

Notes:

a. Each of the Company's the PRC subsidiary's Articles of association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to document (Cai Qi [2006] No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired.

d. The amount represented the equity component of the convertible bonds issued during the year ended 31 December 2014.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Operating activities			
Profit before tax		**240,563**	202,921
Adjustments for:			
Amortisation of intangible assets	23	**12,181**	12,422
Amortisation of prepaid lease payments	17	**8,102**	6,675
Depreciation of property, plant and equipment	16	**179,197**	158,812
Finance costs	10	**157,155**	114,092
Loss/(gain) on disposal of property, plant and equipment	12	**422**	(46)
Write-off of property, plant and equipment	16	**1,742**	27,052
Write-off available-for-sales financial assets		**–**	418
Reversal of impairment loss on inventories	28	**(3,804)**	(2,435)
Impairment loss on inventories		**3,078**	1,685
Impairment loss on trade and other receivables	29	**5,796**	12,166
Interest income		**(14,769)**	(15,425)
Reversal of impairment loss on trade and other receivables	29	**(11,652)**	(8,152)
Written off on trade and other receivable	29	**(1,612)**	–
Share of results of associates	18	**5,673**	(569)
Written off of other payables	8	**(20,310)**	–
Gain on sales and lease back transaction, net	8	**(20,019)**	–
Purchase of financial assets at fair value through profit or loss		**(882,805)**	(50,000)
Proceed from financial assets at fair value through profit or loss		**929,651**	–
Investment income	8	**(14,215)**	–
Operating cash flows before movements in working capital		**574,374**	459,616
(Increase)/decrease in inventories		**(40,940)**	41,695
Increase in trade and other receivables		**(89,541)**	(95,440)
Increase in deferred income		**–**	288,848
Increase/(decrease) in trade and other payables		**87,083**	(186,938)
Decrease in derivative financial instrument		**–**	(1,310)
Net cash generated from operations		**530,976**	506,471
Income tax paid		**(34,535)**	(29,171)
Net cash generated from operating activities		**496,441**	477,300

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Investing activities			
Purchase of property, plant and equipment	16	**(466,561)**	(428,715)
Acquisition of prepaid lease payment		**(12,993)**	–
Decrease in pledged bank deposits		**51,801**	34,015
Increase in deposits for acquisition of non-current assets		**(7,592)**	(4,133)
Increase in prepayments		**(16,259)**	(4,934)
Proceeds from disposal of property, plant and equipment		**453**	7,977
Proceeds from disposal of available-for-sale financial assets		**–**	2,085
Bank interest income received		**14,769**	9,582
Investment income		**14,215**	–
Increase in loan receivables		**–**	(17,500)
Repayment of loan receivables		**–**	20,000
Net cash outflow from acquisition of subsidiaries	40	**(668,262)**	–
Net cash outflow from acquisition of a associate		**(240,328)**	–
Acquisition of additional interest in a subsidiary		**(265,033)**	(1,417)
Net cash used in investing activities		**(1,595,790)**	(383,040)
Financing activities			
Proceed from convertible bonds		**–**	330,000
Proceed from sales and lease back transaction		**240,232**	–
Repayments of bank loans		**(1,838,037)**	(1,348,161)
Repayments of obligation under finance leases		**(45,515)**	(5,432)
Interest paid		**(143,723)**	(111,462)
Proceed from new borrowings		**3,104,009**	1,246,041
Repayment to holding company		**(150)**	–
Advance from holding company		**879**	465
Dividend paid to non-controlling interest		**–**	(4,732)
Net cash generated from financing activities		**1,317,695**	106,719
Net increase in cash and cash equivalents		**218,346**	200,979
Cash and cash equivalents at the beginning of year		**447,944**	249,765
Effect of foreign exchange rate changes		**(12,303)**	(2,800)
Cash and cash equivalents at the end of year			
Cash and cash equivalents		**653,987**	447,944
Analysis of balances of cash and cash equivalents:			
Cash and cash equivalents		**653,987**	460,401
Bank overdraft		**–**	(12,457)
		653,987	447,944

1. GENERAL INFORMATION

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical, healthcare and chemical products in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent and ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as functional currency of the Company, and the functional currency of the most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

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

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2015. A summary of the new and revised HKFRSs is set out as below:

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

The application of the above new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap.622) during the reporting period. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

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

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle[1]
HKFRS 9	Financial Instruments[2]
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 9, HKFRS7 and HKAS 39[4]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[1]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[2]
HKAS 1 (Amendments)	Disclosure Initiative[1]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[1]
HKAS 27	Equity Method in Separate Financial Statements[1]

1 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2018, with earlier application permitted.

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group.

4 No mandatory effective date is determined but is available for early adoption.

The Group is in the process of assessing the potential impact of the above new and revised HKFRSs upon initial application but is not in a position to state whether the above new and revised HKFRSs will have a significant impact on the Group's results of operations and financial position.

2. 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 amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that the application of new standard may have a significant impact on amounts reported in respect of Group's financial assets. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

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

Amendments to HKAS 27 Equity Method in Separate Financial Statements

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

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

The accounting option must be applied by category of investments.

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

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First time Adoption of Hong Kong Financial Reporting Standards.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

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

Amendments to HKAS 28:

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

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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

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

Annual Improvements to HKFRSs 2012-2014 Cycle

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by Listing Rules and by the Hong Kong Companies Ordinance.

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

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

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$842,868,000 (2014: HK$139,572,000) as at 31 December 2015. The directors of the Company have taken the following factors to consider the future liquidity which include, but not limited to, the followings:

i. Alternative sources of external funding

The Company could allot and issue new shares not exceed 20% of the issued shares to acquire an external funding.

ii. Attainment of profitable and positive cash flow operations

The directors of the Company have reviewed the forecast and considered the Group will have positive net cash inflow in the coming 12 months.

iii. Necessary facilities

The Group is in the process of negotiating with its bankers for the renewal and additional of bank facilities, and the restructuring of bank loan combination with an aim to transform the short-term bank loans to long-term bank loans, in order to meet the Group's working capital and financial requirements in the next 12 months.

iv. Financial support and amount due to holding company

Outwit has agreed to provide the financial support for not less than 12 months from the year ended 31 December 2015 and also agreed not to request the repayment for the amount due of approximately HK$23,057,000 in the following 12 months.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In the opinion of the directors, in light of the various measures or arrangements implemented after the end of reporting period together with the expected results of the other measures, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

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.

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

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

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

Business combinations

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

Change in the values of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit and loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

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

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is or a portion thereof, is classified as held for sales, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(continued)*

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sales. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the carrying amount of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

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

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Sale of goods

Revenue from sales of goods is recognised when the goods are delivered and title has 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.

Dividend income

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

Interest income

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.

Rental income

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are initially 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 in 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). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on the transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is nether planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation reserve.

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.

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Taxation

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

Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because of 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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probably 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax (Continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (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 and 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 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 for the year

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

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. 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.

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

Intangible assets

Intangible assets acquired separately

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

Research and development expenditure

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

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

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Provision

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefit

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected until credit method, with actuarial valuations being carried out at the end if each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes of the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur, Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expenses or income; and
- remeasurement.

The Group presents all components of defined benefit costs in profit or loss in the line item cost of sales, distribution costs and administrative expenses. Curtailment gains and losses are accounted for as past service costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Retirement benefit costs and termination benefits (Continued)

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognised for benefit accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value if the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Convertible bonds

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bond is converted or redeemed.

If the convertible bond is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the convertible bond is redeemed, the convertible bonds reserve is released directly to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds *(Continued)*

When the convertible bond is extinguished before maturity through an early redemption or repurchase where the original conversion privileges are unchanged, the consideration paid and any transaction costs for the redemption or repurchase are allocated to the liability component and equity component using the same allocation basis as when the convertible bond was originally issued. Once the allocation of consideration and transaction costs is made, any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to equity component is recognised in equity.

