利君國際醫藥
(控股)有限公司
Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2005

Annual Report

2014

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Qu Jiguang *(Chairman)*
Mr. Wang Xianjun
Mr. Su Xuejun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Chan Ka Kit

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 4902-03, 49th Floor
Central Plaza, 18 Harbour Road
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Mr. Chan Ka Kit

AUDIT COMMITTEE

Mr. Chow Kwok Wai *(Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun *(Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

NOMINATION COMMITTEE

Mr. Wang Yibing *(Chairman)*
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House, 24 Shedden Road
George Town, Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
China Construction Bank
China Merchants Bank
China Minsheng Banking Corp., Ltd.
China CITIC Bank
Hang Seng Bank
China CITIC Bank International
Bank of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Bank of Hebei

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

PricewaterhouseCoopers

WEBSITE

http://www.lijun.com.hk

CHAIRMAN'S STATEMENT

On behalf of the Board, I hereby present the audited annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014.

1. RESULTS AND DIVIDEND DISTRIBUTION

Competition across the entire pharmaceutical industry was intense during the year as the low price tender strategy continued. The Group proactively rose to the difficulties and sustained strong momentum of growth for its operating results through different measures including acceleration of infrastructure construction, enhancement of product composition and development of new markets. The Company has further increased its market share, achieved a new high in its operating results and had new breakthroughs in its development.

During the year, sales revenue amounted to HK$2,923 million, of which HK$2,091 million was contributed by Shijiazhuang No. 4 Pharma. The Group's net profits amounted to HK$603 million, of which HK$526 million was contributed by Shijiazhuang No. 4 Pharma. Both sales revenue and net profits reached all-time high levels.

Following the resolution passed at the general meeting held on 10 October 2014, the Board declared the payment of a special dividend of HK$0.172 per share. For retaining an appropriate amount of cash for the acquisitions and mergers as well as the development of operations, the Board did not recommend any final dividend for the year. The total dividend for 2014 was HK$0.232 per share, amounting to HK$688 million in total, representing an increase of 487% from last year.

2. BUSINESS REVIEW

(1) Sales of Products

We continued enhancement of market share and consolidation of the Company's operating advantages. Centering on the theme of product composition adjustments, we focus the efforts on exploring new markets as well as the consolidation and reinforcement of our advantages on the existing market, and continue to expand the end-user coverage of the strong product types such as soft bag infusion solutions and therapeutic infusion solutions in order to effectively ensure the sustained high growth in the sales of the key products. We participate in the centralized tendering of certain provinces and regions in order to develop new markets in Anhui, Hainan, Hunan, Ningxia, Qinghai and Gansu and build a solid market foundation for the newly added production capacities. In 2014, the sales volume of intravenous infusion solution amounting 910 million bottles/bags was achieved, of which soft bags infusion solutions accounted for 400 million bags, representing a year-to-year growth of 42%.

Overseas markets have solid developments. The Company has completed the registration procedures for nearly 50 product specifications in 32 countries. Export remained on the track of fast growth, and the Company was named one of the top ten brands for the export of Chinese chemical pharmaceuticals for the fourth time.

Sales of oral preparations were carried out with tens of the top hundred chain pharmacies and large retailers in China with the production closely matched with the sales.

2. BUSINESS REVIEW *(CONTINUED)*

(2) Research and Development of New Products

The Company's innovation capabilities and strengths were reinforced and the construction of the innovation platform was perfected during the year. The Company was approved to become an innovative post-doctoral practice base in Hebei Province. Three Type 3 new drugs have entered the phase of clinical research, of which the clinical research of Blonanserin is approaching completion. In 2014, the permits for production of 100ml Pediatric Electrolyte Supplements Injection soft bags, 3000ml Mannitol Injection and 1000ml Sodium Lactate Ringer's Injection, as well as the product permit for 25 small liquid injections have been obtained. The clinical diagnosis and biochemical reagent of biological polypeptides and antibodies have commenced. The Company was named an Innovative Enterprise of Hebei Province and a Technology Innovation Model of the province in 2014.

In 2014, applications for 14 patents in total have been submitted to the State and 8 patents in total have been granted.

(3) Key Projects

The phase one relocation and upgrade of Shijiazhuang No. 4 Pharma's headquarters has completed. All construction works were on schedule. The GMP certification was granted and the operation commenced in March. The Company's production capacity for intravenous infusion solution thereby increased to 1.5 billion bottles/ bags, of which the soft bag infusion solutions accounted for over 60%, realizing significant growth in the overall scale and enhancement in the product composition of the Company.

(4) Disposal of Assets with Low Profit Margins

All entire assets and business of Xi'an Lijun were successfully disposed of during the year. As the Company expects that Xi'an Lijun with a focus on the antibiotics business will experience sluggish business growth in the coming few years and will require substantial investment to obtain the new GMP certification, the disposal of Xi'an Lijun will be favourable to the reallocation of the Company's resources to concentrate on business areas with stronger growth potential. In addition, it will also allow for the distribution of a special dividend to the Company's shareholders to increase their cash received.

The cash proceeds from the disposal of Xi'an Lijun amounted to HK$772 million. Based on the net assets of Xi'an Lijun as at the date of transaction as well as the disposal related expenses, the Company recorded an extraordinary gain of HK$61 million at the completion of the disposal.

Since 31 October 2014, the Company no longer held any interests in Xi'an Lijun, and the assets and operating results of Xi'an Lijun ceased to be consolidated in the financial statements of the Group from the same date.

3. DEVELOPMENT PROSPECTS

Looking forward to 2015, the pharmaceutical industry will continue to be significantly impacted by the State's and local healthcare reform policies. As 2015 may be a year of major tenders for pharmaceuticals, the entire pharmaceutical industry will be presented with enormous opportunities and challenges. The Company will capitalize on such opportunities to achieve new breakthroughs in production and sales composition adjustments. We will focus on securing the tenders for soft bag and vertical soft bag products in new markets, and endeavor to excel in the marketing of our strategic product such as soft bag rinsing solutions and therapeutic infusion solutions. Through the development of new markets and enhancement of market penetration in the existing markets, the Company will strive to fortify its industry-leading position in terms of the production and sales volume of soft bag infusion solutions.

This year, we target to attain the sales objective of 1.2 billion bottles and bags, in particular the sales volume of vertical soft bags and soft bags of 0.7 billion, in order to enhance the profitability of infusion products and thereby ensure the competitive strengths of the Company's products on the market.

We will continue to unswervingly implement the strategy of "going overseas", accelerate the pace of international registration and certification of our products, and enrich the types and specifications of the products for export incessantly, in order to ensure a growth rate of 40% for the sales of foreign trade sales.

We will proactively identify opportunities for acquisitions and mergers in the pharmaceutical industry. The intensification of market competition and the conduit of the State policies will trigger increased acquisitions and mergers in the pharmaceutical industry. The Company will capitalize on its own strengths to proactively identify such opportunities for acquisitions and mergers in order to consolidate the market position and product position of the Company.

In respect of new product development, the production permits for glycine rinsing solution, compound amino acid injection soft bags and compound electrolyte injection vertical bags are expected to be obtained in 2015, further enriching our product sales portfolio. We will strive to obtain the new drug certifications and product permits with the clinical research for three Type 3 new drugs, namely Blonanserin, Lacosamide and Roflumilast as soon as possible. The production permit for the three-in-one plastic ampule product is expected to be obtained to bring along a new business growth point for the Company. We will expedite the research and development and the approval of therapeutic infusion solutions to enhance the Company's product composition. With the aim of tracking the dynamics of development of innovation drugs in the international arena and thereby speeding up the launch of Type 3 new drugs as the first company in China, we will carry out drug type selection focusing on mental and neurological diseases, respiratory diseases, infectious diseases (viral, fungal and drug-resistant bacterial), dialysis and auxiliary treatment, rinsing solution and nutritious treatments. It is planned that over 20 Type 3 new drugs will be submitted for approval in 2015, with the objective of providing momentum for the Company's future development. We will commit to the development of antibiotics and biological technologies to propel the Company's innovation and transformation.

3. DEVELOPMENT PROSPECTS *(continued)*

We will sustain the Company's sound management strengths and promote the implementation of lean management. We will maximize the operating efficiency from costs and expenses perspective while ensuring the product quality, which will in turn provide management assurance on the development of the Company in the long run.

I would like to take this opportunity to express our gratitude to the investors and all staff in the Group for their support to the development of the Company.

Qu Jiguang
Chairman

Hong Kong, 27 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the year ended 31 December 2014, the revenue of the Group from continuing operations amounted to approximately HK$2,091,471,000, representing an increase of 21.4% as compared to HK$1,723,256,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2014 is set out as follows:

	2014		2013		
	Sales	**Percentage of sales**	Sales	Percentage of sales	Increase/ (decrease)
	HK$'000	**%**	*HK$'000*	%	%
Intravenous infusion solution	**1,940,665**	**92.8**	1,517,390	88.1	27.9
(Including: Non-PVC soft bag infusion solution	**1,139,167**	**54.5**	831,543	48.3	37.0
PP plastic bottle infusion solution	**555,842**	**26.6**	451,292	26.2	23.2
Glass bottle infusion solution)	**245,656**	**11.7**	234,555	13.6	4.7
Others	**150,806**	**7.2**	205,866	11.9	(26.7)
Total	**2,091,471**	**100**	1,723,256	100	21.4

The Group's intravenous infusion solution products are mainly manufactured and sold by Shijiazhuang No. 4 Pharma Co., Ltd ("Shijiazhuang No. 4 Pharma"), a wholly owned subsidiary. There are 3 forms of packing in intravenous infusion solution products, namely Non-PVC Soft Bag, PP Plastic Bottle and Glass Bottle.

Revenue for the year ended 31 December 2014 was HK$2,091,471,000 (2013: HK$1,723,256,000), representing a growth of 21.4% on a year-to-year basis. Among which, sales of intravenous infusion solution products contributed HK$1,940,665,000 (2013: HK$1,517,390,000), representing a growth of 27.9% on a year-to-year basis. Among which, sales of Non-PVC Soft Bag infusion solution was HK$1,139,167,000, representing 58.7% of the total sales of intravenous infusion solution and an increase of 37.0% as compared with last year; sales of PP Plastic Bottle infusion solution was HK$555,842,000, representing 28.6% of the total sales of intravenous infusion solution and an increase of 23.2% as compared with last year; sales of Glass Bottle infusion solution was HK$245,656,000, representing 12.7% of the total sales of intravenous infusion solution and a increase of 4.7% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the Non-PVC Soft Bag infusion solution and PP Plastic Bottle infusion solution.

COST OF SALES

The Group's cost of sales from continuing operations increased by 14.7% from HK$894,677,000 for the year ended 31 December 2013 to HK$1,026,068,000 for the year ended 31 December 2014. The cost of direct materials, direct labour and other costs represented approximately 66.4%, 11.5% and 22.1% of the total cost of sales respectively for the year ended 31 December 2014 while their comparative percentages for 2013 were 70.1%, 12.4% and 17.5% respectively.

GROSS PROFIT MARGIN

Gross profit of the Group from continuing operations in 2014 amounted to HK$1,065,403,000 (2013: HK$828,579,000), representing a gross profit margin of 50.9%, which increased by 2.8 percentage point comparing to that of last year (48.1%).

SELLING AND MARKETING COSTS

For the year ended 31 December 2014, selling and marketing costs from continuing operations amounted to approximately HK$262,716,000 (2013: HK$248,564,000), which mainly consisted of transportation cost of approximately HK$164,850,000 (2013: HK$147,449,000), travelling and other disbursements of approximately HK$42,544,000 (2013: HK$32,425,000) and salaries expenses of sales and marketing staff of approximately HK$20,320,000 (2013: HK$19,627,000).

The increase of 5.7% in selling and marketing costs in 2014 as compared with that of 2013 was mainly attributable to increase in sales of our products.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses from continuing operations amounted to HK$221,658,000 (2013: HK$178,368,000) for the year ended 31 December 2014 which mainly comprised salaries expenses of administrative staff of approximately HK$96,684,000 (2013: HK$90,137,000), depreciation and amortisation expenses of approximately HK$37,306,000 (2013: HK$30,484,000) and research and development expenses of approximately HK$37,249,000 (2013: HK$25,272,000).

The increase of 24.3% in general and administrative expenses from 2013 to that of 2014 was mainly attributable increases in salaries expenses of administrative staff, depreciation and amortisation expenses as well as research and development expenses due to expansion of the Group's operations and products.

OPERATING PROFIT

The Group's operating profit from continuing operations in 2014 amounted to HK$621,504,000 (2013: HK$473,979,000) with its operating profit margin (defined as operating profit divided by total revenue) increased to 29.7% (2013: 27.5%). The increase in operating profit margin in 2014 by 2.2 percentage point comparing to that of 2013 was mainly due to enhanced product mix and cost saving measures.

FINANCE COSTS

The finance costs from continuing operations in 2014 increased by 23.7% to HK$49,779,000 (2013: HK$40,243,000). Among which, interest expense on bank borrowings amounted to HK$44,736,000 (2013: HK$40,243,000). The increase in finance costs was mainly due to the increases in effective interest rates as compared to that of 2013.

INCOME TAX EXPENSE

Shijiazhuang No. 4 Pharma was qualified as the new high technology enterprise and entitled to a 15% preferential Mainland China Enterprise Income Tax ("EIT") rate in both 2014 and 2013. For the year ended 31 December 2014, the income tax expense from continuing operations increased by 21.4% to HK$88,582,000 (2013: HK$72,987,000).

DISCONTINUED OPERATIONS

During the year, the Group completed the disposal of Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun), and discontinued the operation of Xi'an Lijun ("discontinued operations") since 31 October 2014. Total profit for the year from discontinued operations, including the gain on disposal of Xi'an Lijun, amounted to HK$111,404,000 (2013: HK$42,513,000).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

Profit attributable to equity holders of the Company for the year amounted to HK$602,929,000 (2013: HK$411,814,000) with a net profit margin (profit attributable to equity holders of the Company for the year divided by total revenue from continuing operations and discontinued operations) of 20.6% (2013: 15.0%).

LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2014, the cash and cash equivalents aggregated to HK$325,224,000 (2013: HK$336,928,000), comprising HK$137,582,000 (2013: HK$247,913,000) of cash and cash equivalents denominated in Renminbi ("RMB"), HK$182,580,000 (2013: HK$86,060,000) in Hong Kong dollars and HK$5,062,000 (2013: HK$2,955,000) in other currencies.

The carrying amounts of the borrowings amounting to HK$871,927,000 (2013: HK$1,187,793,000) as at 31 December 2014, comprising HK$576,204,000 (2013: HK$896,494,000) of borrowings denominated in RMB, HK$201,008,000 (2013: HK$162,920,000) in Hong Kong dollars and HK$94,715,000 (2013: HK$128,379,000) in other currencies.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital less non-controlling interests) decreased from 22.9% as at 31 December 2013 to 14.4% as at 31 December 2014.

Current ratio (defined as current assets divided by current liabilities) increased from 1.11 as at 31 December 2013 to 1.46 as at 31 December 2014.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and Hong Kong dollars. The Group is of the opinion that its exposure to foreign exchange rate risk is limited. Hence, no financial instrument for hedging was employed. The Group is closely monitoring the financial market and would consider appropriate measures if required.

PLEDGE OF ASSETS

As at 31 December 2014, the net book amount of the Group's land use right of HK$60,760,000 (2013: HK$72,647,000) and the net book amount of the Group's buildings, plant and machineries of HK$301,820,000 (2013: HK$418,769,000) were pledged as collateral for the Group's bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities.

EXCHANGE RATE

As at 2014 and 2013, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2013	0.81085
31 December 2013	0.78623
31 December 2014	0.78887

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Qu Jiguang (曲繼廣), aged 60, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Qu is also the chief executive officer of the Company who is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has over 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress (河北省人大代表), Vice-Chairman of China Pharmaceutical Industry Association (中國化學製藥協會副會長), Vice-Chairman of Hebei Provincial Federation of Industry and Commerce (河北省工商聯副主席), Vice-Chairman of Hebei Provincial Association of Enterprise (河北省企業聯合會副會長), Vice-Chairman of Hebei Pharmaceutical Industry Association (河北省醫藥行業協會副會長).

Mr. Wang Xianjun (王憲軍), aged 52, an executive director. Mr. Wang has nearly 30 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang was also an independent non-executive director of Greater China Holding Limited from July 2002 to August 2005, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

Mr. Su Xuejun (蘇學軍), aged 46, an executive director and is responsible for marketing and management functions of Shijiazhuang No.4 Pharma. He joined No.1 Pharma as assistant to factory manager in 1990. And afterwards he served as deputy general manager of a subsidiary of the Shijiazhuang Pharmaceutical Group selling preparations. Since January 2002, Mr. Su acts as deputy general manager of Shijiazhuang No.4 Pharma. Since January 2007, Mr. Su acts as executive director of Shijiazhuang No.4 Pharma and New Orient. Since July 2013, Mr. Su acts as deputy chairman of Shijiazhuang No.4 Pharma. Mr. Su graduated from Hebei Normal University, majoring in biology, with a bachelor's degree. He focuses in the pharmaceutical market development, operations and management. He has extensive understanding and experience in the marketing and the policy in the related industries.

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wang Yibing（王亦兵）, aged 52, an independent non-executive Director. He graduated from Shenyang Pharmaceutical University, majored in pharmacy（瀋陽藥科大學藥學）. He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce（河北省醫藥行業協會）. Mr. Wang joined Heibei Provincial Pharmaceutical Research Centre（河北省藥物研究所）in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine（河北省醫藥管理局綜合經濟處）as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration（河北省食品藥品監督管理局藥品註冊處，藥品安全監管處）. Mr. Wang possesses over 30 years' experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun（梁創順）, aged 49, an independent non-executive Director. He is also an independent non-executive director of China National Materials Company Limited (Stock code: 1893) and China Communications Construction Company Limited (Stock code: 1800), companies listed on the Stock Exchange. He served as an independent non-executive director of China Metal Recycling (Holdings) Limited (Stock code: 773) from May 2009 to August 2013. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

Mr. Chow Kwok Wai（周國偉）, aged 48, was appointed as an Independent Non-executive Director of the Company on 16 October 2005. Mr. Chow is currently a Deputy General Manager and the Company Secretary of Silver Grant International Industries Limited ("Silver Grant"). He has worked in Price Waterhouse, which is now known as PriceWaterhouseCoopers, and has accumulated valuable audit experience there. Mr. Chow has over 20 years' of experience in accounting, financial management and corporate finance. Mr. Chow received his bachelor degree in Social Sciences from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. He is also a Certified Tax Adviser and a Fellow member of the Taxation Institute of Hong Kong. Mr. Chow is currently a non-executive director of Cinda International Holdings Limited ("Cinda") (stock code: 111) and an independent non-executive director of Youyuan International Holdings Limited ("Youyuan") (stock code: 2268). He was also an executive director of Silver Grant (stock code: 171) during the period from 20 April 2004 to 28 December 2012. The shares of Silver Grant, Cinda and Youyuan are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Chan Ka Kit (陳家傑), aged 40, is the chief financial officer and company secretary of the Company. He joined the Group in May 2013. Mr. Chan graduated from The City University of Hong Kong with Bachelor's of Art degree in Accountancy in 1997. He has worked in Deloitte Touche Tohmatsu for over 7 years and has accumulated valuable audit experience there. Mr. Chan has over 17 years of working experience in accounting, financial management and corporate finance. Prior to joining the Company, he has worked for a listed company as chief financial officer and company secretary whose shares are listed on the Main Board of the Stock Exchange for around 3 years. Mr. Chan is currently an independent non-executive director of Roma Group Limited (stock code: 8072) whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 9 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2014 is set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 35.

DIVIDENDS

An interim dividend of HK$0.06 per share was declared on 28 August 2014 and paid on 14 November 2014 (2013: HK$0.02 per share).

As resolved at the extraordinary general meeting on 10 October 2014, the Board declared the payment of a special dividend of HK$0.172 per share (2013: Nil). For the year ended 31 December 2014, the Board did not recommend any final dividend (2013: HK$0.02 per share) which, together with the interim dividend and the special dividend, will result in total dividends of HK$0.232 per share for the year ended 31 December 2014 (2013: HK$0.04 per share).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 114.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 7 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the consolidated statement of changes in equity and in note 16 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and in note 17 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company had distributable reserves of approximately HK$1,612,312,000 (2013: HK$1,319,378,000) calculated in accordance with the Companies Law of the Cayman Islands. This includes the Company's share premium account of approximately HK$1,313,850,000 (2013: HK$1,262,730,000) which is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 9,398,000 shares in November 2014 which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2014.

During the year, the Company acquired an aggregate of 9,398,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK$34,767,400 with a view to benefit shareholders as a whole in enhancing the net assets value and earnings per share of the Company. All of the purchased shares were subsequently cancelled on 28 November and 19 December 2014.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share *(HK$)*	Lowest price paid per share *(HK$)*	Aggregate consideration *(HK$)*
4 November 2014	3,998,000	3.72	3.64	14,816,600
25 November 2014	5,400,000	3.70	3.64	19,950,800
	9,398,000			34,767,400

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Old Share Option Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of the offer for grant of options, subject to the terms and conditions of Old Share Option Scheme and any conditions of grant as may be stipulated by the Board.

As at 7 August 2008, the Company granted 100,000,000 share options under the Old Share Option Scheme, representing about 4.93% of the issued share capital as at the date immediately before the options were granted to directors and senior management of the Group. The exercise price was HK$0.7. As at 4 October 2010, all of the 100,000,000 share options granted were exercised.

As at 3 May 2012, the Company granted 40,000,000 share options (being adjusted to 48,000,000 share options as a result of the Bonus Issue on 16 October 2012) under Old Share Option Scheme, representing about 1.64% of the issued share capital as at the date immediately before the options were granted to directors of the Group. The exercise price was HK$1.78 (being adjusted to HK$1.48 as a result of the Bonus Issue on 16 October 2012). During the year 2014, all of the 48,000,000 share options granted were exercised. Details are set out in the Company's announcement dated 24 June and 25 November 2014.

During the year 2012, the Board proposed the termination of Old Share Option Scheme and the adoption of the existing share option scheme ("Existing Share Option Scheme") which were approved by an ordinary resolution passed by the shareholders at the EGM held on 20 September 2012. The operation of Old Share Option Scheme was terminated such that no further share option could thereafter be offered under Old Share Option Scheme but in all other respects the provisions of Old Share Option Scheme shall remain in full force and effect.

Existing Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the "Scheme Period") unless terminated earlier by shareholders in general meeting. The purpose of Existing Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Existing Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Existing Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Pursuant to Existing Share Option Scheme, the offer for grant of options ("Offer") must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Existing Share Option Scheme and any conditions of grant as may be stipulated by the Board.

SHARE OPTION SCHEME *(Continued)*

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Existing Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Existing Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the "Scheme Mandate"). The Scheme Mandate may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10% of the issued share capital of the Company at the date of the shareholders' approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Existing Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders' approval is obtained under the terms of Existing Share Option Scheme.

As at 31 December 2014, no option has been granted under Existing Share Option Scheme since its adoption.

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Qu Jiguang	
Mr. Wang Xianjun	
Mr. Su Xuejun	(appointed on 15 December 2014)
Mr. Duan Wei	(resigned on 15 December 2014)
Mr. Wu Qin	(resigned on 4 June 2014)
Mr. Xie Yunfeng	(resigned on 4 June 2014)

Independent Non-executive Directors

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 86(3) and Article 87 of the Company's articles of association, Mr. Su Xuejun will retire from office and Mr. Wang Xianjun will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 11 to 13.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date renewable for successive terms of 3 years commencing from the day next after the expiry of the then current term of the appointment.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions", no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Save as disclosed under the heading "Connected transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

The interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

As at 31 December 2014

Name of Director	Capacity	Long/short position	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner	Long	157,592,000	5.31%
	Interest in a controlled corporation *(Note)*	Long	722,510,000	24.34%

Note: These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES *(Continued)*

Save as disclosed above, as at 31 December 2014, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that the Company had been notified of the following interests, being 5% or more in the issued share capital and underlying shares of the Company.

As at 31 December 2014

Name of Shareholder	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
CPCL *(Note 1)*	Beneficial owner	Long	722,510,000	24.34%
Mr. Qu Jiguang	Beneficial owner	Long	157,592,000	5.31%
	Interest in a controlled corporation *(Note 1)*	Long	722,510,000	24.34%
UBS Group AG *(Note 2)*	Interest in a controlled corporation	Long	164,675,515	5.54%
	Person having a security interest in shares	Long	1,746,000	0.06%
	Interest in a controlled corporation	Short	6,131,812	0.21%

Notes:

1. These shares were registered in the name of and beneficially owned by CPCL. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

2. Among the aggregate interests of UBS Group AG in the Company, 38,194 shares (long position) were held through physically settled derivatives (on exchange), 3,555,812 shares (short position) were held through physically settled derivatives (off exchange) and 2,576,000 shares (short position) were held through cash settled derivatives (off exchange).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2014, the Group had approximately 3,600 employees, most of whom were based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The remuneration policy of executive Directors and senior management are reviewed and recommended for the Board's approval by the Remuneration Committee. The remuneration package is reviewed with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group.

The total remuneration cost incurred by the Group for year ended 31 December 2014 was approximately HK$373,536,000 (2013: HK$355,872,000). Details of the remuneration of the Directors for the year ended 31 December 2014 are set out in note 29 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the Group purchased less than 30% of its total purchases from its 5 largest suppliers and sold less than 30% of its turnover to its 5 largest customers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 34 to the financial statements also fell under the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing connected transaction

(1) Distribution of the Group's products by Rejoy Technology Group (Xi'an Rejoy Technology Investment Co., Ltd. and its subsidiaries, including but not limited to Xi'an Rejoy Packaging Materials Co., Ltd.)

Xi'an Rejoy Technology Investment Co. Ltd., the issued share capital of which is held as to 100% by the former beneficial shareholders of Prime United Industries Limited, which owned approximately 26.28% interest in the Company before 4 June 2014, and is accordingly a connected person of the Company before 4 June 2014.

Pursuant to the Master Sale Agreement dated 18 December 2012, the Group agreed to sell and the Rejoy Technology Group agreed to purchase and distribute products of the Group for a term of three years commencing from 1 January 2013 and ending on 31 December 2015. The Rejoy Technology Group purchases products from the Group and distributes such products to other distributors and end customers. The prices and terms of the Master Sale Agreement are no less favourable to the Group than prices and terms available to independent third parties.

There was no sales of Group products to the Rejoy Technology Group for both years ended 31 December 2014 and 31 December 2013.

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transaction *(Continued)*

(2) Purchasing of raw materials and packaging materials from Rejoy Technology Group

Pursuant to the previous Master Purchase Agreement dated 18 December 2012, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group for a term of three years commencing from 1 January 2013 and ending on 31 December 2015. The prices and terms of the previous Master Purchase Agreement are no less favourable to the Group than prices and terms available from independent third parties.

For the year ended 31 December 2014, the total purchase of raw materials and packaging materials from the Rejoy Technology Group was RMB534,000 (2013: RMB3,624,000), which did not exceed the annual cap of RMB8,000,000 (2013: RMB8,000,000) prescribed for the year ended 31 December 2014 as disclosed in the announcement dated 18 December 2012.

The independent non-executive Directors have confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions to the Board of Directors. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 27 March 2015, and at all times during the year ended 31 December 2014.

