神威藥業
SHINEWAY

China Shineway Pharmaceutical Group Limited
中 國 神 威 藥 業 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 02877

Leading
Modern Chinese Medicine
Promoting Health Industry

Annual Report 2014

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
Dr. Wang Zheng Pin
Mr. Chen Zhong (appointed on 1 December 2014)

Independent non-executive Directors

Mr. Hung Randy King Kuen (re-designated on 17 February 2014)
Ms. Cheng Li
Mr. Sun Liutai
Mr. Ren Dequan (resigned on 17 February 2014)

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
Ms. Cheng Li
Mr. Hung Randy King Kuen (appointed on 17 February 2014)
Mr. Ren Dequan (resigned on 17 February 2014)

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Sun Liutai
Ms. Xin Yunxia

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Mr. Sun Liutai
Mr. Hung Randy King Kuen (appointed on 17 February 2014)
Mr. Ren Dequen (resigned on 17 February 2014)

AUTHORIZED REPRESENTATIVES

Mr. Li Huimin
Ms. Wong Mei Shan

COMPANY SECRETARY

Ms. Wong Mei Shan

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The People's Republic of China ("PRC")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5201, 52/F., Central Plaza
18 Harbour Road, Wanchai, Hong Kong

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

China Construction Bank (Asia)

The Hongkong and Shanghai Banking Corporation Limited

Bank of China, Jin Zhu Xi Lu Branch
Lhasa, Xizang

China Construction Bank, Luan Cheng Barnch
Shijiazhuang, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

02877 (listed on the Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

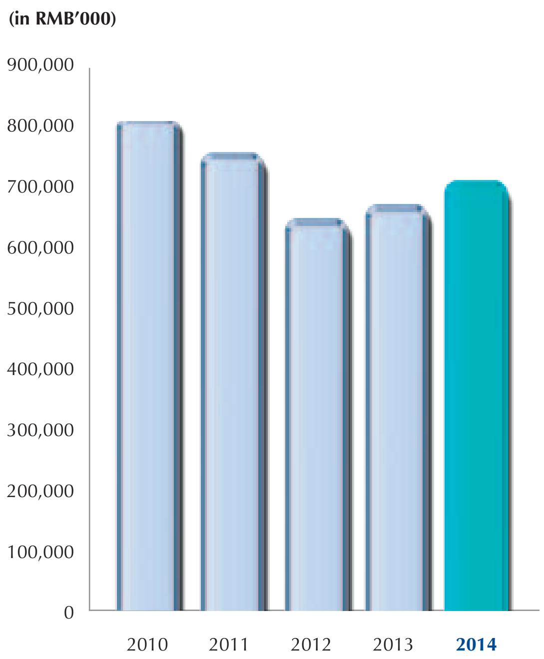
www.shineway.com.hk
www.shineway.com

Financial Highlights

(in RMB'000)

	2010	2011	2012	2013	**2014**
RESULTS					
Turnover	2,038,379	1,984,542	2,132,249	2,187,115	**2,229,201**
Gross profit	1,435,008	1,302,083	1,391,946	1,474,423	**1,478,003**
Profit before taxation	991,808	949,500	799,736	859,646	**863,736**
Profit attributable to shareholders	821,756	755,600	647,704	683,647	**704,775**
Basic earnings per share	RMB0.99	RMB0.91	RMB0.78	RMB0.83	**RMB0.85**
Dividends	330,800	305,990	264,640	272,910	**272,910**
ASSETS AND LIABILITIES					
Total assets	3,972,139	4,376,974	4,743,035	5,738,294	**5,907,324**
Total liabilities	(742,562)	(722,021)	(746,417)	(1,308,678)	**(1,014,416)**
Net assets	3,229,577	3,654,953	3,996,618	4,429,616	**4,892,908**
Non-controlling interests	–	(576)	(527)	(522)	**(437)**
Total equity attributable to shareholders	3,229,577	3,654,377	3,996,091	4,429,094	**4,892,471**

Profit Attributable to Shareholders



Gross and Net Profit Margins

Major Achievements and Awards

2014 Major Achievements and Awards

2013

SHINEWAY was honored as the " Advanced Enterprise in Quality and Efficiency in Hebei" in 2013

2014

February

- SHINEWAY was named the "Advanced Unit for Information Work in 2013"
- SHINEWAY received the "Innovation Team" Medal and Cash Award of RMB20,000 for Modern Chinese Medicine Development and Quality Control by Luancheng People's Government Office