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into one of the following categories, including available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than: a) those that the entity upon initial recognition designates as at fair value through profit or loss; b) those that the entity designates as available for sale; and c) those that meet the definition of loans and receivables. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

Financial assets at fair value through profit or loss ("FVTPL")

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designed as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 5b(v).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Available-for-sale ("AFS") financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of it is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment loss at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

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

Impairment on financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment on financial assets (Continued)

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

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

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, subsequently 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, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, 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 trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the available-for-sale financial assets revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

Other financial liabilities (including trade and other payables, bank borrowings, amount due to holding company and convertible bonds) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

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 no measured at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(continued)*

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 neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 recognizes a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

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

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in HKAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liabilities in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, management is satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs.

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

Critical judgements in applying accounting policies *(Continued)*

Valuation of inventories

Valuation of inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product by product basis at the end of each reporting period and assess the need for write down of inventories.

Key source of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2015 was HK$380,589,000 (2014: HK$124,682,000). Details of the recoverable amount calculation are disclosed in note 21.

Impairment of intangible assets

The Group performs annual tests on whether there has impairment of intangible assets in accordance with the accounting policy. The recoverable amounts of fair value are determinated based on income approach calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, post-tax discount rates, and other assumptions underlying the calculation.

The carrying amount of intangible assets as at 31 December 2015 was HK$651,305,000 (2014: HK$68,454,000). Detailed information are disclosed in note 23.

Impairment of trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivable balance, debtor credit-worthiness, and historical write-off experience. If the financial conditions of the debtors were to deteriorate, actual write-offs would be higher than estimated.

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

Key source of estimation uncertainty *(Continued)*

Income tax and deferred tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of property, plant and equipment, prepaid lease payments and intangible assets

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment, prepaid lease payments and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The patents, trademarks and capitalized development costs are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

The intangible asset will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

During the year ended 31 December 2015, the Group did not change the estimated useful lives of property, plant and equipment and intangible assets.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

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 Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 5 and 34 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015 **HK$'000**	2014 HK$'000
Financial assets		
AFS financial assets	**97,332**	39,844
Financial asset at FVTPL	**1,201**	50,000
Loans and receivables (including cash and cash equivalents)		
– Loan receivables	**48,046**	50,000
– Trade and other receivables	**845,416**	801,582
– Pledged bank deposits	**38,659**	94,138
– Cash and cash equivalents	**653,987**	460,401
	1,586,108	1,406,121
Financial liabilities		
At amortised costs		
– Trade and other payables	**1,131,704**	1,073,267
– Bank borrowings	**2,724,620**	1,503,584
– Bank overdraft	**–**	12,457
– Convertible bonds	**258,629**	245,659
– Obligations under financial leases	**201,860**	7,726
– Amount due to holding company	**23,057**	21,866
	4,339,870	2,864,559

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include AFS financial assets, financial asset at FVTPL, loan receivables, trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank borrowings, bank overdraft, convertible bonds and amount due to holding company. 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 management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i. Currency risk

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, bank balances and cash, trade and other payables, bank borrowings and amount due to holding company are denominated in foreign currencies of United State dollars ("USD") and HK$. Such USD and HK$ denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD and HK$.

The Group currently does not have any USD and HK$ hedging policy but the management monitors USD and HK$ exchange exposure and will consider hedging significant USD and HK$ exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2014: 10%) in exchange rate of USD and HK$ against RMB while all other variables are held constant. 10% (2014: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2014: 10%) change in foreign currency rates.

	2015 **HK$'000**	2014 HK$'000
Increase/(decrease) in profit for the year		
– if USD weakens against of RMB	**35,135**	27,289
– if USD strengthens against of RMB	**(35,135)**	(27,289)
Increase/(decrease) in profit for the year		
– if HK$ weakens against of RMB	**–**	(2)
– if HK$ strengthens against of RMB	**–**	2

A change of 10% (2014: 10%) in exchange rate of USD and HK$ against RMB does not affect other components of equity except the translation reserve.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

i. Currency risk (Continued)

Sensitivity analysis (Continued)

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2015 HK$'000	2014 HK$'000
USD		
– Trade and other receivables	**151,908**	166,277
– Cash and cash equivalents	**22,296**	22,460
– Trade and other payables	**(6,206)**	(20,038)
– Bank borrowings	**(519,352)**	(441,584)
HK$		
– Cash and cash equivalents	**–**	15

ii. Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates and variable-rate borrowings (see note 32). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2014: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2014: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$12,160,000 (2014: increase/decrease by approximately HK$4,799,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

At 31 December 2015

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,131,704	1,131,704	–	–	–	1,131,704
Bank borrowings	4.51%	4,318,915	2,109,092	1,033,171	915,893	260,759	2,724,620
Convertible bonds	9.29%	367,539	9,900	9,900	347,739	–	258,629
Obligation under finance lease	7.19%	234,655	56,687	54,759	123,209	–	201,860
Amount due to holding company	5.00%	23,729	–	23,729	–	–	23,057
		6,076,542	3,307,383	1,121,559	1,386,841	260,759	4,339,870

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. *Liquidity risk (Continued)*

At 31 December 2014

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,085,724	1,085,724	–	–	–	1,085,724
Bank overdraft	5.88%	12,457	12,457	–	–	–	12,457
Bank borrowings	5.32%	1,583,402	1,140,160	443,242	–	–	1,503,584
Convertible bonds	9.29%	377,439	9,900	9,900	357,639	–	245,659
Obligation under finance lease	6.31%	8,076	6,057	2,019	–	–	7,726
Amount due to holding company	5.00%	22,537	–	22,537	–	–	21,866
		3,089,635	2,254,298	477,698	357,639	–	2,877,016

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

iv. *Credit risk*

The Group's maximum exposure to credit risk in the event of the counter parties' failure to perform their obligations at the end of the reporting period 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.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for unallocated advances/deposits from these entities.

The carrying amounts of loan receivables and trade and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. *Credit risk* *(Continued)*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and provision of services are made to customers with an appropriate credit history. The Group's deposits in bank and deposits placed with a financial institution are placed in high quality financial institutions without significant exposure to credit risk.

The directors consider that there is no significant credit risk in respect of the Group's deposits in banks and deposits placed with a financial institution as the financial institution has no record of default payment.

v. *Fair value*

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

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

The directors consider the fair values of trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to holding company approximate to its carrying amount as the impact of discounting is not significant.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 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).

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. *Fair value* *(Continued)*

	2015			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets measured at fair value				
Financial assets at FVTPL (note 27)	**1,201**	**–**	**–**	**1,201**

	2014			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets measured at fair value				
Financial assets at FVTPL (note 27)	50,000	–	–	50,000

	2015			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets for which fair value are disclosed				
Convertible bonds (note a)	–	–	252,313	252,313

	2014			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets for which fair value are disclosed				
Convertible bonds (note a)	–	–	241,491	241,491

Notes:

(a) As at 31 December 2015 and 2014, the fair value of convertible bonds of approximately HK$ 252,313,000 and HK$ 241,491,000. The fair value of liabilities component of convertible bonds was valued by an independent valuer. The convertible bonds was calculated by discounting the future cash flow at market rate and including some unobservable inputs. See note 34 for the details information of convertible bonds.