CORPORATE GOVERNANCE

The Company's corporate governance practices is set out in the Corporate Governance Report on pages 23 to 29.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2014.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's annual results for the year ended 31 December 2014 in conjunction with the Group's external auditors.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

ANNUAL GENERAL MEETING

The 2015 Annual General Meeting of the Company will be held at 2:00 p.m. on 15 May 2015 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 13 May 2015 to Friday, 15 May 2015, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Tuesday, 12 May 2015.

SPECIAL DIVIDEND

In order to qualify for the special dividend approved at the extraordinary general meeting on 10 October 2014 and declared by the Board on 27 March 2015, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Tuesday, 12 May 2015 which is the Record Date for the special dividend. The special dividend is expected to be paid on or about Friday, 22 May 2015.

On behalf of the Board

Qu Jiguang
Chairman

Hong Kong, 27 March 2015

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance. The Board believes that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests.

The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year, the Company has complied with all applicable provisions of CG Code with deviation from code provision A.2.1 as set out below under the heading "Chairman and chief executive officer".

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2014.

BOARD OF DIRECTORS

As at 31 December 2014, the Board comprises three executive Directors, namely, Mr. Qu Jiguang (Chairman), Mr. Wang Xianjun and Mr. Su Xuejun, and three independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility for the management of the Group to the management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown under the section headed "Biographical Details of Directors and Senior Management". There are sufficient numbers of independent non-executive Directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers them to be independent.

BOARD OF DIRECTORS *(Continued)*

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company.

There are no financial, business, family and other material or relevant relationships among members of the Board.

During the year ended 31 December 2014, a total of five board meetings, one annual general meeting ("AGM") and one extraordinary general meeting ("EGM") were held and the attendance of each Director was as follows:

		Number of meetings attended/held		
Name of Director		**Board meetings**	**AGM**	**EGM**
Executive Directors				
Mr. Qu Jiguang *(Chairman)*		5/5	1/1	1/1
Mr. Wang Xianjun		5/5	1/1	1/1
Mr. Su Xuejun	(appointed on 15 December 2014)	1/1	0/0	0/0
Mr. Duan Wei	(resigned on 15 December 2014)	4/4	0/1	0/1
Mr. Wu Qin	(resigned on 4 June 2014)	2/2	0/1	0/0
Mr. Xie Yunfeng	(resigned on 4 June 2014)	2/2	0/1	0/0
Independent non-executive Directors				
Mr. Wang Yibing		5/5	0/1	0/1
Mr. Leung Chong Shun		5/5	0/1	0/1
Mr. Chow Kwok Wai		5/5	1/1	1/1

Notice of at least 14 days was given of a regular board meeting. For all other board meetings, reasonable notice will be given. All Directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Agendas and accompanying board papers were sent to all Directors at reasonable time before the intended date of meetings.

Minutes of board meetings and meetings of board committee were kept by Company Secretary and such minutes are open for inspection at reasonable time and on reasonable notice by any Director. Such minutes were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of such minutes were sent to all directors for their comment and record respectively within a reasonable time after the board meeting was held.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. The Company has a procedure to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold. Independent non-executive Directors who have no material interest in the transaction shall be present at such Board meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board appointed Mr. Qu Jiguang as the Chairman, who was responsible for the leadership and effective running of the Board. Mr. Qu Jiguang has also assumed the role as the chief executive officer of the Company, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Company believes that vesting both roles in Mr. Qu Jiguang will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

All Directors including independent non-executive Directors are appointed for a specific term which may be extended as each Director and the Company may agree. The Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

Also, at each annual general meeting, one-third of the Directors including independent non-executive Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that each Director shall be subject to retirement at least once every three years.

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to directors will be arranged whenever necessary. A record of the training are kept and updated by the Company Secretary of the Company.

During the year, all directors namely Mr. Qu Jiguang, Mr. Wang Xianjun, Mr. Su Xuejun, Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai have complied with the code provision A.6.5 of the CG Code through participating in continuous professional development in one or more of the following manners:

1. reading materials or attending seminars in relation to corporate governance and regulatory requirements;

2. attending seminars/courses/conferences to develop professional skills and knowledge; and

3. site visit.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

NOMINATION COMMITTEE

The Board has established the Nomination Committee. The Nomination Committee is chaired by Mr. Wang Yibing and with committee members of Mr. Leung Chong Shun and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Nomination Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

The principal roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board, identifying candidates and/or making recommendations to the Board on candidates nominated for directorships taking into account the candidates' qualification, knowledge and experience in the relevant areas.

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31 December 2014. Issues including the structure, size and composition of the Board were discussed and no change or nomination was recommended to the Board. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Wang Yibing	1/1
Mr. Leung Chong Shun	1/1
Mr. Chow Kwok Wai	1/1

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Remuneration Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

Remuneration Committee is responsible for formulation, review and recommending to the Board of the remuneration policy of executive Directors and senior management. The overriding objective of the remuneration policy is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary.

Other roles and functions of the Remuneration Committee include consulting the Chairman and/or Chief Executive Officer about their remuneration proposals for other executive Directors and senior management, reviewing and approving remuneration proposals with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group, making recommendations to the Board on the remuneration packages with adoption of the approach under B.1.2(c)(ii) of CG code and approving the terms of executive Directors' service agreements.

REMUNERATION COMMITTEE *(Continued)*

Meeting of the Remuneration Committee shall be held at least once a year. Three meetings had been held during the year ended 31 December 2014. During the meeting, remuneration paid to the Directors and review of remuneration policy have been discussed and recommended to the Board. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Leung Chong Shun	3/3
Mr. Wang Yibing	3/3
Mr. Chow Kwok Wai	3/3

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK$180,000 for each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. All the Directors are entitled to participate in the Share Option Scheme. The emolument payable to Directors depends on their respective contractual terms under the service agreement with the Company, and as recommended by the Remuneration Committee. Details of the remuneration of Directors for the year ended 31 December 2014 are set out in the page 101 of the Annual Report.

AUDIT COMMITTEE

The Board has established the Audit Committee and its terms of reference are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited. In compliance with Rule 3.21 of the Listing Rules, the Audit Committee comprises three independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun. No member of the Audit Committee is a member of the former or the existing auditor of the Company.

The major functions of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the external audit and internal control review processes, and to review the Company's policies and practices on corporate governance.

According to its terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings had been held during the year ended 31 December 2014. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Chow Kwok Wai	2/2
Mr. Leung Chong Shun	2/2
Mr. Wang Yibing	2/2

AUDIT COMMITTEE *(Continued)*

During the year, in performing its duties in accordance with its terms of reference and under the CG code, the work performed by the Audit Committee included:

(a) review the financial information of the Company and its subsidiaries, including those contained in the Annual Report and the Interim Report;

(b) discuss the audit approach and audit issues with the external auditor at least twice a year;

(c) recommend to the Board, for the approval by shareholders, of the re-appointment of the external auditor and approval of its remuneration; and

(d) oversee the Company's financial reporting system and internal control procedures.

ACCOUNTABILITY AND AUDIT

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects. The management provides such explanation and information to the Board and reports regularly to the Board and financial position of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in pages 30 to 31 of this Annual Report under the section headed "Independent Auditor's Report") for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report.

The Board is responsible for reviewing the effectiveness of the internal control system of the Group which covers all material controls, including financial, operational and compliance controls and risk management functions. The Board is committed to implementing an effective and sound internal control system to provide reasonable assurance against material misstatement or loss and to safeguard shareholders' interests and the Group's assets. During the year, a review of the effectiveness of the internal control system of the Group which covered all material controls was conducted. The report and findings of the review are taken into consideration by the Audit Committee in making its recommendation to the Board for approval of the audited consolidated financial statements of the Group for the year.

AUDITOR'S REMUNERATION

The fees paid and payable to the Company's auditor, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2014 amounted to approximately HK$2,411,000 and HK$1,650,000 respectively.

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary who is a full time employee of the Company. During the year, the Company Secretary had taken no less than 15 hours of relevant professional training requirement.

SHAREHOLDERS' RIGHTS

(1) Procedures for shareholders to convene an EGM

In accordance with the Company's Article 58, the shareholders of the Company 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 Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionists and deposit it to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionists concerned at the EGM varies according to the nature of the proposal, as follows:

– At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

– At least 21 clear days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company in the EGM.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

(2) Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at the EGM. The requirements and procedures are set out above.

(3) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong.

INVESTOR RELATIONS

The Company uses a number of channels to communicate with its shareholders, investors and other stakeholders. These include the AGM, annual and interim reports and quarterly statements, announcements, circulars to shareholders and the Company's website www.lijun.com.hk.

During the year, there was no change in the Company's constitutional documents.

羅兵咸永道

To the shareholders of
Lijun International Pharmaceutical (Holding) Co., Ltd.
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 113, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

pwc 羅兵咸永道

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2015

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	As at 31 December 2014 HK$'000	As at 31 December 2013 HK$'000
ASSETS			
Non-current assets			
Land use rights	6	**223,715**	386,295
Property, plant and equipment	7	**2,551,898**	2,438,408
Intangible assets	8	**338,834**	322,995
Deferred income tax assets	10	**2,591**	25,050
Available-for-sale financial assets	11	**—**	164
		3,117,038	3,172,912
Current assets			
Inventories	12	**279,557**	404,911
Trade and bills receivables	13	**703,287**	934,193
Prepayments, deposits and other receivables	14	**372,549**	144,913
Pledged bank deposits	15	**—**	90,051
Cash and cash equivalents	15	**325,224**	336,928
		1,680,617	1,910,996
Total assets		**4,797,655**	5,083,908
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**66,177**	65,405
Reserves	17		
— Special dividend to be declared/proposed final dividend	31	**510,587**	58,599
— Others		**2,675,738**	2,742,265
		3,252,502	2,866,269
Non-controlling interests		**668**	627
Total equity		**3,253,170**	2,866,896

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	As at 31 December 2014 HK$'000	As at 31 December 2013 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	**364,246**	455,019
Deferred income tax liabilities	10	**24,097**	26,905
Deferred revenue	19	**8,153**	10,863
Post-employment benefit obligation	20	**27**	9,289
		396,523	502,076
Current liabilities			
Borrowings	18	**507,681**	732,774
Trade and bills payables	21	**287,720**	490,461
Advanced receipts from customers		**8,706**	36,503
Accruals and other payables	22	**320,109**	415,371
Income tax payable		**23,746**	39,827
		1,147,962	1,714,936
Total liabilities		**1,544,485**	2,217,012
Total equity and liabilities		**4,797,655**	5,083,908
Net current assets		**532,655**	196,060
Total assets less current liabilities		**3,649,693**	3,368,972

The notes on pages 39 to 113 are an integral part of these consolidated financial statements.

The financial statements on page 32 to 113 were approved by the Board of Directors on 27 March 2015 and were signed on its behalf.

QU JIGUANG
Director

WANG XIANJUN
Director

BALANCE SHEET OF THE COMPANY

As at 31 December 2014

	Note	As at 31 December 2014 HK$'000	As at 31 December 2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**2,153**	634
Investments in subsidiaries and advance to a subsidiary	9	**1,007,455**	1,264,848
		1,009,608	1,265,482
Current assets			
Dividends receivable		**130,336**	257,148
Prepayments, deposits and other receivables	14	**278,941**	536
Amounts due from subsidiaries	9	**270,214**	50,740
Cash and cash equivalents	15	**175,459**	1,583
		854,950	310,007
Total assets		**1,864,558**	1,575,489
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**66,177**	65,405
Reserves	17		
— Special dividend to be declared/proposed final dividend	31	**510,587**	58,599
— Others		**1,275,428**	1,450,012
Total equity		**1,852,192**	1,574,016
LIABILITIES			
Current liabilities			
Accruals and other payables	22	**12,366**	1,473
		12,366	1,473
Total liabilities		**12,366**	1,473
Total equity and liabilities		**1,864,558**	1,575,489
Net current assets		**842,584**	308,534
Total assets less current liabilities		**1,852,192**	1,574,016

The notes on pages 39 to 113 are an integral part of these financial statements.

The financial statements on page 32 to 113 were approved by the Board of Directors on 27 March 2015 and were signed on its behalf.

QU JIGUANG
Director

WANG XIANJUN
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Continuing operations			
Revenue	23	**2,091,471**	1,723,256
Cost of sales	25	**(1,026,068)**	(894,677)
Gross profit		**1,065,403**	828,579
Selling and marketing costs	25	**(262,716)**	(248,564)
General and administrative expenses	25	**(221,658)**	(178,368)
Other income and other gains — net	24	**40,475**	72,332
Operating profit		**621,504**	473,979
Finance income	26	**8,425**	8,556
Finance costs	26	**(49,779)**	(40,243)
Finance costs — net		**(41,354)**	(31,687)
Profit before income tax		**580,150**	442,292
Income tax expense	27	**(88,582)**	(72,987)
Profit for the year from continuing operations		**491,568**	369,305
Discontinued operations			
Profit for the year from discontinued operations	33	**111,404**	42,513
Profit for the year		**602,972**	411,818
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(16,889)**	83,180
Total comprehensive income for the year		**586,083**	494,998
Profit attributable to:			
Equity holders of the Company		**602,929**	411,814
Non-controlling interests		**43**	4
		602,972	411,818
Profit attributable to equity holders of the Company arises from:			
Continuing operations		**491,525**	369,301
Discontinued operations		**111,404**	42,513
		602,929	411,814

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Total comprehensive income attributable to:			
Equity holders of the Company		**586,042**	494,975
Non-controlling interests		**41**	23
		586,083	494,998
Earnings per share from continuing and discontinued operations attributable to equity holders of the Company for the year			
Basic earnings per share			
From continuing operations	*30*	**0.1669**	0.1261
From discontinued operations	*30*	**0.0378**	0.0145
From profit for the year		**0.2047**	0.1406
Diluted earnings per share			
From continuing operations	*30*	**0.1660**	0.1255
From discontinued operations	*30*	**0.0376**	0.0145
From profit for the year		**0.2036**	0.1400

The notes on pages 39 to 113 are an integral part of these consolidated financial statements.