March

- SHINEWAY was honored as the "Hebei Demonstration Unit for the Corporate Culture Development"

April

- Chairman Li Zhenjiang was elected the vice president of the China Nonprescription Medicines Association

May

- SHINEWAY was included in the "Top 100 Pharmaceutical Manufacturers in China Pharmaceutical Industry in 2013"(Position 40)
- SHINEWAY was included in the "Top 10 Enterprises in the Hebei Pharmaceutical Industry in 2013" by Hebei Pharmaceutical Industry Association
- SHINEWAY was named the "Major Tax Contributor in 2013 in the Pharmaceutical Industry in Hebei" by Hebei Pharmaceutical Industry Association
- Shineway and Shenmaio product lines were awarded the "most attractive brands medal" in Chinese pharmaceutical retail market in 2013-2014
- Chairman Li Zhenjiang was elected the vice president of the Medicine Clinical Evaluation Committee of the China Association of Traditional Chinese Medicine

Major Achievements and Awards

June

- SHINEWAY was awarded the "Teaching Base for the CFDA Institute of Executive Development (June 2014 – May 2017)"Medal

July

- SHINEWAY was named the "Outstanding Enterprise of the national pharmaceutical industry for quality management activities in 2014"

- Chairman Li Zhenjiang was listed in the Hebei top talent support program (the third batch)

- Chairman Li Zhenjiang was honored as the "Outstanding Leader of Quality Management Program in Chinese Pharmaceutical Industry in 2014" by the China Quality Association for Pharmaceuticals"

August

- The packaging team of the composite workshop 1 of SHINEWAY was awarded as the "Quality Trustworthy Team of Hebei Province in 2014"

- The quality assurance team of the quality assurance department of SHINEWAY was awarded as the "Quality Trustworthy Team of Hebei Province in 2014"

September

- SHINEWAY was included in the "Top 50 Private Enterprises in Shijiazhuang in 2013" by Shijiazhuang People's Government Office

- SHINEWAY was named the "Outstanding Enterprise in Shijiazhuang city"

- Chairman Li Zhenjiang was appointed the consultant of Professional Committee of the Enterprise and Hospital Pharmacy Administration of the China Association of Traditional Chinese Medicine

- Chairman Li Zhenjiang was honored as the "Outstanding Leader of the National Quality Management Group Activities in 2014" by China Quality Association, All China Federation of Trade Unions, China Women's Federation and China Association for Science and Technology

Major Achievements and Awards

October

- SHINEWAY received the Third Prize of the Patent Award for Advanced Training Program of Intellectual Property – A Pharmaceutical Composition for Guanxinning and its Application in Medicine Preparation

- Pediatric Qing Fei Hua Tan Granule was ranked as number two Non-prescription Chinese medicine (gynecology & pediatrics division) in 2014, according to the consolidated statistic ranking in China

November

- SHINEWAY received the second Hebei Industry Award for the standardization of the quality of traditional Chinese medicine injections and the high-tech industrialization Model Project

- SHINEWAY was awarded the fifth "Top Ten Marketing Case Studies in China Pharmaceutical Industry" Medal

- SHINEWAY was awarded the Hebei Outstanding Enterprise in Corporate Social Responsibilities in 2014 by Xinhuanet

- SHINEWAY was awarded the Gold Prize for Science and Technology Innovative enterprises in 2014 by China Association for Quality Assessment

- Qin Kai Ling Injection was awarded the China Pharmaceutical Industry Science and Technology Achievement Tour Trophy by the Medicine Economic News at the 26th National Pharmaceutical Economic News Conference

- ShujinTongluo Granule was awarded the Science and Technology Award (the Third Prize) by China Association of Traditional Chinese Medicine

- Yiqi Tongluo Granule was awarded the Gold Prize for Science and Technology Innovative Product in 2014 by China Association for Quality Assessment

Major Achievements and Awards

- Lianshen Tonglin tablet was awarded the Excellence Prize for Science and Technology Innovative Product in 2014 by China Association for Quality Assessment

- Yiqi Tongluo Granule was awarded the Second Prize for Science and Technology Innovative Achievement in 2014 by China Association for Quality Assessment

- Chairman Li Zhenjiang was awarded the trophy for the"Person in the Year of 2014 in the Chinese Pharmaceutical Industry"