Below is a summary of the valuation techniques used and the key inputs to the valuation of convertible bonds:

	Valuation techniques	**Significant unobservable inputs**	**2015**	2014
Convertible bonds	Discounted cash flow method	Risk free rate	**0.91%**	1.45%
		Volatility	**53.60%**	54.05%
		Discount rate	**10.14% to 10.90%**	9.15% to 10.38%

There were no transfers between all levels in both years.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank borrowings and amount due to holding company, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

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

The gearing ratio at the end of the reporting period was as follows:

	2015	2014
	HK$'000	HK$'000
Debts (note 1)	**3,006,306**	1,783,566
Cash and cash equivalents	**(692,646)**	(554,539)
Net debt	**2,313,660**	1,229,027
Equity (note 2)	**1,159,668**	1,113,411
Net debt to equity ratio	**200%**	110%

Notes:

(1) Debts comprises long-term and short-term borrowings, convertible bonds, bank overdraft and amount due to holding company respectively.

(2) Equity includes all capital and reserves attributable to owners of the Company.

7. REVENUE AND SEGMENT INFORMATION

For the year ended 31 December 2015, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's revenue represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2015 HK$'000	2014 HK$'000	**2015 HK$'000**	2014 HK$'000
The PRC	**2,426,582**	2,232,025	**3,894,527**	2,816,309
America	**209,290**	403,456	**–**	–
Europe	**290,972**	254,107	**–**	–
Asia other than the PRC	**304,397**	232,417	**–**	–
Others	**14,305**	111	**–**	–
Total	**3,245,546**	3,122,116	**3,894,527**	2,816,309

Note: Non-current assets excluded available-for-sale financial assets, deferred tax assets and a part of interests in associates.

Information about major customers

For the years ended 31 December 2015 and 2014, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

8. OTHER REVENUE AND INCOME

	2015 HK$'000	2014 HK$'000
Government grants	**47,183**	74,892
Interest income	**14,769**	15,425
Sales of raw materials, scrap and other materials, net	**5,423**	13,227
Gain on sales and lease back transaction, net	**20,019**	–
Investment income	**14,215**	–
Rental income	**19**	11
Cumulative gain on disposal of available-for-sale investment	**–**	2,272
Gain on disposal of property, plant and equipment	**–**	46
Reversal of impairment loss on trade and other receivables	**11,652**	8,152
Written off of other payables	**20,310**	–
Sundry incomes	**4,735**	3,167
	138,325	117,192

9. OTHER OPERATING EXPENSES

	2015 HK$'000	2014 HK$'000
Amortisation of intangible assets (note 23)	**12,181**	12,422
Written-off of available-for-sale financial assets	**–**	418
Loss on sales and lease back transaction	**–**	964
	12,181	13,804

10. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on bank borrowings:		
– wholly repayable within five years	**121,350**	108,025
– not wholly repayable within five years	**1,908**	–
Interest on bank overdraft	**–**	285
Interest on convertible bonds (note 34)	**22,870**	4,639
Interest on amount due to holding company	**462**	465
Interest on finance lease	**10,565**	678
	157,155	114,092

11. INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
Current tax:		
The PRC Enterprise Income Tax	**47,542**	31,657
Deferred tax (note 35)	**(7,386)**	(4,459)
	40,156	27,198

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax at the rate of 16.5% (2014: 16.5%). Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

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

	2015 HK$'000	2014 HK$'000
Profit before tax	**240,563**	202,921
Tax at the domestic income tax rate of 25% (2014: 25%)	**60,141**	50,730
Tax effect of share of losses/(profits) of associates	**1,418**	(142)
Tax effect of expenses not deductible for tax purpose	**16,724**	16,284
Tax effect of income not taxable for tax purpose	**(5,747)**	(519)
Tax effect of deductible temporary differences not recognised	**(4,387)**	(12,934)
Effect of tax exemptions granted to the PRC subsidiaries	**(14,875)**	(11,427)
Income tax on concessionary rate	**(35,744)**	(28,271)
Utilisation of tax losses previously not recognised	**(110)**	(2,129)
Under/(over) provision in prior year	**871**	(435)
Tax effect of tax losses not recognised	**21,865**	16,041
Tax charge for the year	**40,156**	27,198

The applicable tax rate of 25% (2014: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

12. PROFIT FOR THE YEAR

	2015 HK$'000	2014 HK$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	**405,132**	371,734
– Retirement benefits schemes contributions	**43,068**	41,654
	448,200	413,388
Depreciation of property, plant and equipment	**179,197**	158,812
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**8,102**	6,675
Amortisation of intangible assets (included in other operating expenses)	**12,181**	12,422
Total depreciation and amortisation	**199,480**	177,909
Impairment losses on financial assets		
– trade and other receivables	**5,796**	12,166
– reversal of impairment loss on trade and other receivables (included in other revenue and income)	**(11,652)**	(8,152)
(Reversal of impairment loss on)/ impairment losses of financial assets, net	**(5,856)**	4,014
Auditors' remuneration		
– audit services	**1,500**	1,200
– non-audit services	**1,550**	250
Share of tax of associates	**691**	158
Cost of inventories recognised as an expense	**1,895,062**	1,928,469
Operating lease rentals in respect of land and buildings	**11,077**	1,543
(Gain)/loss on sales and lease back transaction, net	**(20,019)**	964
Write-off of property, plant and equipment	**1,742**	27,052
Write-off of trade and other payables	**(20,310)**	–
Research and development expenditure	**106,898**	81,833
Cumulative gain on disposal of available-for-sale financial assets	**–**	2,272
Loss/(gain) on disposal of property, plant and equipment	**422**	(46)
Net foreign exchange loss/(gain)	**5,918**	(358)

13. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2015 (2014: Nil).

14. EARNINGS PER SHARE

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

	2015 HK$'000	2014 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share calculation	**180,906**	175,208
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds (net of tax)	**19,096**	3,874
– Deferred tax arising from convertible bonds (note 35)	**(3,774)**	(766)
Earnings for the purpose of diluted earnings per share calculation	**196,228**	178,316

	2015 '000	2014 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**1,962,041**	1,962,041
Effect of dilutive potential ordinary shares:		
– Convertible bonds	**244,444**	50,898
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**2,206,485**	2,012,939

The Company's outstanding convertible bonds were included in the calculation of diluted earnings per share because the effect of the Company's outstanding convertible bonds were diluted.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2015 HK$'000	2014 HK$'000
Fees:		
Executive directors	**150**	150
Independent non-executive directors	**300**	300
	450	450
Other emoluments		
Salaries and allowances	**1,531**	1,499
Retirement benefits scheme contributions	**18**	17
	1,999	1,966

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2015 and 2014.

The emoluments paid or payable to each of the seven (2014: seven) directors for the year ended 31 December 2015 were as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	1,531	18	1,549
Dr. Zhang Ji	50	–	–	50
Independent non-executive directors:				
Ms. So Tsoi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence	60	–	–	60
Dr. Pei Geng	60	–	–	60
Total	450	1,531	18	1,999

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2014 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	1,499	17	1,516
Dr. Zhang Ji	50	–	–	50
Independent non-executive directors:				
Ms. So Tsoi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence	60	–	–	60
Dr. Pei Geng	60	–	–	60
Total	450	1,499	17	1,966

During both years ended 31 December 2015 and 2014, no directors of the Company agreed to waive or waived any emoluments.

During both years ended 31 December 2015 and 2014, the executive director of the Company, Dr. Shao Yan, was the chief executive officer of the Company.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2014: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2014: four) individuals were as follows:

	2015 **HK$'000**	2014 HK$'000
Employees		
Salaries and allowances	**3,695**	4,580
Retirement benefits schemes contributions	**50**	51
	3,745	4,631

These emoluments were within the following bands:

	2015 **No. of employees**	2014 No. of employees
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**3**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	4	4

During both years ended 31 December 2015 and 2014, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management of the Group are within the following band.