		2014 HK$'000	2013 HK$'000
Dividends (paid, to be declared or proposed)	*31*	**688,159**	117,198

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
Balance at 1 January 2013	65,405	2,423,087	2,488,492	604	2,489,096
Comprehensive income					
Profit for the year	—	411,814	411,814	4	411,818
Other comprehensive income					
Currency translation differences	—	83,161	83,161	19	83,180
Total comprehensive income	—	494,975	494,975	23	494,998
Transactions with equity holders					
Dividends paid to equity holders of the Company	—	(117,198)	(117,198)	—	(117,198)
Total transactions with equity holders	—	(117,198)	(117,198)	—	(117,198)
Balance at 31 December 2013	65,405	2,800,864	2,866,269	627	2,866,896
Balance at 1 January 2014	65,405	2,800,864	2,866,269	627	2,866,896
Comprehensive income					
Profit for the year	—	602,929	602,929	43	602,972
Other comprehensive income					
Currency translation differences	—	(16,887)	(16,887)	(2)	(16,889)
Total comprehensive income	—	586,042	586,042	41	586,083
Transactions with equity holders					
Purchase of treasury shares	—	(34,838)	(34,838)	—	(34,838)
Cancellation of treasury shares	(188)	188	—	—	—
Issurance of shares — exercise of share options	960	70,240	71,200	—	71,200
Dividends paid to equity holders of the Company	—	(236,171)	(236,171)	—	(236,171)
Total transactions with equity holders	772	(200,581)	(199,809)	—	(199,809)
Balance at 31 December 2014	66,177	3,186,325	3,252,502	668	3,253,170

The notes on pages 39 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**508,688**	716,342
Interest paid		**(73,499)**	(50,680)
Income tax paid		**(127,582)**	(67,740)
Net cash generated from operating activities		**307,607**	597,922
Cash flows from investing activities			
Purchase of land use rights		**(60,619)**	(144,748)
Purchase of property, plant and equipment		**(767,488)**	(758,529)
Purchase of intangible assets		**(24,853)**	(6,411)
Proceeds from disposals of property, plant and equipment	32(b)	**66,186**	26,180
Purchase of financial assets at fair value through profit or loss		**(44,943)**	(72,750)
Proceeds from sale of financial assets at fair value through profit or loss		**45,196**	72,105
Interest received		**4,233**	1,557
Proceeds from government grants related to equipment		**10,135**	—
Proceeds from disposal of a subsidiary	32(c)	**375,748**	—
Net cash used in investing activities		**(396,405)**	(882,596)
Cash flows from financing activities			
Proceeds from exercise of share options		**71,200**	—
Purchase of treasury shares		**(34,838)**	—
Proceeds from bank borrowings		**1,177,359**	912,675
Repayments of bank borrowings		**(993,890)**	(579,095)
Dividends paid to equity shareholders of the Company		**(236,171)**	(117,198)
Proceeds from suppliers' cash discount		**4,518**	—
Decrease/(Increase) of pledged bank deposits		**90,051**	(14,401)
Net cash generated from financing activities		**78,229**	201,981
Net decrease in cash and cash equivalents		**(10,569)**	(82,693)
Cash and cash equivalents at beginning of the year		**336,928**	411,783
Effect of foreign exchange rate changes on cash and cash equivalents		**(1,135)**	7,838
Cash and cash equivalents at end of the year		**325,224**	336,928

The notes on pages 39 to 113 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") are engaged in the research, development, manufacturing and selling of a wide range of finished medicines and bulk pharmaceutical products to hospitals and distributors. The Group has manufacturing plants in Hebei Province and Shaanxi Province, the People's Republic of China ("PRC" or the "Mainland China"), and sells to customers mainly in the Mainland China.

The Company is an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2005.

These consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 27 March 2015.

2. SUMMARY OF 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.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2014:

- Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

  Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(b) Standards, amendments and interpretations to existing standards effective in 2014 but not relevant to the Group.

		Effective for annual periods beginning on or after
Amendment to HKAS 39	Financial instruments: Recognition and measurement, on novation of derivatives	1 January 2014
Amendments to HKFRS 10, 12 and HKAS 27	Consolidation for investment entities	1 January 2014
HK (IFRIC) Interpretation 21 "Levies"	Provisions, contingent liabilities and contingent assets	1 January 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2014 and have not been early adopted:*

		Effective for annual periods beginning on or after
Amendment to HKAS 19	Defined benefits	1 July 2014
Amendments to HKAS 1	Presentation of financial statements	1 January 2016
Amendments to HKFRS 10	Consolidated financial statements	1 January 2016
Amendment to HKFRS 11	Joint arrangements	1 January 2016
Amendments to HKFRS 12	Disclosure of interests in other entities	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments to HKAS 16	Property, plant and equipment	1 January 2016
Amendment to HKAS 27	Consolidated and separate financial statements	1 January 2016
Amendments to HKAS 28	Investment in associates	1 January 2016
Amendments to HKAS 38	Intangible assets	1 January 2016
Amendments to HKAS 41	Agriculture	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2014 and have not been early adopted: (continued)*

Apart from the above, the HKICPA has issued the annual improvements project which addresses several issues in the 2010-2012 reporting cycle, 2011-2013 reporting cycle, 2012-2014 reporting cycle, and includes changes to the following standards. The Group has not applied the following revised HKFRSs published in the annual improvements project.

		Effective for annual periods beginning on or after
HKFRS 2	Share-based payment	1 July 2014
HKFRS 3	Business combinations	1 July 2014
HKFRS 8	Operating segments	1 July 2014
HKFRS 9	Financial instruments	1 July 2014
HKFRS 13	Fair value measurement	1 July 2014
HKAS 16	Property, plant and equipment	1 July 2014
HKAS 24	Related Party Disclosures	1 July 2014
HKAS 37	Provisions, contingents liabilities and contingent assets	1 July 2014
HKAS 38	Intangible assets	1 July 2014
HKAS 39	Financial instrument — recognition and measurement	1 July 2014
HKAS 40	Investment property	1 July 2014
HKFRS 5	Non-current assets held for sale and discontinued operations	1 July 2016
HKFRS 7	Financial instruments: Disclosures	1 July 2016
HKAS 19	Employee benefits	1 July 2016
HKAS 34	Interim financial reporting	1 July 2016

The Group is assessing the full impact of the amendments and standards, and according to the preliminary assessment, there is no significant impact on the consolidated financial statements. The Group intends to adopt the amendments no later than the respective effective dates of the amendments.

(d) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income (Note 2.7).

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts represented by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transaction that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is HK dollars (HK$) and the functional currency of the majority of the Group's companies is Renminbi ("RMB"). The consolidated financial statements are presented in HK$.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income and other gains — net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipments are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Buildings	10-40 years
– Plant, machinery and tools	5-18 years
– Furniture, fixtures and office equipment	5-10 years
– Vehicles	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment *(continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net', in the consolidated statement of comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Land use rights

All land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights, which are amortised to the consolidated statement of comprehensive income on a straight-line basis over the periods of the leases, or when there is impairment, the impairment losses is changed in the consolidated statement of comprehensive income.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Intangible assets *(continued)*

(b) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

– Trademarks	50 years
– Patents	8-10 years

(c) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 years.

(d) Computer softwares

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific softwares. These costs are amortised over their estimated useful lives (5-10 years).

(e) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Intangible assets *(continued)*

(e) ***Research and development costs*** *(continued)*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding ten years.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and bill receivables', other receivables in the 'Prepayments, deposits and other receivables', 'pledged bank deposits', and 'cash and cash equivalents' in the balance sheet (Notes 2.14 and 2.15 respectively).

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'other gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other gains and income when the Group's right to receive payments is established.

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of 'other gains – net' when the Group's right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Available-for-sale financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Borrowing costs

General and specific 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.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Current and deferred income tax *(continued)*

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

(i) Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,500 (changed from HK$1,250 since July 2014) per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in the Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

(ii) Post–employment benefits

Some group companies provide post-retirement benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of these benefits obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. These obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of these obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the consolidated statement of comprehensive income in the period in which they arise.

Past service cost is the change in the present value of these benefits obligations resulting from a plan amendment or curtailment. Past service cost is recognised as an expense at the earlier of the following dates: when the plan amendment or curtailment occurs; and when related restructuring costs or termination benefits is recognised. A plan amendment occurs when the Group introduces, or withdraws these post-employment benefits or changes the benefits payable under an existing benefit plan. A curtailment occurs when the Group significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

Past-service costs are recognised immediately in the consolidated statement of comprehensive income, unless the changes to the post-employment benefits are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Employee benefits *(continued)*

(b) Share-based compensation

(i) Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Employee benefits *(continued)*

(b) ***Share-based compensation*** *(continued)*

(ii) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(c) ***Employee leave entitlements***

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(d) ***Bonus plan***

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.22 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to purchases of land use rights and property, plant and equipment are included in non-current liabilities and recognised in the consolidated statement of comprehensive income over the life of depreciable assets by way of a reduced depreciation or amortisation charge.

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement:

(i) Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when a group company has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income is recognised on a straight-line basis over the terms of the leases.

2.25 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.27 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) As a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(b) As a lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. The revenue from operating lease is charge to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.28 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.29 Dividend distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by certain board members under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the Mainland China, with most of its transactions denominated and settled in RMB. The Group is exposed to foreign exchange risk primarily arising from HK$ since certain cash and cash equivalents and borrowings are denominated in HK$. The Group is also exposed to foreign exchange risk through transactions that are denominated in a currency other than the functional currencies of the Company and its subsidiaries.

The Group manages its foreign exchange risks by performing regular review and monitoring its foreign currency exposures. It has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

At 31 December 2014, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's profit before tax for the year would have been HK$ 15,213,931 (31 December 2013: HK$ 9,456,819 higher/lower) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents, trade and bills receivables, trade and bills payables, and borrowings.

(ii) Price risk

The Group is exposed to equity securities price risk because certain investments held by the Group are classified on the consolidated balance sheet as at fair value through profit or loss. The Group has not hedged its price risk arising from investments in financial assets at fair value through profit or loss.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Cash flow and fair value interest rate risk

Except for its pledged bank deposits and cash at banks totalled HK$325,216,000 as at 31 December 2014 (31 December 2013: HK$426,830,000), which carried a weighted average interest rate of 1.22% (31 December 2013: 0.42%) per annum, the Group has no significant interest-bearing assets.

The Group's interest bearing liabilities are bank borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2014, if interest rate had increased/decreased by 0.5 percentage-point and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2014 would have been decreased/increased by approximately HK$2,075,000 (31 December 2013: 0.5 percentage-point, HK$1,891,000). This relates primarily to interest expense on floating rate bank borrowings.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of its pledged bank deposits, cash and cash equivalents, trade and bills receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

Debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

As at 31 December 2014, 93% (31 December 2013: 82%) of the Group's bank deposits are placed in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

	2014	2013
	HK$'000	*HK$'000*
State-owned banks	**82,522**	88,822
Listed banks	**221,436**	187,238
Other financial institutions	**21,258**	60,719
Total	**325,216**	336,779

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers (Note 13). As at 31 December 2014, majority of trade receivables are due from customers having an appropriate credit history.

As at 31 December 2014, 26% (31 December 2013: 33%) of the Group's total trade and bills receivables are bank acceptance notes, the credit risks of which rest with the acceptance banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the acceptance banks.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow. The Group aims to maintain flexibility in funding by keeping adequate banking facilities available.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

The table below analyses the Group's financial liabilities (including contractually committed interest payments) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	More than 5 years *HK$'000*	Total *HK$'000*
At 31 December 2014					
Borrowings	**507,681**	**175,369**	**143,243**	**45,634**	**871,927**
Interests payables on borrowings	**33,241**	**15,087**	**21,550**	**2,780**	**72,658**
Trade and bills payables	**287,720**	**—**	**—**	**—**	**287,720**
Accruals and other payables	**244,722**	**—**	**—**	**—**	**244,722**
	1,073,364	**190,456**	**164,793**	**48,414**	**1,477,027**
At 31 December 2013					
Borrowings	732,774	246,098	154,611	54,310	1,187,793
Interests payables on borrowings	49,600	14,588	17,480	5,166	86,834
Trade and bills payables	490,461	—	—	—	490,461
Accruals and other payables	304,932	—	—	—	304,932
	1,577,767	260,686	172,091	59,476	2,070,020

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the Company's shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital less non-controlling interests. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital less non-controlling interests is calculated as total equity less non-controlling interests plus net debt.

The gearing ratios at 31 December 2014 and 2013 were as follows:

	2014	2013
	HK$'000	*HK$'000*
Total borrowings *(Note 18)*	**871,927**	1,187,793
Less: Cash and cash equivalents *(Note 15)*	**(325,224)**	(336,928)
Net debt	**546,703**	850,865
Total equity less non-controlling interests	**3,252,502**	2,866,269
Total capital less non-controlling interests	**3,799,205**	3,717,134
Gearing ratio	**14.4%**	22.9%

The decrease in the gearing ratio during 2014 resulted primarily from the disposal of a subsidiary (Note 32(c)).

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

As of 31 December 2014, the Group did not have any financial instruments carried at fair value (31 December 2013: Nil).

The carrying values of receivables (net of impairment provision) and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in Note 2.7. The recoverable amount of CGUs has been determined based on the higher of value in use and fair value less costs of disposal.

The Group measured the value in use and fair value less costs of disposal of by discounting the future estimated cash flow deriving from the CGUs. These calculations required the Group to estimate the expected future cash flows from the CGUs and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Useful lives of property, plant and equipments

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

(c) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. These estimates are based on the credit history of its customers and other debtors and current market condition. The Group's management reassesses the provision at each balance sheet date.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in industry environment and competitor actions. Management reassesses the estimates at each balance sheet date.