- Chairman Li Zhenjiang was honored as the Outstanding contributors of Socialism with Chinese characteristics

- Chairman Li Zhenjiang was honored as the "Outstanding Person in Corporate Social Responsibilities in Hebei"by Xinhuanet

- Chairman Li Zhenjiang was honored as the "Outstanding Leader – Science and Technology Innovation" by China Association for Quality Assessment

- Chairman Li Zhenjiang was elected the Council executive director of China Association of Chinese Medicine

- SHINEWAY was honored as the "enterprise leader in Hebei Industry"

December

- The quality assurance team of the quality assurance department of SHINEWAY was awarded as the "National Quality Trustworthy Team in 2014"

- SHINEWAY was awarded the First Prize of the Hebei Quality Technology Award in the quality control system for traditional Chinese medicine injections and its application in Matteromics

Major Achievements and Awards

(The Second Prize of the National Science and Technology Advancement Award in the Comprehensive quality control system for traditional Chinese Medicine injections and its application in Qing Kai Ling, Shu Xie Ning and Shen Mai Injections)

- SHINEWAY was awarded the Second Prize of the National Science and Technology Advancement Award in the comprehensive quality control system for traditional Chinese medicine injections and its application in Qing Kai Ling, Shu Xie Ning and Shen Mai Injections

- SHINEWAY was awarded the Science and Technology Progress Award by Shijiazhuang People's Government Office

- Yiqi Tongluo Granule was awarded the First Prize for Science and Technology by Shijiazhuang People's Government Office

- Chairman Li Zhenjiang was honored as the "Outstanding Entrepreneur in Hebei"

- Chairman Li Zhenjiang was awarded the First Prize of the Hebei Quality Technology Award in the quality control system for traditional Chinese medicine injections and its application in Matteromics

- Chairman Li Zhenjiang was awarded the Second Prize of the National Science and Technology Advancement Award in the comprehensive quality control system for traditional Chinese medicine injections and its application in Qing Kai Ling, Shu Xie Ning and Shen Mai Injections

- Chairman Li Zhenjiang was appointed as the Visiting Professor of Hebei University of Chinese Medicine

- SHINEWAY was awarded the" Hebei Provincial Government Quality Prize" by Hebei People's Government Office

- SHINEWAY was named the Innovation and entrepreneurial team, according to the " Hebei Giant Project", of the Provincial Chinese Medicine Injection Engineering Technology Research Center

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Shineway Pharmaceutical Group Limited (the "Company", "China Shineway" or "SHINEWAY"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December, 2014.

The year of 2014 was an important year of development for China Shineway. In response to the changing market conditions, China Shineway adjusted its infrastructure, reconsolidated its resources, continued its innovation development steadily and continued its restructure and development in 2014. The sales and marketing management system changed from channel management to terminal management in 2014. The development of terminal management system had shown positive results. The research and development system as well as the technology innovation system moved to a new level. The Group was gradually transforming to a high technology enterprise. The prescription granule department and e-commerce departments were established. The new business management infrastructure was up and running. Chinese prescription granule products are now launched to the market in 2015. With the support of every staff of the Company, we continued our quality production, integrated our resources, successfully controlled our costs and implemented our result oriented management system. With all the necessary control adjustments, we implemented our management system with all the necessary refinement, normalization and standardization. With all the challenge in front of us, our turnover increased to approximately RMB2,229 million, increased by approximately 1.9% compared with the same period last year.

The Group's net profit for the year amounted to approximately RMB705 million in 2014, representing a year-on-year increase of approximately 3.1%. The sales of injection products recorded an increase of approximately 0.9% over the previous year. The sales of soft capsule products recorded an increase of approximately 1.9% over the previous year. The sales of granule products recorded an increase of approximately 4.6% as compared with the previous year.

The subsidiaries of the Group, namely Shineway Pharmaceutical (Sichuan) Limited and Hebei Shineway Pharmaceutical Company Limited, were all certified according to the new GMP standards. And now all products of the Group in different dosage form were certified according to the new GMP standards. Shineway Pharmaceutical Sales Company Limited was also certified according to the new GSP standards. With the completion of various projects and put into operation successively, we have laid down a solid foundation for the Group to meet the sales demand in the next 5 to 10 years.