	2015 **No. of employees**	2014 No. of employees
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	5	5

During both years ended 31 December 2015 and 2014, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2014	880,758	1,922	879,483	28,497	60,266	412	405,405	2,256,743
Additions	49,030	–	73,338	2,112	4,469	–	312,767	441,716
Disposals	–	–	(26,785)	(2,971)	(2,440)	–	–	(32,196)
Write-off	(7,130)	–	(67,147)	(884)	(2,878)	–	–	(78,039)
Transfer	141,701	–	98,563	–	1,336	–	(241,600)	–
Exchange realignment	(22,437)	(46)	(21,684)	(673)	(1,438)	–	(10,238)	(56,516)
At 31 December 2014 and at 1 January 2015	1,041,922	1,876	935,768	26,081	59,315	412	466,334	2,531,708
Additions	2,749	–	176,946	1,768	4,454	–	280,644	466,561
Acquisition of subsidiaries	52,641	–	10,726	1,561	2,161	–	–	67,089
Disposals	(886)	–	(421)	(1,128)	–	–	–	(2,435)
Write-off	–	–	(3,321)	(1,668)	(203)	–	–	(5,192)
Transfer	38,264	–	215,917	147	10,568	–	(264,896)	–
Exchange realignment	(43,911)	(73)	(47,328)	(1,058)	(2,778)	–	(18,637)	(113,785)
At 31 December 2015	1,090,779	1,803	1,288,287	25,703	73,517	412	463,445	2,943,946
Accumulated depreciation and impairment								
At 1 January 2014	46,880	–	91,214	5,300	17,568	412	–	161,374
Depreciation provided for the year	41,073	–	104,236	3,693	9,810	–	–	158,812
Eliminated on disposals	–	–	(19,988)	(2,095)	(2,182)	–	–	(24,265)
Eliminated on write-off	(2,149)	–	(46,094)	(810)	(1,934)	–	–	(50,987)
Exchange realignment	(1,393)	–	(2,455)	(133)	(450)	–	–	(4,431)
At 31 December 2014 and at 1 January 2015	84,411	–	126,913	5,955	22,812	412	–	240,503
Depreciation provided for the year	46,563	–	117,706	3,771	11,157	–	–	179,197
Eliminated on disposals	(273)	–	(280)	(1,007)	–	–	–	(1,560)
Eliminated on write-off	–	–	(2,057)	(1,202)	(191)	–	–	(3,450)
Exchange realignment	(4,527)	–	(8,020)	(273)	(1,159)	–	–	(13,979)
At 31 December 2015	126,174	–	234,262	7,244	32,619	412	–	400,711
Net carrying amounts								
At 31 December 2015	**964,605**	**1,803**	**1,054,025**	**18,459**	**40,898**	**–**	**463,445**	**2,543,235**
At 31 December 2014	957,511	1,876	808,855	20,126	36,503	–	466,334	2,291,205

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

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

Buildings	2.5% – 5%
Plant and machinery	5% – 10%
Equipment	12% – 25%
Motor vehicles	10% – 25%
Others	12.5% – 20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant PRC's authorities.

Buildings are held in the PRC under medium-term leases.

As at 31 December 2015, an allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 42.

17. PREPAID LEASE PAYMENTS

	2015 HK$'000	2014 HK$'000
At the beginning of year	**278,641**	292,300
Additions	**17,815**	–
Amortisation for the year	**(8,102)**	(6,675)
Exchange realignment	**(10,887)**	(6,984)
At the end of year	**277,467**	278,641
Analysed for reporting purposes as:		
Current assets	**7,947**	6,631
Non-current assets	**269,520**	272,010
	277,467	278,641

Leasehold lands are held in the PRC under medium leases.

As at 31 December 2015, certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 42.

18. INTERESTS IN ASSOCIATES

	2015 HK$'000	2014 HK$'000
Cost of unlisted investments	**241,505**	1,740
Share of post-acquisition profits and other comprehensive income	**125**	5,526
Share of net assets of associates	**241,630**	7,266
Amounts due to associates	**(17,110)**	(934)
	224,520	6,332

Amounts due to associates are unsecured, interest-free and not repayable within next twelve months.

The summarised financial information in respect of the Group's associates is set out below:

Yangxin Fuxin Chemical Company Limited (the "Yangxin Fuxin")

	2015 HK$'000	2014 HK$'000
Total assets	**15,586**	16,823
Total liabilities	**(877)**	(1,994)
Net assets of the associate	**14,709**	14,829
Group's share of net assets of an associate	**7,207**	7,266
Revenue	**12,978**	20,631
Profit for the year	**472**	1,153
Share of results of an associate for the year	**232**	569

18. INTERESTS IN ASSOCIATES *(Continued)*

Cardionovum Holding Company Limited (the "Cardionovum Holding")

	2015 HK$'000	2014 HK$'000
Total assets	712,236	–
Total liabilities	(6,657)	–
Net assets of the associate	705,579	–
Less: Non-controlling interests	(2,240)	–
Net assets attributable to owners of associate	703,339	–
Group's share of net assets of an associate	234,423	–
Revenue	19,216	–
Loss for the year	(17,717)	–
Share of results of an associate for the year	(5,905)	–

Details of the principal associates as at 31 December 2015 and 2014 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2015	2014	Particulars of issued/ paid-up capital	Principal activities
Yangxin Fuxin (Note (a))	PRC/PRC	Limited liability company	40.32% (indirect)	40.32% (indirect)	Contributed capital RMB2,000,000	Production and sales of fine chemicals and chemical medicine
Cardionovum Holding (Note (b))	Hong Kong/ Hong Kong	Limited liability company	33.33% (direct)	–	Contributed capital USD93,000,000	Development, production and distribution of advanced cardiovascular Interventional medical devices and the provision of related services

18. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.

As at 31 December 2013, the Group held approximately 40.22% equity interest in Yangxin Fuxin and are accounted for the investment as an associate. During the year ended 31 December 2014, the Group had further acquired approximately 0.24% equity interest in Grand Pharm China Co., Limited ("Grand Pharm (China)") on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the Group's equity interest in Yangxin Fuxin was increased from 40.22% to 40.32%.

(b) Cardionovum Holding was an associate of the Company and Cardionovum Holding was established with individual third party. The Company had subscribed for approximately 33.33% of the enlarged issued share capital of the Cardionovum Holding pursuant to an agreement signed on 21 April 2015.

As at 31 December 2015, the Group held approximately 33.33% equity interest in Cardionovum Holding and are accounted for the investment as an associate.

The Group is able to exercise significant influence over Cardionovum Holding because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

The above table lists associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 **HK$'000**	2014 HK$'000
Unlisted securities:		
– Unlisted equity securities, at cost	**97,332**	39,844

The above unlisted equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

20. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

	2015 **HK$'000**	2014 HK$'000
Purchase of land use right (Note (a))	**–**	4,050
Purchase of plant machineries	**–**	968
Purchase of intangible assets (Note (b))	**7,592**	–
	7,592	5,018

Notes:

(a) On 11 September 2014, Jiangsu Grand Xianle Pharmaceutical Company Limited entered into an agreement with the relevant government authority to acquire certain assets including a land use right amounted to RMB3,190,000 (equivalent to approximately HK$3,988,000) within a specified period as stipulated in the agreement. As at 31 December 2015, the Group has obtained the land use right certificate.

(b) Hubei Grand Bio-technology Limited entered into an agreement to acquire certain pharmaceutical technology at RMB6,320,000 (equivalent to approximately HK$7,592,000). As at 31 December 2015, the Group was in the progress of obtaining the patent right.