(e) Current tax and deferred tax

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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 income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

(f) Estimated impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(f) Estimated impairment of property, plant and equipment *(continued)*

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of comprehensive income.

5. SEGMENT INFORMATION – GROUP

The chief operating decision-maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the business from a product perspective, which assesses the performance of two product segments, namely intravenous infusion solution and others, and antibiotics and others. The entire product segment of antibiotics and others was disposed during the year ended 31 December 2014 along with the disposal of a subsidiary (Note 32(c)).

The executive directors assess the performance of the operating segments based on a measure of revenue and profit. This measurement is consistent with that in the annual consolidated financial statements.

Unallocated operating loss was mainly attributable to corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bill receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. Unallocated assets mainly comprise corporate cash.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

5. **SEGMENT INFORMATION – GROUP** *(continued)*

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2014 is as follows:

	Continuing operations			
	Intravenous infusion solution and others *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK'000*	**Discontinued operations — Antibiotics and others** *HK$'000*
Revenue	2,091,471	—	2,091,471	831,904
Operating profit segment results	639,577	(18,073)	621,504	74,619
Finance income	7,956	469	8,425	326
Finance costs	(46,276)	(3,503)	(49,779)	(15,309)
Profit before income tax	601,257	(21,107)	580,150	59,636
Income tax expense	(75,217)	(13,365)	(88,582)	(9,296)
Profit for the year	526,040	(34,472)	491,568	50,340
Net gain on disposal of investments in a subsidiary	—	—	—	80,512
Withholding tax charge related to dividends from a disposed subsidiary and other disposal related expenses	—	—	—	(19,448)
Total profit for the year	526,040	(34,472)	491,568	111,404

5. SEGMENT INFORMATION – GROUP *(continued)*

Other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2014 are as follows:

	Continuing operations			
	Intravenous infusion solution and others *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*	**Discontinued operations — Antibiotics and others** *HK$'000*
Amortisation of land use rights	**4,176**	**—**	**4,176**	**4,999**
Depreciation of property, plant and equipment	**152,327**	**437**	**152,764**	**26,214**
Amortisation of intangible assets	**3,550**	**—**	**3,550**	**1,080**
Reversal of provision for write-down of inventories	**—**	**—**	**—**	**(1,927)**
Provision/(reversal of provision) for impairment of receivables	**741**	**—**	**741**	**(680)**

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2013 is as follows:

	Continuing operations			
	Intravenous infusion solution and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Discontinued operations — Antibiotics and others *HK$'000*
Revenue	1,723,256	—	1,723,256	1,022,060
Operating profit segment results	494,939	(20,960)	473,979	64,851
Finance income	8,555	1	8,556	554
Finance costs	(40,243)	—	(40,243)	(14,220)
Profit before income tax	463,251	(20,959)	442,292	51,185
Income tax expense	(72,987)	—	(72,987)	(7,180)
Profit for the year	390,264	(20,959)	369,305	44,005
Witholding tax charge related to dividends from a disposed subsidiary	—	—	—	(1,492)
Total profit for the year	390,264	(20,959)	369,305	42,513

5. SEGMENT INFORMATION – GROUP *(continued)*

Other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2013 are as follows:

	Continuing operations			
	Intravenous infusion solution and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Discontinued operations — Antibiotics and others *HK$'000*
Amortisation of land use rights	3,343	—	3,343	3,995
Depreciation of property, plant and equipment	109,544	363	109,907	23,952
Amortisation of intangible assets	2,485	—	2,485	1,622
Provision for write-down of inventories	—	—	—	2,310
Provision/(reversal of provision) for impairment of receivables	687	—	687	(2,561)

The segment assets and liabilities at 31 December 2014 are as follows:

	Continuing operations			
	Intravenous infusion solution and others ***HK$'000***	**Unallocated** ***HK$'000***	**Total** ***HK$'000***	**Discontinued operations — Antibiotics and others** ***HK$'000***
Total assets	**4,341,102**	**456,553**	**4,797,655**	**—**
Total liabilities	**1,532,119**	**12,366**	**1,544,485**	**—**
Additions to non-current assets	**872,047**	**1,956**	**874,003**	**46,610**

5. SEGMENT INFORMATION – GROUP *(continued)*

The segment assets and liabilities at 31 December 2013 are as follows:

	Continuing operations			
	Intravenous infusion solution and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Discontinued operations — Antibiotics and others *HK$'000*
Total assets	3,654,107	2,753	3,656,860	1,427,048
Total liabilities	1,740,963	1,473	1,742,436	474,576
Additions to non-current assets	848,287	—	848,287	205,263

The total of non-current assets were as follows:

	2014 ***HK$'000***	2013 *HK$'000*
Total non-current assets other than deferred tax assets		
— Mainland China	**3,112,294**	3,147,228
— Hong Kong	**2,153**	634
Deferred tax assets	**2,591**	25,050
Total non-current assets	**3,117,038**	3,172,912

The executive directors have also determined that no geographical segment information is presented as over 95% of the Group's sales and operating profits are derived within the PRC and over 95% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

6. LAND USE RIGHTS – GROUP

	2014	2013
	HK$'000	*HK$'000*
At 1 January		
Cost	**420,351**	265,037
Accumulated amortisation	**(34,056)**	(25,796)
Net book amount	**386,295**	239,241
Year ended 31 December		
Opening net book amount	**386,295**	239,241
Additions	**60,619**	144,748
Amortisation	**(9,175)**	(7,338)
Disposal of a subsidiary *(Note 32(c))*	**(211,654)**	—
Currency translation differences	**(2,370)**	9,644
Closing net book amount	**223,715**	386,295
At 31 December		
Cost	**241,346**	420,351
Accumulated amortisation	**(17,631)**	(34,056)
Net book amount	**223,715**	386,295

Land use rights are located in Hebei Province and Shaanxi Province, the Mainland China, and are held on leases of 37 to 50 years from the dates of acquisition.

As at 31 December 2014, the Group's land use rights with net book amount of HK$60,760,000 (31 December 2013: HK$72,647,000) were pledged as collateral for the Group's bank borrowings (Note 18).

For the year ended 31 December 2014, amortisation of land use rights of HK$4,176,000 (2013: HK$3,343,000) was recognised in general and administrative expenses and remaining HK$4,999,000 (2013: HK$3,995,000) was included in "profit for the year from discontinued operations".

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant, Machinery and tools HK$'000	Furniture, Fixtures and office equipment HK$'000	Vehicles HK$'000	Construction-In-progress HK$'000	Total HK$'000
At 1 January 2013						
Cost	741,002	1,148,446	102,960	56,245	251,318	2,299,971
Accumulated depreciation	(137,597)	(445,990)	(49,241)	(31,120)	—	(663,948)
Impairment losses	—	(5,799)	—	—	—	(5,799)
Net book amount	603,405	696,657	53,719	25,125	251,318	1,630,224
Year ended 31 December 2013						
Opening net book amount	603,405	696,657	53,719	25,125	251,318	1,630,224
Additions	893	126,534	24,502	8,072	742,390	902,391
Transfers	(16,595)	11,228	35	230	5,102	—
Disposals	—	(21,877)	(1,021)	(315)	—	(23,213)
Depreciation	(29,013)	(84,247)	(14,321)	(6,278)	—	(133,859)
Currency translation differences	18,195	22,483	1,800	813	19,574	62,865
Closing net book amount	576,885	750,778	64,714	27,647	1,018,384	2,438,408
At 31 December 2013						
Cost	747,668	1,272,167	128,945	65,004	1,018,384	3,232,168
Accumulated depreciation	(170,783)	(515,634)	(64,231)	(37,357)	—	(788,005)
Impairment losses	—	(5,755)	—	—	—	(5,755)
Net book amount	576,885	750,778	64,714	27,647	1,018,384	2,438,408
Year ended 31 December 2014						
Opening net book amount	576,885	750,778	64,714	27,647	1,018,384	2,438,408
Additions	85,464	349,588	56,327	7,637	336,125	835,141
Transfers	533,070	299,629	23,900	—	(856,599)	—
Disposals	(4,976)	(53,891)	(2,832)	(365)	—	(62,064)
Depreciation	(39,667)	(122,839)	(9,931)	(6,541)	—	(178,978)
Disposal of a subsidiary *(Note 32(c))*	(238,848)	(184,550)	(6,482)	(9,695)	(29,438)	(469,013)
Currency translation differences	(3,831)	(4,304)	(360)	(143)	(2,958)	(11,596)
Closing net book amount	908,097	1,034,411	125,336	18,540	465,514	2,551,898
At 31 December 2014						
Cost	1,016,819	1,346,805	160,600	35,082	465,514	3,024,820
Accumulated depreciation	(108,722)	(312,394)	(35,264)	(16,542)	—	(472,922)
Net book amount	908,097	1,034,411	125,336	18,540	465,514	2,551,898

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

Group *(continued)*

The buildings are located in Hebei Province and Shaanxi Province, the Mainland China.

Construction-in-progress represents buildings under construction and plant and machinery pending installation. The buildings under construction are located in Hebei Province and Shaanxi Province, the Mainland China.

Depreciation expense recognised in the consolidated statement of comprehensive income is analysed as follows:

	2014	2013
	HK$'000	*HK$'000*
Continuing operations		
— Cost of sales	**119,942**	82,686
— Selling and marketing costs	**3,242**	2,565
— General and administrative expenses	**29,580**	24,656
	152,764	109,907
Discontinued operations	**26,214**	23,952
	178,978	133,859

As at 31 December 2014, buildings, plant, machinery and tools with a net book amount of HK$301,820,000 (31 December 2013: HK$418,769,000) were pledged as collateral for the Group's bank borrowings (Note 18).

During the year, the Group has capitalised borrowing costs amounting to HK$15,761,000 (2013: Nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its borrowings of 6.29% (2013: Nil) per annum.

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

Company

	Furniture, fixtures and office equipment *HK$'000*	Vehicles *HK$'000*	Total *HK$'000*
At 1 January 2013			
Cost	2,962	2,227	5,189
Accumulated depreciation	(1,965)	(2,227)	(4,192)
Net book amount	997	—	997
Opening net book amount	997	—	997
Depreciation	(363)	—	(363)
Closing net book amount	634	—	634
At 31 December 2013			
Cost	2,962	2,227	5,189
Accumulated depreciation	(2,328)	(2,227)	(4,555)
Net book amount	634	—	634
Year ended 31 December 2014			
Opening net book amount	634	—	634
Addition	1,956	—	1,956
Depreciation	(437)	—	(437)
Closing net book amount	2,153	—	2,153
At 31 December 2014			
Cost	4,918	2,227	7,145
Accumulated depreciation	(2,765)	(2,227)	(4,992)
Net book amount	2,153	—	2,153

8. INTANGIBLE ASSETS – GROUP

	Goodwill	Trademark and patents	Softwares	Customer relationships	Internally generated research and development costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013						
Cost	472,162	71,748	7,026	74,416	1,155	626,507
Accumulated amortisation	—	(16,113)	(1,462)	(74,416)	—	(91,991)
Impairment losses	(223,552)	—	—	—	—	(223,552)
Net book amount	248,610	55,635	5,564	—	1,155	310,964
Year ended 31 December 2013						
Opening net book amount	248,610	55,635	5,564	—	1,155	310,964
Addition	—	125	1,327	—	4,959	6,411
Amortisation	—	(3,083)	(1,024)	—	—	(4,107)
Currency translation differences	7,738	1,697	179	—	113	9,727
Closing net book amount	256,348	54,374	6,046	—	6,227	322,995
At 31 December 2013						
Cost	511,017	74,122	8,593	—	6,227	599,959
Accumulated amortisation	—	(19,748)	(2,547)	—	—	(22,295)
Impairment losses	(254,669)	—	—	—	—	(254,669)
Net book amount	256,348	54,374	6,046	—	6,227	322,995
Year ended 31 December 2014						
Opening net book amount	256,348	54,374	6,046	—	6,227	322,995
Addition	—	13,833	322	—	10,698	24,853
Amortisation	—	(3,259)	(1,113)	—	(258)	(4,630)
Disposal of a subsidiary *(Note 32(c))*	—	—	(3,252)	—	—	(3,252)
Currency translation differences	(858)	(201)	(35)	—	(38)	(1,132)
Closing net book amount	255,490	64,747	1,968	—	16,629	338,834
At 31 December 2014						
Cost	509,307	87,641	4,177	76,489	16,629	694,243
Accumulated amortisation	—	(22,894)	(2,209)	(76,489)	—	(101,592)
Impairment losses	(253,817)	—	—	—	—	(253,817)
Net book amount	255,490	64,747	1,968	—	16,629	338,834

For the year ended 31 December 2014, amortisation of intangible assets of HK$3,550,000 (2013: HK$2,485,000) was recognised in general and administrative expenses and remaining HK$1,080,000 (2013: HK$1,622,000) was included in "profit for the year from discontinued operations".

8. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment test of goodwill:

Goodwill is allocated to the intravenous infusion solution and others segment in the Mainland China, the CGU identified.

The CGU's annual impairment review resulted in no impairment charge for 2014 (2013: Nil). The recoverable amount of the CGU has been assessed by reference to fair value less costs of disposal.

In arriving at fair value less costs of disposal, a post-tax discount rate of 12.3% per cent has been applied to the post-tax cash flows expressed in real terms. Fair value less costs of disposal was determined by using cash flows projection based on financial budgets covering a period of 5 years, taking into account of past experience, long term production plans, market condition and industry trend. These cash flows are then aggregated with a "terminal value". The terminal value represents the value of cash flows beyond the 5th year, incorporating an annual real-term growth rate of 3 per cent, with a corresponding increase in capital expenditure to support the real term growth rate. The operating cost levels included in the fair value assessment are calculated based on intravenous infusion solution and others segment's long term production plans.