Projects from Shineway's innovation research and development system has reached significant achievements in 2014, including one new drug application, one production application, two new drugs clinical trials applications to China Food and Drug Administration and three products in food category reported for the completion of the Chinese research and applied for trial production. We had 14 new projects in 2014 including 4 Chinese medicine projects, 6 chemical drugs projects and 4 healthcare product projects. There were 16 patent applications, including 1 patent transfer, and 8 patent authorization. There were 2 National

Chairman's Statement

Quality applications, 2 National Major Projects, 1 International Cooperation Project Funds Project, 1 Ministerial Scientific and Technological Project, 2 Provincial Scientific and Technological Projects, 1 National Science and Technology Advancement Second Prize Award and 1 Provincial Award. Projects under research and development covered Chinese medicine, chemical drugs, biochemical drugs and healthcare products. Development of healthcare products focused on middle to high end products to meet the demands from the healthcare product market.

Independent Medical Department was established in 2014, responsible for evidence-based research on products launched in the market. There were 14 projects in 2014, including one clinical trial Phase IV research.

China Shineway was named as the National Technological Innovation Demonstration Enterprise (國家技術創新示範企業), National Demonstration Enterprise on the Deep Integration of Information Technology and Industrialization (國家級兩化融合示範企業) and included in the first batch of National Intellectual Property Superior Enterprises (國家級知識產權優勢企業). With the advancement of our technological innovation capabilities, China Shineway was approved as the, one and only one, National and Local United Engineering Laboratory for the Development Technology of the New Chinese Medicine Injection (中藥注射劑新藥開發技術國家地方聯合工程實驗室) by the National Development and Reform Commission.

China Shineway was awarded the Second Prize of the National Science and Technology Advancement Award (國家科技進步二等獎) in the comprehensive quality control system for traditional Chinese medicine injections and its application in Qing Kai Ling, Shu Xie Ning and Shen Mai Injections.

SHINEWAY was listed in the "Top 100 Pharmaceutical Manufacturers in China Pharmaceutical Industry" (position 40) and the "Top 10 Enterprises in the Hebei Pharmaceutical Industry". SHINEWAY received many awards including the First Prize for the "Quality Technology in Hebei" and the "Hebei Outstanding Enterprise in Corporate Social Responsibilities".

2015 is a year of implementation for SHINEWAY. With the new infrastructure and new situation of the pharmaceutical industry, we will strengthen our retail terminal management and hospital terminal management according to our long term strategy as well as the apprehension of the legal requirements, market requirements, innovation requirements and services requirements. We will expedite our e-commerce business and prescription granule business based on latest technologies available to us. With the new market norm, we will refine our manufacturing process based on quality and efficiency; manage our sales at terminal levels; develop our staff team be professionals in the industry; excel our management system and expedite our new business at full speed in the healthcare industry. Under the new government directives and the new situation of the pharmaceutical industry, we will continue our sales structure reform, adjust our sales and management strategy for tendering, adjust our product mix, reinforce our terminal sales network, increase our terminal sales coverage, increase our terminal commitment and sales yield, increase our core competitiveness and influence. China Shineway will continue our technology innovation, strengthen our research and development capabilities, increase our performance efficiency, upgrade our management standard, speed up the pace of merger and acquisition, build up our staff team, reinforce our operation risk control management, improve our operation efficiency, upgrade our quality control level and make sure our group develop steadily and healthy.

With our market resource consolidation, we will continue to find suitable projects to accelerate our pace in research and development and our pace of merger and acquisition in 2015. We will continue to expand our product line, develop new business and new growth area to expand our market and operation scale at home and abroad.

China Shineway's accomplishments are inseparable from our staff's hard work. On behalf of the Board, I would like to extend my sincere gratitude and high respect to our diligent staff for their dedication and efforts during the year.

Li Zhenjiang
Chairman of the Board

Hong Kong, 27 March 2015

Management Discussion and Analysis

BUSINESS REVIEW

Under the influences of the environmental policies such as the continued steady growth of the pharmaceutical industry, the issuance of the new Essential Drug List tenders for the medicines, medicine bidding, implementation of the new GMP and GSP and the extension of the work arrangements on the health care system reform, the Group coped with changes with market oriented, all of these led 2014 to be a year during which the corporation made a solid foundation, integrated resources, constantly innovated and developed steadily.