21. GOODWILL

	HK$'000
At 1 January 2014	124,777
Exchange realignment	(95)
At 31 December 2014 and 1 January 2015	124,682
Arising on acquisition of subsidiaries (Note 40)	269,469
Exchange realignment	(13,562)
At 31 December 2015	**380,589**

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

- Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")
- Wuhan Kernel
- Hubei Wellness Pharmaceutical Co., Ltd ("Hubei Wellness")
- Beijing Rui Yao Technoloigy Limited ("Beijing Rui Yao")
- Beijing Jiu He Pharmaceutical Limited ("Jiu He")
- Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

21. GOODWILL *(Continued)*

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2015 HK$'000	2014 HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**16,823**	17,506
Hubei Wellness	**24,271**	25,258
Beijing Rui Yao	**25,920**	26,974
Jiu He	**193,183**	–
Tianjin Jingming	**65,448**	–
	380,589	124,682

Notes:

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2014: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2014: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 15% (2014: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2014: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2014: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2014: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

21. GOODWILL *(Continued)*

Notes: *(Continued)*

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2014: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2014: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Jiu He

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Tianjin Jingming

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 3% of market share per year. The values assigned to the assumption reflect past experience and are consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

22. PARTICULAR OF SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2015 and 2014 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2015	2014	Particulars of issued paid-up capital	Principal activities
Grand Pharm (China) (notes (iv), (vi), (vii) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.18% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (notes (ii) & (viii))	PRC/PRC	Limited liability company	**62.30% (indirect)**	62.30% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (note (viii))	PRC/PRC	Limited liability company	**82.29% (indirect)**	82.29% (indirect)	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	**67.00% (direct)**	67.00% (direct)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (notes (iii) & (viii))	PRC/PRC	Limited liability company	**80.90% (indirect)**	80.90% (indirect)	Contributed capital RMB57,368,880	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2015	2014	Particulars of issued paid-up capital	Principal activities
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.90% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajiin") (notes (viii), (x) & (xii))	PRC/PRC	Limited liability company	**71.88% (indirect)**	50.92% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the PRC
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB1,000,000	Treatment of sewage in the PRC
Jiu He (note (xiii))	PRC/PRC	Limited liability company	**96.84% (indirect)**	–	Contributed capital RMB20,000,000	Manufacture and sales of capsules, pharmaceutical intermediates, tablets, granules and soft capsules in the PRC
Tianjin Jingming (note (xiv))	PRC/PRC	Limited liability company	**73.18% (indirect)**	–	Contributed capital RMB1,000,000	Research and development, manufacture and sales of ophthalmic medical devices and disposable surgical product
Zhu Hai Cardionovum Medical Device Co. Ltd. ("Zhu Hai Cardionovum") (note (xv))	PRC/PRC	Limited liability company	**77.89% (indirect)**	–	Contributed capital USD330,000	Development, manufacture and sales of ophthalmic medical devices

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes:

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

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010 for the reason as mentioned therein.

During the year ended 2010, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

(v) Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 22 November 2012. The effective equity interest in Hubei Wellness held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB136.397 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.064 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.

(viii) Pursuant to share transfer agreement dated on 10 October 2014, Grand Pharm (China) has increased the paid-up capital to RMB470,000,000. The Group has paid RMB285,000,000 during the year ended 2014. After the payment of additional paid-up capital, the Group further acquire approximately 0.24% equity interest in Grand Pharm (China) at the consideration of RMB1.134million (representing approximately RMB4.725 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the equity interest held by the Group in Grand Pharm (China) was approximately 99.84%. As a result of the acquisition detail on notes (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 98.94% to 99.18%; Wuhan Grand Hoyo was increased from 62.15% to 62.30%; Hubei Fuchi was increased from 82.09% to 82.29%; Hubei Grand EBE was increased from 99.60% to 99.84%, Wuhan Kemel was increased from 80.70% to 80.90%. Hubei Wellness was increased from 99.60% to 99.84%; Huangshi Feiyun was increased from 59.76% to 59.90% and Beijing Huajin was increased from 50.80% to 50.92%.

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(ix) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Huangshi Feiyun. The effective equity interest in Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(x) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao acquisition, Grand Pharm (China) will own approximately 70.56% equity interest in Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(xi) The Group established and owned 99.84% equity interest in Fuchi Water. The effective equity interest in Fuchi Water held by the Group is 99.84% on 30 September 2014.

(xii) Pursuant to an agreement dated 11 December 2014, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 29.16% equity interest in Beijing Rui Yao on 1 January 2015. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao additional acquisition, the Group will own approximately 99.84% equity interest in Rui Yao and approximately 71.88% equity interest in Beijing Huajin indirectly through Rui Yao.

(xiii) Pursuant to an agreement dated 17 July 2015, Grand Pharm (China) entered into an agreement with Ningbo CDH Jinxiu Investment Management Company Limited (the "Ningbo CDH") to acquire 67.00% equity interest in Jiu He on 31 July 2015 and upon completion of Jiu He acquisition, the Group will own approximately 66.89% equity interest in Jiu He.

During the year ended 2015, a further 30.00% equity interest in Jiu He was acquired by Grand Pharm (China). As a result, the effective equity interest in Jiu He held by the Group was increased from 66.89% to 96.84%.

(xiv) Pursuant to an agreement dated 31 December 2014, Grand Pharm (China) entered into an agreement with Wu Liang and Fan Li Jin to acquire 73.30% equity interest in Tianjin Jingming on 1 January 2015. The effective equity interest in Tianjin Jingming held by the Group is 73.18% on 1 January 2015.

(xv) The Group established and owned 77.89% equity interest in Zhu Hai Cardionovum. The effective equity interest in Zhu Hai Cardionovum held by the Group is 77.89% on 9 October 2015.

(xvi) The above table lists the subsidiaries of the Group, which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors result in particulars of excessive lengths.

In addition, the directors of the Company made an assessment as at the date of initial application of HKFRS 12 and at the end of the reporting period. In the opinion of the directors, there is no subsidiary that has non-controlling interest individually that is material to the Group and therefore no information is disclosed for these non-wholly owned subsidiaries.

23. INTANGIBLE ASSETS

	Patents, trademarks and capitalised development cost HK$'000	Acquired patent rights HK$'000	Total HK$'000
Cost			
At 1 January 2014	–	86,212	86,212
Exchange realignment	–	(2,073)	(2,073)
At 31 December 2014 and 1 January 2015	–	84,139	84,139
Acquisition through business combinations	620,759	33	620,792
Exchange realignment	(23,407)	(3,290)	(26,697)
At 31 December 2015	597,352	80,882	678,234
Accumulated amortisation and impairment loss			
At 1 January 2014	–	3,430	3,430
Provided for the year (note 9)	–	12,422	12,422
Exchange realignment	–	(167)	(167)
At 31 December 2014 and 1 January 2015	–	15,685	15,685
Provided for the year (note 9)	–	12,181	12,181
Exchange realignment	–	(937)	(937)
At 31 December 2015	–	26,929	26,929
Net carrying amounts			
At 31 December 2015	**597,352**	**53,953**	**651,305**
At 31 December 2014	–	68,454	68,454

The economic useful life of recognised intangible assets are as follows:

Intangible assets	**Useful economic life**
Acquired patent rights	5 years – 7 years
Patents, trademarks and capitalised development cost	indefinite useful lives

The patents and trademarks will expire in the coming two to five years and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the patents and trademarks and consider that the possibility of failing in renewal is remote and the patents and trademarks will generate net cash flows for the Group for an indefinite period. Therefore, the patents and trademarks are treated as having an indefinite useful life.

For the purposes of impairment testing, goodwill, patents and trademarks above have been allocated to the acquired cash generating units, details of impairment assessment was set out in note 21. During the year ended 31 December 2015, the management of the Group determines that there is no impairment need of any of its CGUs containing goodwill, patents and trademarks.

24. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	Impairment loss on trade and other receivables
	HK$'000
At 1 January 2014	1,362
Exchange realignment	(68)
At 31 December 2014 and 1 January 2015	1,294
Exchange realignment	(50)
At 31 December 2015	**1,244**

As at 31 December 2015, the Group has unused tax losses of approximately HK$69,484,000 (2014: HK$62,800,000) available to offset against future profits. No deferred tax asset has been recognised during the year (2014: Nil). No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$69,484,000 (2014: HK$62,800,000) due to the unpredictability of future profit streams. The tax losses will expire 5 years from the year of origination, the tax losses of approximately HK$Nil (2014: HK$1,474,000) has been expired during the year.