The key assumptions used for fair value less costs of disposal calculations are as follows:

	2014	2013
Gross profit margin in the next five years	**43.7%-47.8%**	40.3%-47.8%
Growth rate in the next five years	**12%-24%**	8%-32%
Perpetual growth rate	**3%**	3%
Post-tax discount rate	**12.3%**	12.9%

The growth rate used is consistent with the forecasts included in industry reports. The discount rate used is post-tax and reflect specific risks relating to the operating segment.

The recoverable amount of the CGU calculated based on fair value less costs of disposal well exceeds its carrying value as at 31 December 2014.

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY

	2014	2013
	HK$'000	*HK$'000*
Investments in unlisted shares, at cost	**813,926**	1,248,788
Advance to a subsidiary – non-current	**193,529**	16,060
	1,007,455	1,264,848

Advance to a subsidiary represents equity funding provided by the Company and is measured in accordance with the Company's accounting policy for investments in subsidiaries. It is unsecured and non-interest bearing.

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY *(continued)*

The details of the Company's principal subsidiaries at 31 December 2014 and 2013, all of which are unlisted, are as follow:

Name	Place of incorporation and type of legal entity	Principal activities and place of operations	Particulars of issued and fully paid share capital	Interest held	
				2014	2013
New Orient Investments Pharmaceutical Holding (Hong Kong) Limited	Limited liability company incorporated in Samoa	Investment holding company in Hong Kong	United States Dollar ("USD") 1	**100% (Directly held)**	100% (Directly held)
Xi'an Lijun Pharmaceutical Co., Ltd.	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Shaanxi Province, Mainland China	RMB330,000,000	**Nil**	100% (Directly held)
Shijiazhuang No. 4 Pharmaceutical Co., Ltd.	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China	RMB400,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Hebei Guolong Pharmaceutical Co., Ltd.	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China	RMB50,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Hebei Jinmen Pharmaceutical Import & Export Co., Ltd.	Limited liability company incorporated in Mainland China	Trading in Mainland China	RMB5,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Hebei Guangxiang Pharmaceutical Technology Co., Ltd.	Limited liability company incorporated in Mainland China	Pharmaceutical technology research and development and consulting	RMB3,000,000	**100% (Indirectly held)**	100% (Indirectly held)

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY *(continued)*

Name	Place of incorporation and type of legal entity	Principal activities and place of operations	Particulars of issued and fully paid share capital	Interest held	
				2014	2013
Hebei Guangxiang Logistics Co., Ltd.	Limited liability company incorporated in Mainland China	Logistics of pharmaceutical products in Mainland China	RMB3,000,000	**83.33% (Indirectly held)**	83.33% (Indirectly held)
Shijiazhuang Guangxiang Catering Co., Ltd.	Limited liability company incorporated in Mainland China	Food and beverages	RMB200,000	**100% (Indirectly held)**	Nil

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2014 (31 December 2013: None).

Amounts due from subsidiaries — current

These balances are unsecured, non-interest bearing and without pre-determined repayment terms.

10. DEFERRED INCOME TAX – GROUP

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2014	2013
	HK$'000	*HK$'000*
Deferred tax assets:		
— to be recovered after more than 12 months	**2,591**	2,196
— to be recovered within 12 months	**—**	22,854
	2,591	25,050
Deferred tax liabilities:		
— to be settled after more than 12 months	**23,667**	26,464
— to be settled within 12 months	**430**	441
	24,097	26,905
Deferred tax liabilities — net	**21,506**	1,855

10. DEFERRED INCOME TAX – GROUP *(continued)*

The gross movements in the deferred income tax account are as follows:

	2014	2013
	HK$'000	*HK$'000*
Beginning of the year	**1,855**	2,608
Credited to income tax expense	**(1,030)**	(1,546)
(Credited)/charged to profit for the year from discontinued operations	**(1,402)**	436
Reduction of deferred tax assets upon disposal of a subsidiary *(Note 32(c))*	**21,990**	—
Currency translation differences	**93**	357
End of the year	**21,506**	1,855

The movements in deferred tax assets are as follows:

	Accrued expenses	**Provision for asset impairment**	**Post-employment benefits**	**Deductible losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013	9,038	9,362	2,757	18	21,175
Credited/(charged) to the consolidated statement of comprehensive income	4,297	(306)	(502)	8	3,497
Currency translation differences	11	288	78	1	378
At 31 December 2013	13,346	9,344	2,333	27	25,050
(Charged)/credited to the consolidated statement of comprehensive income	(1,513)	876	349	—	(288)
Disposal of a subsidiary *(Note 32(c))*	(9,571)	(9,757)	(2,662)	—	(21,990)
Currency translation differences	(85)	(76)	(20)	—	(181)
At 31 December 2014	2,177	387	—	27	2,591

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group did not recognise cumulative deferred tax assets of HK$36,875,000 (31 December 2013: HK$32,821,000) in respect of losses amounted to HK$223,485,000 (31 December 2013: HK$198,915,000) that can be carried forward against future taxable income as at 31 December 2014.

10. DEFERRED INCOME TAX – GROUP *(continued)*

The movements in deferred tax liabilities are as follows:

	Revaluation of assets on acquisition *HK$'000*	**Withholding tax** *(Note 27)* *HK$'000*	**Total** *HK$'000*
At 1 January 2013	23,783	—	23,783
(Credited)/charged to the consolidated statement of comprehensive income	(589)	2,976	2,387
Currency translation differences	781	(46)	735
At 31 December 2013	23,975	2,930	26,905
Credited to the consolidated statement of comprehensive income	(1,210)	(1,509)	(2,719)
Currency translation differences	(123)	34	(89)
At 31 December 2014	22,642	1,455	24,097

As at 31 December 2014, deferred income tax liabilities of HK$76,922,000 (31 December 2013: HK$63,950,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled HK$1,538,443,000 (31 December 2013: HK$1,279,005,000) at 31 December 2014.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2014 ***HK$'000***	2013 *HK$'000*
Beginning of the year	**164**	159
Disposal of a subsidiary (Note 32(c))	**(163)**	—
Currency translation differences	**(1)**	5
End of the year	**—**	164

As at 31 December 2014, there is no available-for-sale financial asset.

As at 31 December 2013, available-for-sale financial asset amounting to HK$164,000 represents a 14.73% equity interest in Xi'an Lijun Transportation Co., Ltd., which is an unlisted company. Since the range of reasonable fair value estimate is insignificant and the probabilities of various estimates cannot be reasonably assessed, the available-for-sale financial asset is carried at cost less accumulated impairment losses.

12. INVENTORIES – GROUP

	2014	2013
	HK$'000	*HK$'000*
Raw materials	**123,327**	163,777
Work in progress	**7,174**	28,704
Finished goods	**149,056**	212,430
	279,557	404,911

The Group recorded a reversal of provision for write-down of inventories of HK$1,927,000 (2013: provision for write-down of inventories of HK$2,310,000) during the year ended 31 December 2014. The provision has been included in cost of sales.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$652,332,000 (2013: HK$579,763,000) and HK$371,977,000 (2013: HK$487,267,000) in "profit for the year from discontinued operations" respectively.

13. TRADE AND BILLS RECEIVABLES – GROUP

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**520,114**	646,685
Bills receivable	**185,753**	320,107
	705,867	966,792
Less: Provision for impairment	**(2,580)**	(32,599)
	703,287	934,193

The fair values of trade and bills receivables approximate their carrying amounts.

13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The Group generally requires its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables based on revenue recognition date is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 3 months	**622,886**	776,761
4 to 6 months	**67,093**	77,251
7 to 12 months	**14,791**	51,176
1 to 2 years	**1,097**	29,557
2 to 3 years	**—**	22,477
More than 3 years	**—**	9,570
	705,867	966,792

As at 31 December 2014, trade receivables of HK$80,401,000 (2013: HK$128,427,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2014	2013
	HK$'000	*HK$'000*
4 to 6 months	**67,093**	77,251
7 to 12 months	**13,308**	51,176
	80,401	128,427

As at 31 December 2014, impaired trade receivables amounting to approximately HK$2,580,000 (31 December 2013: HK$61,604,000) were assessed for impairment and a provision of HK$2,580,000 (31 December 2013: HK$32,599,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year.

13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The ageing of individually impaired receivables and an estimate of expected recovery are as follows:

	2014	2013
	HK$'000	*HK$'000*
7 to 12 months	**1,483**	—
1 to 2 years	**1,097**	29,557
2 to 3 years	**—**	22,477
More than 3 years	**—**	9,570
	2,580	61,604
Less: Expected recovery	**—**	(29,005)
Impairment provision made	**2,580**	32,599

The expected recovery was assessed, based on the collateral or other credit enhancement held by the Group, repayment progress, and available information on subsequent repayment.

Movements of provision for impairment of trade receivables are as follows:

	2014	2013
	HK$'000	*HK$'000*
Beginning of the year	**32,599**	35,042
Provision/(Reversal of provision) for impairment of trade receivables	**1,178**	(3,486)
Disposal of a subsidiary *(Note 32(c))*	**(30,944)**	—
Currency translation differences	**(253)**	1,043
End of the year	**2,580**	32,599

The creation and release of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The Group's trade and bills receivables were denominated in the following currencies:

	2014	2013
	HK$'000	*HK$'000*
RMB	**701,817**	949,326
USD	**4,050**	17,466
	705,867	966,792

The maximum exposure to credit risk at the reporting date is the fair value of the receivables mentioned above. The Group does not hold any collateral as security.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Disposal consideration receivable *(Note 32(c))*	**272,000**	—	**272,000**	—
Amounts due from agent companies *(Note 22)*	**54,116**	87,452	**—**	—
Prepayments for purchases of inventories	**9,108**	13,682	**—**	—
Deposits	**9,058**	3,032	**1,779**	536
Staff advances	**1,012**	10,704	**—**	—
Prepaid advertising costs	**815**	432	**—**	—
Prepaid insurance costs	**—**	1,764	**—**	—
Amounts due from related parties *(Note 34(c))*	**—**	32	**—**	—
Others	**26,524**	32,312	**5,162**	—
	372,633	149,410	**278,941**	536
Less: Provision for impairment	**(84)**	(4,497)	**—**	—
	372,549	144,913	**278,941**	536

15. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Pledged bank deposits	**—**	90,051	**—**	—
Cash and cash equivalents				
— cash in hand	**8**	149	**—**	—
— cash at bank	**325,216**	336,779	**175,459**	1,583
	325,224	426,979	**175,459**	1,583

Pledged bank deposits are pledged for:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Borrowings *(i)*	**—**	14,627	**—**	—
Bills payable *(ii)*	**—**	73,079	**—**	—
Letters of credit facilities	**—**	2,345	**—**	—
	—	90,051	**—**	—

15. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS *(continued)*

(i) As at 31 December 2014, no deposit was pledged for borrowings. As at 31 December 2013, bank deposits of HK$14,627,000 were placed with commercial banks as a pledge for the Group's bank borrowings (Note 18). The weighted average effective interest rate on the deposits was 3.3% per annum. These deposits had maturity of six months.

(ii) As at 31 December 2014, no deposit was pledged for bills payables. As at 31 December 2013, deposits pledged for bills payable of HK$73,079,000 had maturity of six months at inception.

The interest-bearing bank deposits (included in pledged bank deposits and cash at bank) carried a weighted average interest rate of 1.22% (31 December 2013: 0.42%) per annum for the year ended 31 December 2014.

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash and cash equivalents.

The Group's pledged bank deposits and cash at bank denominated in RMB were deposited with banks in the Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

Pledged bank deposits and cash and cash equivalents were denominated in the following currencies:

	Group		**Company**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**137,582**	337,964	**25**	25
HK$	**182,580**	86,060	**175,434**	1,558
USD	**5,062**	2,955	**—**	—
	325,224	426,979	**175,459**	1,583

16. SHARE CAPITAL

	Number of shares *'000*	Ordinary shares *HK$'000*
Authorised		
At 31 December 2014 and 2013 (ordinary shares of HK$0.02 each)	10,000,000	200,000
Issued and fully paid up		
At 1 January 2013 and 31 December 2013	2,929,925	65,405
Cancelation of shares *(a)*	(9,398)	(188)
Issuance of shares – exercise of share options *(Note 17(b))*	48,000	960
At 31 December 2014	2,968,527	66,177

(a) On 4 November and 25 November 2014, the Company repurchased 3,998,000 and 5,400,000 ordinary shares of the Company respectively through the Stock Exchange at an aggregate consideration of approximately HK$34,838,000, which had been deducted from retained earnings within shareholders' equity.

On 25 November and 19 December 2014, the Company cancelled 3,998,000 and 5,400,000 ordinary shares repurchased respectively.

17. RESERVES

Group

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserve *HK$'000*	Share-based payment reserve *HK$'000*	Currency translation differences *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2013	1,262,730	176,819	234,220	15,530	86,094	647,694	2,423,087
Profit for the year	—	—	—	—	—	411,814	411,814
Dividends paid to equity holders of the Company	—	—	—	—	—	(117,198)	(117,198)
Transfer to statutory reserve *(Note (a))*	—	—	31,791	—	—	(31,791)	—
Currency translation differences	—	—	7,848	—	75,313	—	83,161
At 31 December 2013	1,262,730	176,819	273,859	15,530	161,407	910,519	2,800,864
Profit for the year	—	—	—	—	—	602,929	602,929
Purchase of treasury shares	—	—	—	—	—	(34,838)	(34,838)
Cancellation of treasury shares	(34,650)	—	—	—	—	34,838	188
Issurance of shares — exercise of share options *(Note (b))*	85,770	—	—	(15,530)	—	—	70,240
Dividends paid to equity holders of the Company	—	—	—	—	—	(236,171)	(236,171)
Disposal of a subsidiary *(Note (a))*	—	—	(146,196)	—	—	146,196	—
Transfer to statutory reserve *(Note (a))*	—	—	50,063	—	—	(50,063)	—
Currency translation differences	—	—	(1,677)	—	(15,210)	—	(16,887)
At 31 December 2014	1,313,850	176,819	176,049	—	146,197	1,373,410	3,186,325

17. RESERVES *(continued)*

Company

	Share premium *HK$'000*	Capital reserve *HK$'000*	Share-based payment reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2013	1,262,730	173,703	15,530	—	1,451,963
Profit for the year	—	—	—	173,846	173,846
Dividends paid to equity holders of the Company	—	—	—	(117,198)	(117,198)
At 31 December 2013	1,262,730	173,703	15,530	56,648	1,508,611
Purchase of treasury shares	—	—	—	(34,838)	(34,838)
Cancellation of treasury shares	(34,650)	—	—	34,838	188
Issurance of shares — exercise of share options *(Note (b))*	85,770	—	(15,530)	—	70,240
Profit for the year	—	—	—	477,985	477,985
Dividends paid to equity holders of the Company	—	—	—	(236,171)	(236,171)
At 31 December 2014	1,313,850	173,703	—	298,462	1,786,015

(a) Statutory reserve

As stipulated by regulations in the Mainland China and the Articles of Association of the Company's subsidiaries established in the Mainland China, the subsidiaries established in the Mainland China are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to statutory surplus reserve fund before distributing their profit. When the balance of such reserve reaches 50% of each subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

The statutory reserve of HK$146,196,000 has been transferred out as the result of the disposal of a subsidiary.