China Shineway is rated as the National Technological Innovation Demonstration Enterprise and National Demonstration Enterprise on the Integration of Information Technology and Industrialization, and also included in the first batch of the National Intellectual Property Superior Enterprises. The National and Local United Engineering Laboratory for the Development Technology of the New Chinese Medicine injection (中藥注射劑新藥開發技術國家地方聯合工程實驗室) located in SHINEWAY is approved by the National Development and Reform Commission. China Shineway is awarded the Second Prize of the National Science and Technology Advancement Award (國家科技進步二等獎) in the comprehensive quality control system for traditional Chinese medicine injection and its application in Qing Kai Ling, Shu Xie Ning and Shen Mai Injections. In terms of new areas, the Group sets up the Heibei prescriptive Chinese medicine granules research center (河北省中藥配方顆粒研究中心) with the Heibei University of Chinese Medicine. Besides, the Group actively carries out the postmarketing safety re-evaluation work on material basis with Chinese medicine injection products by collectively complete the material foundation and standards elevation for a variety of Chinese medicine injections, evidence-based medical research is also being carried out step by step, in which the Shen Mai Injection was completed 30,000 cases of clinical trial, which had a positive model function of promoting the improvement of the product quality standards to align with the national standards. The strength of tackling the key problem of the Group was constantly enhanced, and the improving work of the standards for 23 breeds such as Pediatric Qing Fei Hua Tan granules and Huamoyan granule was completed, so as to improve the product quality. In addition, Huamoyan granule, Jiangzhi Tongluo Soft Capsule, Shujin Tongluo Granule and Shineway Massage Cream are included in the Chinese Pharmacopoeia (2015 version). All of the injection products of the Group have passed the new GMP certification and Shineway Pharmaceutical Sales Company Limited has passed the new GSP certification, which enhanced our enterprise brand competition.

The Group recorded increases in both its turnover and profit as compared to last year. For the year 2014, the Group recorded a turnover of RMB2,229,201,000, an increase of 1.9% from previous year. Sales by product form for the year are set out as follows:

	Sales (RMB)	**Growth Rate**	**Product Mix**
Injections	1,347,450,000	0.9%	60.4%
Soft Capsules	446,130,000	1.9%	20.0%
Granules	357,202,000	4.6%	16.0%
Other product formats	78,419,000	7.7%	3.6%

Management Discussion and Analysis

The Group's profit attributable to owners of the Company for 2014 is RMB704,775,000, representing a rise of 3.1% from year 2013. The rise in profit was mainly attributable to the increased turnover and operating profit.

Injection Products

During 2014, the Group sold RMB1,347,450,000 of injection products, an increase of 0.9% from year 2013. Amongst these injection products, Qing Kai Ling injection remained the key product of the Group. Injection products accounted for 60.4% of the Group's turnover in 2014, while they contributed 61.0% of the turnover in prior year.

There are continued market demands for Chinese medicine injection products. The Group believes that it is currently the largest Chinese medicine injections manufacturer in the PRC in terms of sales volume and production capacity. A number of the Group's injection products are designated by regulatory agencies as "Good Quality/Good Price" products. The Group's injection production capacity is approximately 3.2 billion vials per annum.

The Group considers that, Chinese medicine injection, as a significant innovation on the modernization of the Chinese medicine, its overall situation supported by the state will not change. The Group positively undertakes the basic research for the medicinal materials and the re-evaluation work for the safety of the Chinese medicine injection, further strengthen the safety of the Chinese medicine injection and the controllability on its quality. While those manufacturers with serious adverse reaction, backward technologies and lower quality will be eliminated, which will help to improve the industry concentration and expedite the survival of the fittest in the pharmaceutical industry. The good curative effect of Chinese medicine injection will be recognized by the market and the Group's advantages of quality, cost, size and brand will become more prominent.

In the coming year, the Group will continue focus on academic education to expand our point of sales and further strengthen promotion efforts of end user market to ensure better growth of our injection products.

Soft Capsule Products

In 2014, our soft capsule products gained the PRC and Australia GMPD certification, the Group recorded RMB446,130,000 on sales of soft capsule products, an increase of 1.9% from last year. The increase was mainly driven by the increased sales of Huo Xiang Zheng Qi Soft Capsule and Compound Trivitamin and Linolic Acid Soft Capsule I.

Soft capsule products accounted for 20.0% of the Group's turnover in 2014, as compared to 20.0% in last year. The Group's current production capacity for soft capsules is 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsules manufacturer in the PRC in terms of sales volume and production capacity.

The Group will continue to strengthen our brand promotion and marketing effect on our soft capsules products to advance their business growth in the coming year.