25. PREPAYMENTS

The amount represented prepayment of RMB30,232,000 (equivalent to approximately HK$36,313,000) (2014: RMB17,886,000 (equivalent to approximately HK$22,358,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

The amount represented prepayment of RMB1,190,000 (equivalent to approximately HK$1,430,000) (2014:RMBNil) paid to PRC Government for the usage right of certain land.

26. LOAN RECEIVABLES

	2015 HK$'000	2014 HK$'000
Current portion	**33,632**	23,750
Non-current portion	**14,414**	26,250
	48,046	50,000

The amount is neither past due nor impaired for whom there was no recent history of default. The loan receivables are five year terms and non-secured.

The principle amount is RMB 40,000,000 (equivalent to approximately HK$48,046,000) (2014: RMB40,000,000 (equivalent to approximately HK$50,000,000)).

The effective interest rates on the Group's loan receivables are 5.40% (2014: 5.96%).

27. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK$'000	2014 HK$'000
Investment at fair value	**1,201**	50,000

As at 31 December 2015 and 2014, the Group's investment in wealth management products were designed at financial assets at FVTPL of which fair values are determined by reference to the quoted market bid prices available on the relevant PRC market.

28. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**121,483**	114,052
Work-in-progress	**223,804**	204,580
Finished goods	**279,284**	201,528
	624,571	520,160
Less: impairment loss	**(6,673)**	(6,030)
Add: reversal of impairment loss	**3,804**	2,435
	621,702	516,565

29. TRADE AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables, net	**465,703**	349,547
Bills receivables	**289,624**	314,940
Other receivables, deposits and prepayments	**315,029**	341,557
Less: impairment loss on other receivables	**(21,593)**	(24,295)
	1,048,763	981,749

The Group generally allows a credit period of 30 – 90 days to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	2015 HK$'000	2014 HK$'000
Within 90 days	**412,012**	324,148
91 – 180 days	**40,645**	28,951
181 – 365 days	**18,954**	8,305
Over 365 days	**19,026**	20,387
	490,637	381,791
Less: accumulated impairment loss	**(24,934)**	(32,244)
	465,703	349,547

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balances directly.

The Group does not hold any collated or other credit enhancement over its trade and other receivables balances. Trade and other receivables are non-interest bearing.

29. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) The movement in the impairment loss of trade receivables is as follows:

	2015 HK$'000	2014 HK$'000
Balance at the beginning of the year	**32,244**	31,303
Impairment losses recognised	**5,417**	8,521
Amounts written off during the year	**(1,576)**	–
Impairment losses reversed	**(8,774)**	(6,042)
Exchange realignment	**(2,377)**	(1,538)
Balance at the end of the year	**24,934**	32,244

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised.

(b) The movement in the impairment loss of other receivables is as follows:

	2015 HK$'000	2014 HK$'000
Balance at the beginning of the year	**24,295**	23,106
Impairment losses reversed	**(2,878)**	(2,110)
Amounts written off during the year	**(36)**	–
Impairment losses recognised on other receivables	**379**	3,645
Exchange realignment	**(167)**	(346)
Balance at the end of the year	**21,593**	24,295

(c) Ageing of trade receivables which are past due but not impaired:

Included in the Group's trade receivables balances are balances with aggregate carrying amount of HK$53,326,000 (2014: HK$25,956,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 113 days (2014: 98 days).

	2015 HK$'000	2014 HK$'000
Within 90 days	**39,701**	22,039
91 – 180 days	**13,625**	3,917
	53,326	25,956

30. CASH AND CASH EQUIVALENTS, PLEDGED BANK DEPOSITS AND BANK OVERDRAFT

	2015 HK$'000	2014 HK$'000
Cash in banks	**653,899**	460,374
Cash on hand	**88**	27
	653,987	460,401

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	2015 HK$'000	2014 HK$'000
HKD	**2,160**	1,268
USD	**22,296**	21,889
Euro	**4**	–
RMB	**629,527**	437,244
	653,987	460,401

As at 31 December 2015, bank deposits of approximately HK$38,659,000 (2014: HK$94,138,000) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2015, the annual effective interest rate on pledged bank deposits is 1.19% (2014: 4.00%). As at 31 December 2014, bank overdraft carries interest at market rate 5.88% per annum.

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

31. TRADE AND OTHER PAYABLES

	2015 HK$'000	2014 HK$'000
Trade payables	**357,921**	290,609
Bills payables	**295,022**	364,721
Accrued expenses and other payables	**528,972**	466,192
	1,181,915	1,121,522

31. TRADE AND OTHER PAYABLES *(Continued)*

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

	2015 HK$'000	2014 HK$'000
Within 90 days	**266,619**	212,334
Over 90 days	**91,302**	78,275
	357,921	290,609

The average credit period on purchases of goods is 90 days.

The bills payables are mature within six months from the end of the reporting period.

32. BANK BORROWINGS

	2015 HK$'000	2014 HK$'000
Bank borrowings (secured)	**2,724,620**	1,503,584
Carrying amount repayable:		
On demand or within one year	**1,962,484**	1,083,584
More than one year but not exceeding two years	**287,678**	420,000
More than two years but not more than five years	**360,348**	–
More than five years	**114,110**	–
	2,724,620	1,503,584

As at 31 December 2015 and 2014, certain bank loans are guaranteed by China Grand Enterprises Incorporation, a related company with common controlling shareholder of the Company, and secured by the allocated land, buildings, prepaid lease payments and bank deposits of the Group in the PRC as detailed in note 42 and independent third parties.

As at 31 December 2015, other than the amount of HK$519,352,000 (2014: HK$441,584,000) which are denominated in USD, the Group's other bank loans are denominated in RMB.

As at 31 December 2015 and 2014, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of HK$564,545,000 (2014: HK$691,626,000) that were charged at fixed interest rate of 3.40% to 6.16% (2014: 1.92% to 7.80%) per annum, all other bank loans bear variable interest rates from 0.83% to 7.45% (2014: 2.40% to 6.77%) per annum.

33. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 December 2013, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 5.6% per annum. The ownership of these manufacturing equipment under finance lease will be returned to the Group at the end of the lease terms. No arrangement have been entered into for contingent rental payments.

During the year ended 31 December 2015, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 5 years. Interest rates underlying all obligations under finance leases are (i) 1.033 times of; or (ii) 0.2% higher than the 1-5 years basic borrowing rate as promulgated by the People's Bank of China, whichever is higher. At the end of the lease term of the finance lease contract, Grand Pharm (China) will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 (equivalent to approximately HK$125). No arrangement have been entered into for contingent rental payments.

As at 31 December 2015 and 2014, the Group's finance lease liabilities were repayable as follows:

	2015 **HK$'000**	2014 HK$'000
Amounts payable under finance leases:		
Within one year	**56,687**	6,057
In the second to fifth year	**177,968**	2,019
	234,655	8,076
Future finance charges on finance lease	**(32,795)**	(350)
Present value of finance lease liabilities	**201,860**	7,726

The present value of finance lease liabilities is as follows:

	2015 **HK$'000**	2014 HK$'000
Current portion	**43,616**	5,733
Non-current portion	**158,244**	1,993
	201,860	7,726

The carrying amounts of the finance lease liabilities approximate their fair values. As at 31 December 2015 and 2014, The Group has lease property, plant and equipment under finance leases with net book value of HK$220,048,000 (2014: HK$ 7,340,000).