17. RESERVES *(continued)*

(b) Share-based payments

On 24 June 2014, 24,000,000 share options (being adjusted from 20,000,000 share options as a result of the issuance of bonus shares on 16 October 2012) were exercised by current director. And on 17 November 2014, 24,000,000 share options (being adjusted from 20,000,000 share options as a result of the issuance of bonus shares on 16 October 2012) were exercised by a director of the Company who resigned on 6 June 2014. Options exercised in 2014 which resulted in 48,000,000 ordinary shares being issued at HK$0.02 each. The related weighted average share price at the time of exercise was HK$1.48 per share (being adjusted from HK$1.78 as a result of issuance of bonus share on 16 October 2012). The total cash received is HK$71,200,000.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise Price *(HK$ per share)*	**Number of Options** *(thousands)*
At 1 January 2013	1.48	48,000
Exercised	1.48	(48,000)
At 31 December 2014	—	—

18. BORROWINGS — GROUP

	2014 *HK$'000*	2013 *HK$'000*
Non-current		
Non-current portion of long-term bank borrowings	**364,246**	455,019
Current		
Current portion of long-term bank borrowings	**190,772**	250,401
Short-term bank borrowings	**316,909**	482,373
	507,681	732,774
Total borrowings	**871,927**	1,187,793
Representing:		
Unsecured *(i)*	**554,981**	529,026
Secured *(ii)*	**316,946**	658,767
	871,927	1,187,793

18. BORROWINGS — GROUP *(continued)*

(i) As at 31 December 2014, the Group's bank borrowings of HK$238,072,000 (31 December 2013: HK$128,379,000) were guaranteed by the Company and Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (31 December 2013: the Company and Xi'an Lijun Pharmaceutical Co., Ltd.).

(ii) As at 31 December 2014, the Group's bank borrowings of HK$316,946,000 (31 December 2013: HK$645,375,000) were secured by the Group's land use rights with a net book amount of HK$60,760,000 (31 December 2013: HK$72,647,000), the Group's buildings, plant, machinery and tools with a net book amount of HK$301,820,000 (31 December 2013: HK$418,769,000). As at 31 December 2013, the Group's bank borrowings of HK$13,392,000 were secured by the Group's pledged bank deposits of HK$14,627,000.

As at 31 December 2014, the Group's borrowings were repayable as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 1 year	**507,681**	732,774
Between 1 and 2 years	**175,369**	246,098
Between 2 and 5 years	**143,243**	154,611
More than 5 years	**45,634**	54,310
	871,927	1,187,793

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2014	2013
	HK$'000	*HK$'000*
6 months or less	**384,299**	706,899
6 to 12 months	**487,628**	480,894
	871,927	1,187,793

The borrowings were denominated in the following currencies:

	2014	2013
	HK$'000	*HK$'000*
RMB	**576,204**	896,494
HK$	**201,008**	162,920
USD	**94,715**	128,379
	871,927	1,187,793

18. BORROWINGS — GROUP *(continued)*

The effective interest rates (per annum) at the balance sheet date were as follows:

	2014			2013		
	RMB	***HK$***	***USD***	*RMB*	*HK$*	*USD*
Bank borrowings	**6.00%**	**3.93%**	**3.12%**	5.53%	3.70%	3.90%

The fair values of short-term borrowings approximate their carrying amounts. The carrying amounts and fair values of non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings	**364,246**	455,019	**356,768**	439,501

As at 31 December 2014, the Group has the following undrawn borrowing facilities:

	2014	2013
	HK$'000	*HK$'000*
Fixed rates		
— Expiring within one year	**590,021**	171,642
— Expiring beyond one year	**697,200**	801,292
Floating rates		
— Expiring within one year	**211,145**	619,970
— Expiring beyond one year	**353,992**	—
	1,852,358	1,592,904

19. DEFERRED REVENUE – GROUP

Government grant received from municipal governments represented subsidies for construction of the laboratories and plants of the Group, and will be recognised in consolidated statement of comprehensive income when the depreciation expense of the laboratories and plants are recognised in the consolidated statement of comprehensive income.

Movements of deferred revenue are as follows:

	2014	2013
	HK$'000	*HK$'000*
Beginning of the year	**10,863**	7,795
Current year additions	**12,058**	3,757
Recognised in the consolidated statement of comprehensive income	**(8,591)**	(976)
Disposal of a subsidiary *(Note 32(c))*	**(6,110)**	—
Currency translation differences	**(67)**	287
End of the year	**8,153**	10,863

20. POST-EMPLOYMENT BENEFIT OBLIGATION – GROUP

The maturity profile of the post-employment benefit obligation is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 1 year	**40**	341
Between 1 to 2 years	**24**	337
Between 2 to 5 years	**3**	1,039
More than 5 years	**—**	7,913
	67	9,630
Less: Current portion included in current liabilities *(Note 22)*	**(40)**	(341)
	27	9,289

20. POST-EMPLOYMENT BENEFIT OBLIGATION – GROUP *(continued)*

The movements of post-employment benefits recognised in the balance sheet is as follows:

	2014	2013
	HK$'000	*HK$'000*
Beginning of the year	**9,630**	11,502
Total expense, included in staff cost		
— Current service cost	**1,319**	114
— Interest cost	**646**	468
— Actuarial gain	**—**	(1,694)
Contribution paid	**(712)**	(948)
Disposal of a subsidiary	**(10,830)**	—
Currency translation differences	**(26)**	188
End of the year	**27**	9,630

The above obligations were determined by the Group's management using the projected unit credit method. Discount rate and resignation rate adopted are as follows:

	2014	2013
Discount rate	**4.10%**	5.0%
Annual resignation rate	**2.70%**	2.7%

21. TRADE AND BILLS PAYABLES – GROUP

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**287,720**	354,114
Bills payable	**—**	136,347
	287,720	490,461

Credit terms for trade and bills payables range from 90 to 180 days. The ageing analysis of the trade and bills payables is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 3 months	**232,963**	384,934
4 to 6 months	**41,608**	72,974
7 to 12 months	**10,679**	25,464
1 to 3 years	**1,942**	4,996
More than 3 years	**528**	2,093
	287,720	490,461

The Group's trade and bills payables were all denominated in RMB.

22. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payables for purchase of property, plant and equipment	**211,894**	166,902	**—**	—
Withholding individual income tax payables *(a)*	**66,388**	87,452	**12,272**	—
Accrued salaries and wages	**14,856**	23,075	**94**	1,473
Deposits from constructors	**4,202**	8,748	**—**	—
Value added tax payable	**3,427**	9,283	**—**	—
Other taxes payables	**3,251**	4,447	**—**	—
Welfare payables	**2,321**	9,257	**—**	—
Professional fee payables	**2,258**	2,417	**—**	—
Payables for advertising expenses	**814**	7,549	**—**	—
Current portion of long-term payables *(Note 20)*	**40**	341	**—**	—
Accrued sales commission	**—**	58,861	**—**	—
Amounts due to related parties *(Note 34(c))*	**—**	453	**—**	—
Others	**10,658**	36,586	**—**	—
	320,109	415,371	**12,366**	1,473

According to the relevant PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from the disposal of their shares of the Company acquired through the option scheme (Note 17(b)). Settlement of such individual income tax is handled through certain agent companies. In this regard, HK$66,388,000 (31 December 2013: HK$87,452,000) payables relating to PRC individual income taxes in total have been recorded in the consolidated financial statements. Meanwhile, the same amount of receivables will also been recorded (Note 14). As at 31 December 2014, the amount of HK$12,272,000 has been collected by the Group.

23. REVENUE – GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products.

Revenue recognised is as follows:

	2014	2013
	HK$'000	*HK$'000*
Revenue:		
— Sales of pharmaceutical products	**2,087,355**	1,712,982
— Rental income	**2,809**	2,184
— Processing income	**1,218**	7,836
— Sales of raw materials and by products	**89**	254
	2,091,471	1,723,256

24. OTHER INCOMES AND OTHER GAINS – NET – GROUP

	2014	2013
	HK$'000	*HK$'000*
Government grants	**36,412**	70,354
Gain on disposals of property, plant and equipment	**4,063**	1,978
	40,475	72,332

Government grants mainly represent subsidy income received from various government organisations to compensate the Group's research and development expenditures and interest expenses incurred, and other incentives to support the operations of the Group.

25. EXPENSES BY NATURE – GROUP

	2014	2013
	HK$'000	*HK$'000*
Raw materials and consumables used	**680,993**	627,075
Changes in inventories of finished goods and work in progress	**(28,661)**	(47,312)
Staff costs		
— Wages and salaries	**166,158**	157,040
— Pension costs	**26,661**	24,768
— Welfare expenses	**41,476**	38,853
Utility expenses	**118,602**	97,040
Advertising expenses	**4,672**	29,245
Travelling, meeting and entertainment expenses	**46,985**	41,427
Operating leases rental expenses	**12,804**	13,303
Depreciation of property, plant and equipment	**152,764**	109,907
Provision for impairment of trade receivables	**741**	773
Reversal of provision for impairment of other receivables	**—**	(86)
Amortisation of land use rights	**4,176**	3,343
Amortisation of intangible assets	**3,550**	2,485
Auditors' remuneration		
— Audit services	**2,413**	1,251
— Non-audit services	**860**	562
Transportation expenses	**170,053**	151,748
Research and development costs	**37,249**	25,752
Business taxes, surcharges and other tax expenses	**25,657**	24,633
Others	**43,289**	19,802
Total cost of sales, selling and marketing costs and general and administrative expenses	**1,510,442**	1,321,609

26. FINANCE INCOME AND COSTS – GROUP

	2014	2013
	HK$'000	*HK$'000*
Finance income		
— Interest income on bank deposits	**3,907**	1,003
— Cash discount income	**4,518**	—
— Net exchange gain	**—**	7,553
	8,425	8,556
Finance costs		
— Interest expense of bank borrowings wholly repayable within 5 years	**(41,141)**	(39,429)
— Interest expense of bank borrowings not wholly repayable within 5 years	**(3,595)**	(814)
— Net exchange loss	**(5,043)**	—
	(49,779)	(40,243)

27. INCOME TAX EXPENSE – GROUP

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

The Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, the subsidiary of the Company, is subject to Hong Kong profits tax at the rate of 16.5% (2013: 16.5%) on its estimated assessable profit.

All subsidiaries of the Company established and operate in PRC are subject to the Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.

Shijiazhuang No. 4 Pharmaceutical Co., Ltd., Xi'an Lijun Pharmaceutical Co., Ltd. and Hebei Guolong Pharmaceutical Co., Ltd. have been recognised as High and New Technology Enterprises in 2012. According to the tax incentives rules of the CIT Law of the People's Republic of China (the "CIT Law") for High and New Technology Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years.

According to the PRC CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

27. INCOME TAX EXPENSE – GROUP *(continued)*

The amounts of taxation charged to the consolidated statement of comprehensive income:

	2014 **HK$'000**	2013 HK$'000
Current income taxation — Mainland China CIT	**89,612**	74,533
Deferred taxation *(Note 10)*	**(1,030)**	(1,546)
	88,582	72,987

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2014 **HK$'000**	2013 HK$'000
Profit before income tax	**580,150**	442,292
Tax calculated at the tax rates applicable to the Group companies	**86,544**	65,793
Tax losses for which no deferred tax assets were recognised	**4,054**	5,445
Tax exemption and reduction	**(2,670)**	(910)
Expenses not deductible	**654**	1,221
Withholding tax charge related to dividends	**—**	1,438
Tax expense	**88,582**	72,987
Effective tax rate	**15.3%**	16.5%

28. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$477,985,000 (2013: HK$173,846,000).

29. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP

(a) Directors' emoluments

The remuneration of each director of the Company is set out below:

2014

Name	Fees HK$'000	Salaries HK$'000	Other benefits (d) HK$'000	Pension HK$'000	Bonus HK$'000	Total HK$'000
Executive directors						
Mr. Qu Jiguang	—	4,400	689	49	1,471	6,609
Mr. Wu Qin *(a)*	—	5,250	16	32	—	5,298
Mr. Wang Xianjun	—	1,140	510	17	—	1,667
Mr. Xie Yunfeng *(a)*	—	1,102	14	19	—	1,135
Mr. Duan Wei *(b)*	—	378	60	30	99	567
Mr. Su Xuejun *(c)*	—	41	7	3	17	68
	—	12,311	1,296	150	1,587	15,344
Independent non-executive directors						
Mr. Wang Yibing	180	—	—	—	—	180
Mr. Leung Chong Shun	180	—	—	—	—	180
Mr. Chow Kwok Wai	180	—	—	—	—	180
	540	—	—	—	—	540
	540	12,311	1,296	150	1,587	15,884

(a) Mr. WuQin and Mr. Xie Yunfeng have resigned on 6 June 2014.