Management Discussion and Analysis

Granule Products

Sales of granule products in 2014 increased by 4.6%, amounted to RMB357,202,000. This was mainly attributable to the year-on-year sales increase of Pediatric Qing Fei Hua Tan Granule and Liyan Jiedu Granule.

Granule products accounted for 16.0% of the Group's turnover in 2014 as compared to 15.6% in 2013.

The Group's new granule and tablet workshop commenced production in previous year with annual production capacity for granule products of 3.4 billion bags per annum. The Group believes that it is currently the largest Chinese medicine granules manufacturer in PRC in terms of sales volume and production capacity.

Other Products

Sales of other products in 2014 increased by 7.7% compared to last year, amounted to RMB78,419,000. The increase was mainly attributable to the rise in sales of Xuesaitong Diwan and our ointment products as compared with last year.

Key Products

The six key products of the Group were Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Pediatric Qing Fei Hua Tan Granule.

Qing Kai Ling Injection – a widely used anti-viral medicine for treatment of viral diseases including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis

Our Qing Kai Ling Injection is the major contributor to the Group's turnover, owing to the price reduction as a result of medicine bidding, its sales in 2014 decreased from last year.

Qing Kai Ling Injection is listed in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". It is designated by the State Administration of Traditional Chinese Medicine as an "Indispensable Chinese Medicine for the Emergency Wards of Chinese Hospitals". It is also recommended by the Ministry of Health of the PRC for treating Human Transmitted Avian Flu and the A(H1-N1) Flu. The product has broad clinical applications. Qing Kai Ling Injection produced by the Group is a famous anti-viral medicine.

Qing Kai Ling Injection has been included by the Ministry of Health in the Essential Drug List in 2010. The Group believes with vigorously investment in building the New Rural Cooperative Medical Care System by the State, Urban Resident Basic Medical Insurance and implementing the Essential Drug List by the PRC, as well as the Measures for the Administration on the Clinical Application of Antibacterial Medicines launched by the Ministry of Health of the PRC in August 2012, which will restrict the overuse of antibacterial medicines in clinics, market demand of heat clearing and anti-toxic Chinese medicine, especially for Qing Kai Ling Injection, is expected to grow vastly. The Group believes that it is the largest manufacturer of Qing Kai Ling Injection in the PRC based on sales volume and sales amount. The Group will further enhance market coverage and penetration of end networks, as well as to strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain steady growth.

Shen Mai Injection – for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease

Owing to the price reduction as a result of medicine bidding, sales of Shen Mai Injection in 2014 decreased compared with last year.

Shen Mai Injection is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance and the Essential Drug List. It is also included in the recommendation of the Ministry of Health of the PRC for treating Avian Flu and the A(H1-N1) Flu.

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. The Group will strive to further expand market share and penetration for Shen Mai Injection to generate further growth in the coming years.

Shu Xie Ning Injection – for treatment of cardio-cerebrovascular disease

In 2014, sales of Shu Xie Ning Injection increased compared with last year.

Shu Xie Ning Injection is designated as a "Good Quality/Good Price" product by the PRC authorities. It is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance and is one of the first tier medicines for treatment of cardiovascular diseases. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and look for strategic distributors and rationalize distribution channels to achieve continuous growth.

Management Discussion and Analysis

Wu Fu Xin Nao Qing Soft Capsule – for prevention and treatment of coronary heart disease and cerebral arteriosclerosis

In 2014, sales of Wu Fu Xin Nao Qing Soft Capsule decreased compared with last year.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular Chinese medicines in the country. The "Wu Fu" trademark was certified as a "China Famous Trademark". It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and deepen our end-user market coverage and exercise more support to our distributors by increasing promotional activities and education to the end-users to broaden its sale.

Huo Xiang Zheng Qi Soft Capsule – for prevention and treatment of heat stroke, stomachache, nausea and diarrhoea, acclimatization sickness

In 2014, sales of Huo Xiang Zheng Qi Soft Capsule increased compared with last year.

Huo Xiang Zheng Qi Soft Capsules is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also recommended by the Ministry of Health of the PRC for Avian Flu and the A(H1-N1) Flu. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular OTC Chinese medicine.

The Group will continue to expand end market coverage. Furthermore, we will expedite partnership with strategic distributors and chain drugstores, and increase promotion to strive for better growth of Huo Xiang Zheng Qi Soft Capsule.