34. CONVERTIBLE BONDS

On 17 October 2014, the Company issued 3% denominated convertible bonds with the aggregate principal amount of HK$330,000,000 ("Convertible bonds"). Each bond entitles the holder to convert to Company's ordinary share at a conversion price of HK$ 1.35 and maturity on 17 October 2019.

The Company issued the Convertible bonds for the principal amount of HK$330 million to mainly finance the acquisition of 上海衛康光學眼鏡有限公司 (unofficially translated as "Shanghai Weicon Optics Co., Ltd.") (the "Acquisition") and general working capital. The Company does not have the intention to apply for the listing of the Convertible Bonds, therefore, an active market does not exist.

However, the Acquisition has been terminated on 28 May 2015, the net proceeds from the issue of the convertible bonds will no longer be used to finance the Acquisition. As a result, the Directors intend to use such unused proceeds (i) for financing potential mergers and acquisitions when opportunities arise in the future; and (ii) as the general working capital of the Group.

The proceeds from the issuance of the convertible bonds have been and will remain to be held in short-term deposits with licensed bank and authorised financial institutions in Hong Kong and the PRC.

The Convertible bonds may be converted into shares of the Company at any time on or after issue date up to the close of business on the maturity date.

Unless previously redeemed, converted, purchased and cancelled, the Company will redeem each Convertible bonds at its principal amount with accrued and unpaid interest thereon on the maturity date.

The Convertible bonds bear interest from and including the issue date at 3% per annum in arrears on 31 December in each year. The interest payable amount is calculated by 3% to outstanding principal amount of such Bonds.

The Convertible bonds contain two components: liability and equity elements. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component on initial recognition is 9.29% per annum. The valuation of Convertible bonds was performed by an independent qualified professional valuer of the Company.

As at 31 December 2015 and 2014, the Convertible bonds with the principal amount of HK$330,000,000 were outstanding and the maximum number of share to be converted is 244,444,000 shares.

There was no movement in the number of these convertible bonds during the year.

The carrying amounts of the Convertible bonds approximate to its fair value as at 31 December 2015 and 2014.

34. CONVERTIBLE BONDS *(Continued)*

The Convertible bonds information are presented as follows:

	Convertible bonds HK$'000
Principal amounts:	
– as at 31 December 2014	330,000
– as at 31 December 2015	330,000
Interest:	in HK$ settlement 3% p.a. payable per annum
Issue date:	17 October 2014
Maturity date:	17 October 2019
Conversion price per share:	HK$ 1.35
Risk free rate	1.45%
Discount rate	9.15% to 10.38%

The convertible bonds recognised in the statement of financial position were calculated as follows:

	Convertible bonds HK$'000
Principal amounts:	
Liability component	243,082
Equity component	86,918
Nominal value of Convertible bonds issued on 17 October 2014	330,000
Liability component at 17 October 2014	243,082
Imputed interest charge (note 10)	4,639
Less: interest paid	(2,062)
As at 31 December 2014	245,659
Imputed interest charge (note 10)	22,870
Less: interest paid	(9,900)
As at 31 December 2015	**258,629**

35. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Inventories HK$'000	Trade and other receivables HK$'000	Intangible assets HK$'000	Buildings and prepaid lease payments HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2014	–	–	11,456	38,744	–	50,200
Issuance of convertible bonds	–	–	–	–	14,341	14,341
Credited to profit or loss (note 11)	–	–	(2,162)	(1,531)	(766)	(4,459)
Exchange realignment	–	–	(618)	(488)	–	(1,106)
At 31 December 2014 and 1 January 2015	–	–	8,676	36,725	13,575	58,976
Fair value adjustment from acquisition of subsidiaries	4,085	47	93,114	410	–	97,656
Credited to profit or loss (note 11)	–	–	(2,132)	(1,480)	(3,774)	(7,386)
Exchange realignment	(156)	(2)	(3,794)	(1,417)	–	(5,369)
At 31 December 2015	**3,929**	**45**	**95,864**	**34,238**	**9,801**	**143,877**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$85,667,000 (2014: HK$61,760,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

36. AMOUNT DUE TO HOLDING COMPANY

As at 31 December 2015 and 2014, the amount is unsecured, interest bearing at 5% per annum and not repayable within next twelve months.

37. DEFERRED INCOME

The movement of deferred income is set out below:

	HK$'000
At 1 January 2014	385,046
Compensation received during the year (note 1 (c)/(d))	288,848
Exchange realignment	(12,880)
At 31 December 2014 and 1 January 2015	661,014
Received from acquisition of subsidiary (note 2(a)/note 40)	1,933
Exchange realignment	(28,603)
At 31 December 2015	**634,344**

Note 1

On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

37. DEFERRED INCOME *(Continued)*

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(a) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(b) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

(c) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. During the year ended 31 December 2014, RMB58,500,000 (equivalent to approximately HK$73,629,000) was received by Grand Pharm (China).

(d) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China). During the year ended 31 December 2014, RMB171,000,000 (equivalent to approximately HK$215,219,000) was received by Grand Pharm (China).

37. DEFERRED INCOME *(Continued)*

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the years ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the years ended 31 December 2012, the Group did not receive any Compensation. During the year ended 31 December 2013 and 2014, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) and RMB229,500,000 (equivalent to approximately HK$288,848,000) respectively.

Note 2

(a) The deferred income arises of approximately RMB1,526,000 (equivalent to approximately HK$1,833,000) as a result from the PRC Government financial support for the technology development. The consideration of the financial support included expanding investment in medical production size, ability to perform the quality production, obtain the Good Manufacturing Practices Certification and incurred the accumulated sales of RMB 6,700,000 for the mixed ocular surface detection testing paper. As at 31 December 2015, the Group did not achieve all consideration and obtain the approval from the PRC Government.

38. SHARE CAPITAL

	Number of shares at		Share capital at	
	31 December 2015 '000	31 December 2014 '000	**31 December 2015 HK$'000**	31 December 2014 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At 31 December 2014 and 31 December 2015 ordinary shares of HK$0.01 each	**1,962,041**	1,962,041	**19,620**	19,620

39. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2015 **HK$'000**	2014 HK$'000
Non-current assets		
Property, plant and equipment	**–**	–
Interest in associate	**234,391**	–
Interests in subsidiaries	**685,129**	694,535
	919,520	694,535
Current assets		
Other receivables	**838**	734
Cash and cash equivalents	**2,157**	1,238
	2,995	1,972
Current liabilities		
Other payables	**3,860**	1,284
Bank borrowing	**255,750**	–
Amount due to a subsidiary	**–**	1,560
	259,610	2,844
Net current liabilities	**(256,615)**	(872)
Total assets less current liabilities	**662,905**	693,663
Non-current liabilities		
Amount due to holding company	**23,057**	21,866
Deferred tax liabilities	**9,803**	13,575
Convertible bonds	**258,629**	245,659
	291,489	281,100
Net assets	**371,416**	412,563
Capital and reserves attributable to owners of the Company		
Share capital	**19,620**	19,620
Reserves	**351,796**	392,943
Total equity	**371,416**	412,563

The financial statement was approved and authorised for issue by the board of directors of the Company on 30 March 2016 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

39. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

Movements of the Company's reserve

	Share premium HK$'000	Contributed surplus HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014	281,949	121,273	–	(67,774)	335,448
Equity component of convertible bonds (note 34)	–	–	86,918	–	86,918
Deferred tax arising on issue of convertible bonds (note 35)	–	–	(14,341)	–	(14,341)
Loss and total comprehensive loss for the year	–	–	–	(15,082)	(15,082)
At 31 December 2014 and 1 January 2015	281,949	121,273	72,577	(82,856)	392,943
Loss and total comprehensive loss for the year	–	–	–	(41,147)	(41,147)
At 31 December 2015	**281,949**	**121,273**	**72,577**	**(124,003)**	**351,796**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

40. ACQUISITION OF SUBSIDIARIES

Jiu He

On 17 July 2015, Grand Pharm (China) has entered into an agreement to acquire 67.00% equity interest in Jiu He at a total consideration of approximately RMB452,220,000 (approximately HK$563,602,000) (the "Jiu He Acquisition"). The Jiu He Acquisition has been completed on 31 July 2015. The aggregate consideration of approximately RMB452,220,000 has been settled by cash.