(b) Mr Duan Wei have resigned on 15 December 2014.

(c) Mr. Su Xuejun was appointed on 15 December 2014.

(d) Other benefits include housing allowance and other social welfare.

29. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(continued)*

(a) Directors' emoluments *(continued)*

2013

Name	Fees	Salaries	Other benefits	Pension	Bonus	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Mr. Wu Qin	—	3,000	63	44	—	3,107
Mr. Qu Jiguang	—	3,430	387	45	3,975	7,837
Mr. Xie Yunfeng	—	600	63	29	—	692
Mr. Wang Xianjun	—	1,020	480	15	200	1,715
Mr. Duan Wei	—	600	61	30	1,263	1,954
	—	8,650	1,054	163	5,438	15,305
Independent non-executive directors						
Mr. Wang Yibing	180	—	—	—	—	180
Mr. Leung Chong Shun	180	—	—	—	—	180
Mr. Chow Kwok Wai	180	—	—	—	—	180
	540	—	—	—	—	540
	540	8,650	1,054	163	5,438	15,845

No directors waived any emoluments during the year ended 31 December 2014 (2013: Nil).

(b) Five highest paid individuals

The five Individuals whose emoluments were the highest in the Group for the year include four (2013: five) directors whose emoluments are reflected in the analysis presented above.

30. EARNINGS PER SHARE – GROUP

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**491,525**	369,301
Profit from discontinued operation attributable to equity holders of the Company	**111,404**	42,513
	602,929	411,814
Weighted average number of ordinary shares in issue (thousands)	**2,944,740**	2,929,925
Basic earnings per share (HK$ per share)		
Profit attributable to equity holders of the Company	**0.1669**	0.1261
Profit from discontinued operation attributable to equity holders of the Company	**0.0378**	0.0145
	0.2047	0.1406

30. EARNINGS PER SHARE — GROUP *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2014	2013
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**491,525**	369,301
Profit from discontinued operation attributable to equity holders of the Company	**111,404**	42,513
	602,929	411,814
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,944,740**	2,929,925
Adjustment for share options (thousands)	**16,111**	11,739
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,960,851**	2,941,664
Diluted earnings per share (HK$ per share)		
Profit attributable to equity holders of the Company	**0.1660**	0.1255
Profit from discontinued operation attributable to equity holders of the Company	**0.0376**	0.0145
Diluted earnings per share (HK$ per share)	**0.2036**	0.1400

31. DIVIDENDS

	2014	2013
	HK$'000	*HK$'000*
2014 Interim dividend of HK$0.06 (2013: HK$0.02) per ordinary share	**177,572**	58,599
Proposed zero final dividend (2013: HK$0.02) per ordinary share	**—**	58,599
HK$0.172 special dividend to be declared (2013: Nil) per ordinary share	**510,587**	—
	688,159	117,198

Following the resolution passed at a shareholders' meeting held on 10 October 2014, an amount that is equivalent to not less than 50% of the proceeds received from the disposal of a subsidiary would be declared and paid by the Company as a special dividend out of the share premium account or other distributable reserves of the Company to shareholders of the Company, and the directors of the Company are authorised to determine the amount of the special dividend.

On 27 March 2015, a special dividend of HK$0.172 (2013: Nil) per ordinary share, amounting to a total dividend of HK$510,587,000 calculated based on 2,968,527,000 outstanding ordinary shares (2013: 2,929,925,000 ordinary shares), has been determined by the directors of the Company to be paid out of the Company's retained earnings and share premium account. Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, balance in share premium account of the Company is available for distribution to shareholders subject to a solvency test on the Company. The dividend to be declared has not been reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the retained earnings and share premium account for the year ending 31 December 2015.

32. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of cash generated from operations

	2014	2013
	HK$'000	*HK$'000*
Profit before income tax including discontinued operations	**729,318**	493,477
Adjustments for:		
Provision/(Reversal of provision) for impairment of trade receivables *(Note 13)*	**1,178**	(3,486)
(Reversal of provision)/Provision for impairment of other receivables	**(1,117)**	1,612
(Reversal of provision)/Provision for write-down of inventories *(Note 12)*	**(1,927)**	2,310
Depreciation of property, plant and equipment *(Note 7)*	**178,978**	133,859
Gain on disposal of property, plant and equipment	**(4,122)**	(2,967)
Gain on disposal of a subsidiary *(Note 32(c))*	**(94,959)**	—
Amortisation of land use rights *(Note 6)*	**9,175**	7,338
Amortisation of intangible assets *(Note 8)*	**4,630**	4,107
Amortisation of deferred revenue	**(7,955)**	—
(Gain)/Loss on disposal of financial assets at fair value through profit	**(253)**	645
Interest income	**(8,751)**	(1,557)
Interest expenses	**62,667**	46,910
Operating profit before working capital changes	**866,862**	682,248
Changes in working capital:		
Increase in inventories	**(27,886)**	(1,825)
Increase in trade and bills receivables	**(209,749)**	(178,866)
Decrease in prepayments, deposits and other receivables	**29,066**	15,231
(Decrease)/Increase in trade and bills payables	**(106,545)**	154,201
(Decrease)/Increase in advance receipts from customers	**(4,348)**	9,544
Increase in accruals and other payables	**(38,712)**	35,809
Net cash inflow generated from operations	**508,688**	716,342

32. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Proceeds from disposals of property, plant and equipment

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2014	2013
	HK$'000	*HK$'000*
Net book amount disposed *(Note 7)*	**62,064**	23,213
Gain on disposal of property, plant and equipment	**4,122**	2,967
	66,186	26,180

(c) Disposal of a subsidiary

On 31 October 2014, the Group sold its 100% equity interest in Xi'an Lijun Pharmaceutical Co., Ltd. to United Investments Group Limited (the "Purchaser"), for a cash consideration of HK$772,000,000, net of the withholding corporate income tax of HK$14,447,000 withheld and paid by the Purchaser. After the completion of the transaction, the Group holds no equity interest in Xi'an Lijun Pharmaceutical Co., Ltd. As at 31 December 2014, the Group has received part of the consideration amounted to HK$500,000,000, and the remaining portion of HK$272,000,000 has been received in January 2015.

	HK$'000
Cash consideration	772,000
Add: Withholding corporate income tax withheld and paid by the Purchaser	14,447
Less: Net assets disposed	(685,673)
Transaction costs	(5,815)
Gain on disposal of a subsidiary	94,959

32. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of a subsidiary *(continued)*

The assets and liabilities of Xi'an Lijun Pharmaceutical Co., Ltd. at the date of disposal were as below:

	As at 31 October 2014 *HK$'000*
Land use rights *(Note 6)*	211,654
Property, plant and equipment *(Note 7)*	469,013
Intangible assets *(Note 8)*	3,252
Deferred income tax assets *(Note 10)*	21,990
Available-for-sale financial assets *(Note 11)*	163
Inventories	157,584
Less: Provision for write-down of inventories	(6,203)
Trade and bills receivables	464,130
Less: Provision for impairment of trade receivables *(Note 13)*	(30,944)
Prepayments, deposits and other receivables	36,733
Less: Provision for impairment of other receivables	(3,285)
Cash and cash equivalents	118,437
Deferred revenue *(Note 19)*	(6,110)
Post-employment benefit obligation	(10,375)
Borrowings	(492,101)
Trade and bills payables	(94,380)
Advanced receipts from customers	(23,220)
Accruals and other payables	(127,949)
Income tax payable	(2,716)
Total net assets disposed	685,673
Cash proceeds received during the year ended 31 December 2014	500,000
Transaction costs	(5,815)
Cash and cash equivalents disposed	(118,437)
Net cash inflow on disposal	375,748

33. DISCONTINUED OPERATIONS

The Group discontinued the operation of Xi'an Lijun Pharmaceutical Co., Ltd. upon its disposal on 31 October 2014 (Note 32(c)).

Analysis of the result of discontinued operations was as follows:

	2014	2013
	HK$'000	*HK$'000*
Revenue	**831,904**	1,022,060
Cost of sales	**(484,460)**	(618,309)
Gross profit of discontinued operations	**347,444**	403,751
Selling and marketing costs	**(177,171)**	(249,144)
General and administrative expenses	**(97,620)**	(113,162)
Other gains — net	**1,966**	23,406
Operating profit of discontinued operations	**74,619**	64,851
Finance income	**326**	554
Finance costs	**(15,309)**	(14,220)
Finance costs — net	**(14,983)**	(13,666)
Profit before income tax of discontinued operations	**59,636**	51,185
Income tax expense	**(9,296)**	(7,180)
Profit for the year from discontinued operations	**50,340**	44,005
Gain on disposal of a subsidiary *(Note 32(c))*	**94,959**	—
Withholding corporate income tax withheld and paid by the Purchaser *(Note 32(c))*	**(14,447)**	—
Net gain on disposal of a subsidiary	**80,512**	—
Withholding tax charge related to dividends from a disposed subsidiary	**(14,021)**	(1,492)
Other disposal related expenses	**(5,427)**	—
Total profit for the year from discontinued operations	**111,404**	42,513

33. DISCONTINUED OPERATIONS *(continued)*

The cash flows of discontinued operations were as follows:

	2014	2013
	HK$'000	*HK$'000*
Operating cash flows	**(172,783)**	50,781
Investing cash flows	**(22,371)**	—
Financing cash flows	**278,702**	(118,616)
Effect of foreign exchange rate changes on cash and cash equivalents	**(811)**	(771)
Total cash flows	**82,737**	(68,606)

34. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

(a) The directors are of the view that the following companies are related parties of the Group:

Name	**Relationship**
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group before 4 June 2014
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owned approximately 26.28% interest in the Company before 4 June 2014
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group

PUI sold all its shares of the Company on 4 June 2014. Meanwhile, certain key management personnel of the Group have resigned on the same day from the Company. Accordingly, Rejoy Group, Rejoy Technology, Rejoy Packaging and Rejoy Medicine are no longer considered to be related parties of the Group after 4 June 2014.

34. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(b) Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	2014 HK$'000	2013 HK$'000
Purchasing of raw materials and packaging materials from	— Rejoy Packaging	**676**	4,539
Sales of finished goods to	— Rejoy Medicine	**2,396**	462
Provision of utilities to	— Rejoy Packaging	**1,557**	446

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

(c) The Group had the following significant balances with related parties:

	2014 HK$'000	2013 HK$'000
Amounts due from related parties, included in trade receivables — Rejoy Medicine	**—**	2,496

	2014 HK$'000	2013 HK$'000
Amounts due from related parties, included in other receivables — Rejoy Packaging	**—**	32

	2014 HK$'000	2013 HK$'000
Amounts due to related parties, included in trade payables — Rejoy Packaging	**—**	146

34. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP *(continued)*

(c) The Group had the following significant balances with related parties: *(continued)*

	2014	2013
	HK$'000	*HK$'000*
Amounts due from related parties, included in other payables		
— Rejoy Group	**—**	453

The related party balances are unsecured, interest-free and have no pre-determined terms of repayment.

(d) Key management compensation

	2014	2013
	HK$'000	*HK$'000*
Salaries, bonus and allowances	**15,734**	15,682
Pension	**150**	163
	15,884	15,845

35. COMMITMENTS — GROUP

(a) Capital commitments

Capital expenditure at the balance sheet dates contracted but not yet provided for is as follows:

	2014	2013
	HK$'000	*HK$'000*
— Plant and machineries	**4,605**	230,831

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of office premises in Mainland China and Hong Kong under non-cancellable operating leases are payable as follows:

	2014	2013
	HK$'000	*HK$'000*
Not later than one year	**2,407**	4,059
Later than one year and not later than five years	**1,568**	1,573
More than five years	**7,966**	6,905
	11,941	12,537

36. OPERATING LEASE — GROUP

The future aggregate minimum lease rental receipts in respect of office premises and warehouses in Mainland China under non-cancellable operating leases are receivable as follows:

	2014 ***HK$'000***	2013 *HK$'000*
Not later than one year	**1,365**	488
Later than one year and not later than five years	**3,042**	1,781
More than five years	**1,901**	1,113
	6,308	3,382

37. EVENTS AFTER THE BALANCE SHEET DATE

On 3 February 2015, Shijiazhuang No. 4 Pharmaceutical Co., Ltd., a subsidiary of the Group, entered into a contract to acquire a 50% equity interest in a joint venture company called Hebei Hanlin Biotechnology Co., Ltd., at a consideration of RMB20,000,000, which was paid on 27 March 2015. The joint venture company is engaged in the research and development of biotechnology and related products.

There are no other significant events after the balance sheet date saved as those disclosed elsewhere in these consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Represented)	(Represented)	(Represented)	(Represented)	
RESULTS					
Revenue					
— Continuing operations	788,904	1,036,463	1,418,174	1,723,256	**2,091,471**
— Discontinued operations	1,182,753	1,118,752	1,012,510	1,022,060	**831,904**
	1,971,657	2,155,215	2,430,684	2,745,316	**2,923,375**
Profit/(loss) before income tax					
— Continuing operations	171,388	(76,589)	286,299	442,292	**580,150**
— Discontinued operations	134,293	74,395	50,205	51,185	**149,168**
	305,681	(2,194)	336,504	493,477	**729,318**
Profit/(loss) attributable to equity holders of the Company					
— Continuing operations	142,611	(102,642)	237,163	369,301	**491,525**
— Discontinued operations	117,981	61,241	43,840	42,513	**111,404**
	260,592	(41,401)	281,003	411,814	**602,929**

	As at 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	3,372,711	3,444,540	3,991,438	5,083,908	**4,797,655**
Total liabilities	(1,016,414)	(1,148,247)	(1,502,342)	(2,217,012)	**(1,544,485)**
Non-controlling interests	(1,178)	(616)	(604)	(627)	**(668)**
Shareholder's equity	2,355,119	2,295,677	2,488,492	2,866,269	**3,252,502**