Acquisition-related costs of approximately was HK$2,373,000 have been recognised as expenses in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Fair value recognised on acquisition HK$'000
Net assets acquired:	
Property, plant and equipment	48,249
Prepaid rental	1,792
Intangible assets	561,367
Inventories	76,535
Trade and other receivables	22,891
Cash and cash equivalents	9,140
Tax recoverable	723
Trade and other payables	(30,946)
Amounts due to former shareholders	(36,111)
Bank borrowings	(1,869)
Receipt in advance	(22,017)
Deferred tax liabilities	(87,728)
	542,026
Non-controlling interests	(178,869)
Goodwill arising on acquisition (note 21)	200,445
Total consideration	563,602
Satisfied by:	
Cash	563,602
Net cash outflow arising on Acquisition:	
Consideration paid in cash	(563,602)
Less: Cash and cash equivalents	9,140
	(554,462)

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

Jiu He *(Continued)*

The goodwill arising on the Jiu He Acquisition is attributable to the network of its manufacturing of capsules, pharmaceutical intermediates (Tremella Polysaccharide), tablets, granules and soft capsules. The recognition of the intangible assets and inventories have been referenced to the valuation report issued by an independent professional valuer.

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

Impact of acquisition on the results of the Group

Had the acquisition of Jiu He been effected at 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been HK$3,348,955,000 and the consolidated profit for the year would have been HK$226,543,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 31 July 2015, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

Tianjin Jingming

On 31 December 2014, Grand Pharm (China) has entered into an agreement to acquire 73.30% equity interest in Tianjin Jingming at a total consideration of approximately RMB91,300,000 (approximately HK$115,657,000). The acquisition has been completed on 9 January 2015. The aggregate consideration of approximately RMB91,300,000 has been settled by cash.

Acquisition-related costs of approximately of HK$254,000 have been recognised as expenses in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Fair value recognised on acquisition HK$'000
Net assets acquired:	
Property, plant and equipment	18,840
Intangible assets	59,425
Inventories	7,845
Trade and other receivables	1,951
Cash and cash equivalents	1,857
Trade and other payables	(13,876)
Deferred income	(1,933)
Tax liabilities	(561)
Deferred tax liabilities	(9,928)
	63,620
Non-controlling interests	(16,987)
Goodwill arising on acquisition (note 21)	69,024
Total consideration	115,657
Satisfied by:	
Cash	115,657
Net cash outflow arising on acquisition:	
Consideration paid in cash	(115,657)
Less: Cash and cash equivalents	1,857
	(113,800)

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The goodwill arising on the acquisition of Tianjin Jingming is attributable to the network of its international advanced technology which specialising in developing and distributing ophthalmic medical devices and surgical supplies. The recognition of the property, plant and equipment, intangible assets, inventories and trade and other receivables have been referenced to the valuation report issued by an independent professional valuer.

Impact of acquisition on the results of the Group

Had the acquisition of Tianjin Jingming been effected at 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been HK$3,246,546,000 and the consolidated profit for the year would have been HK$200,700,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 9 January 2015, nor is it intended to be a projection of future results.

41. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associate as disclosed in note 18 and holding company as disclosed in note 36, during the years ended 31 December 2015 and 2014, the Group entered into following transactions with its related parties:

	2015 HK$'000	2014 HK$'000
Interest charged to the Group by holding company (note (i))	**462**	465
Sales of goods to Yangxin Fuxin (note (ii))	**2,248**	2,275
Sales of goods to the companies with common controlling shareholder:		
華東醫藥股份有限公司 (unofficially translated as "Huadong Medicine Co., Ltd") (note (iii))	**24,947**	14,747
Purchase of goods from the companies with common controlling shareholder:		
Baoding Jinfu Biochemical Co., Ltd	**–**	29,222
江蘇遠大信誼藥業有限公司 (unofficially translated as "Jiangsu Grand Xin Yi Pharmaceutical Co., Ltd.") (note (iii))	**48,393**	35,508
遠大物產集團有限公司 (unofficially translated as "Grand Group Corporation Limited") (note (iii))	**3,965**	4,826

Notes:

(i) Interest was charged on an amount due to the holding company as disclosed in note 36.

(ii) Transactions were conducted with terms mutually agreed with the contracting parties.

(iii) The transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2015 and 2014 are set out in note 32.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2015 HK$'000	2014 HK$'000
Short-term benefits	**7,013**	7,196
Post-employment benefits	**98**	89
	7,111	7,285

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

42. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2015 HK$'000	2014 HK$'000
Prepaid lease payments (note 17)	**23,464**	6,847
Buildings (note 16)	**127,210**	–
Plant and machinery (note 16)	**175,399**	–
Discounted bills with recourse	**–**	17,458
Pledged bank deposits (note 30)	**38,659**	94,138
	364,732	118,443

43. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

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

	2015 HK$'000	2014 HK$'000
Within one year	**9,599**	1,933
In the second to fifth year, inclusive	**5,268**	601
	14,867	2,534

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to three years and rentals are fixed for an average of one to three years.

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$19,000 (2014: HK$11,000). The Group has no future minimum lease payments from tenants under non-cancellable operating lease.

(b) Capital commitment

	2015 HK$'000	2014 HK$'000
Capital expenditure contracted but not provided for: Acquisition of property, plant and equipment	**58,908**	27,063

44. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2014: HK$:1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2014: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately HK$43,086,000 (2014: HK$41,671,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

45. ACQUISITION OF ADDITIONAL EQUITY INTEREST OF SUBSIDIARIES

(i) During the year ended 31 December 2015, the Group acquired additional 20.16% equity interest in Beijing Rui Yao from the non-controlling interests of Beijing Rui Yao at a cash consideration of RMB7,000,000 (approximately HK$8,840,000). The Group recognised an increase in non-controlling interests and decrease in other reserve of approximately HK$4,483,000 and HK$13,323,000 respectively.

(ii) During the year ended 31 December 2015, the Group acquired additional 30.00% equity interest in Jiu He from the non-controlling interests of Jiu He at a cash consideration of RMB210,080,000 (approximately HK$256,193,000) and written off the amount due to a shareholder assigned of approximately RMB24,191,000 (approximately HK$29,501,000). The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$169,632,000 and HK$57,060,000 respectively.

(iii) During the year ended 31 December 2014, the Group acquired additional 0.24% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB1,134,000 (approximately HK$1,417,000). The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$1,343,000 and HK$74,000 respectively.

46. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after the end of the reporting period

47. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2016.

Financial Summary

Results

	Year ended 31 December				
	2015 **HK$'000**	2014 HK$'000	2013 HK$'000	2012 HK$'000	2011 HK$'000
Revenue	**3,245,546**	3,122,116	2,658,282	2,059,307	1,647,576
Profit before tax	**240,563**	202,921	132,280	115,535	99,464
Income tax expense	**(40,156)**	(27,198)	(26,994)	(10,830)	(12,793)
Profit for the year	**200,407**	175,723	105,286	104,705	86,671

Assets and liabilities

	As at 31 December				
	2015 **HK$'000**	2014 HK$'000	2013 HK$'000	2012 HK$'000	2011 HK$'000
Total assets	**6,633,385**	4,990,681	4,565,349	3,354,085	2,431,147
Total liabilities	**(5,229,046)**	(3,682,314)	(3,474,560)	(2,474,356)	(1,461,228)
Net assets	**1,404,339**	1,308,367	1,090,789	879,729	969,919