Pediatric Qing Fei Hua Tan Granule – for children infected by respiratory related disease

In 2014, sales of Pediatric Qing Fei Hua Tan Granule increased compared with last year.

Pediatric Qing Fei Hua Tan Granule has superb curative effect and has become a famous brand of children coughing medicine. The Group will adjust sales strategy and utilize the synergistic advertisement effect of both internet and TV, while continue to increase advertising and joint promotional campaign with chain drug stores at the same time. It is expected the sales of our Pediatric Qing Fei Hua Tan Granule will increase in 2015 and the sales of our entire "Shen Miao" series products will be benefited by the synergistic effect of this product.

Emerging Products

Huang Qi Injection – for treatment of viral myocarditis, heart malfunction and hepatitis

In 2014, sales of Huang Qi Injection increased compared with last year.

Huang Qi Injection is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. Viral myocarditis has become more prevalent in recent years. With a proven efficacy on such illness, Huang Qi Injection has strong market potential. The Group will continue to further enhance market coverage and penetration and growth in sales of Huang Qi Injection is expected in the coming years.

Qing Kai Ling Soft Capsule – for treatment of high fever, viral influenza and respiratory tract infection

In 2014, sales of Qing Kai Ling Soft Capsule decreased compared with last year.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine.

Benefited greatly by the synergistic effect of Qing Kai Ling Injection, the Group will further expedite partnership with strategic distributors and chain drug stores, and increase promotion effort to ensure sales momentum of this product.

Huamoyan Granule – for treatment of both acute and chronic synovitis and treatment after joints surgery

In 2014, sales of Huamoyan Granule increased compared with last year.

Synovitis is currently a relatively common type of arthropathy which widely affects the mid-aged group, senior citizens, athletes and patients after joint surgeries. Huamoyan Granule produced by the Group is the first innovative medicine approved by the State Food and Drug Administration for the treatment of synovitis. It is an original and self-developed product with proprietary formulations, marking a milestone for the treatment of synovitis and bringing the same to a new height. With the Group's intensified presence in the end market of hospitals and the advancement of the promotion to professionals and academics, this product has obtained sound performance and returns from the market with an on-going momentum for growth.

Management Discussion and Analysis

Shujin Tongluo Granule – for treatment of spondylosis, neck stiffness and symptoms such as pains of neck, shoulder and back

In 2014, sales of Shujin Tongluo Granule increased compared with last year.

The increase in the number of people who tilt down their heads during work has resulted in a growing prevalence of spondylosis nowadays, and the disease has also shown a trend of younger. Shujin Tongluo Granule produced by the Group is currently the only proprietary and multi-target Chinese medicine in the market which addresses both symptoms and root causes to continuously mitigate the symptoms of spondylosis. It also has a noticeable effect on curing both nerve root type and vertebral artery type of spondylosis, hence offering clinical doctors with a new choice for the treatment of spondylosis. After the ongoing academic promotion in recent years, Shujin Tongluo Granule has achieved strong market growth.

Jiangzhi Tongluo Soft Capsule – for treatment of symptoms such as hyperlipidemia, chest and hypochondrium pain and chest tightness

In 2014, sales of Jiangzhi Tongluo Soft Capsule increased compared with last year.

Jiangzhi Tongluo Soft Capsule produced by the Group is a national key new product jointly certified by four ministries and commissions, including the Ministry of Science and Technology of the PRC. It is used for the revitalisation of blood and "Qi" circulation and for lowering blood cholesterol. Jiangzhi Tongluo Soft Capsule is superior to the existing blood cholesterol drugs in terms of effectiveness, and its liver protection ability provides what other similar clinical products lack, and is therefore a clear choice for patients undergoing long-term hyperlipidemia treatment. The Group will continue to promote the product to professionals and academics, provide physicians with information regarding the product and increase brand awareness so as to establish it as the best brand among other cholesterol-regulating drugs.

New Products

Qi Huang Tong Mi Soft Capsule – for treatment of qi deficiency type constipation, appropriate for habitual constipation of the mid-aged group, senior citizens

This product has completed Phase IV clinical research and long-term toxicity experiment, and obtained favorable clinical trials verification. Experiment result indicated a good security in the clinical application dosage. Such product will become one of the common traditional Chinese medicine for treatment of clinical constipation.

Dan Deng Tong Nao Hard Capsule and Soft Capsule – for treatment of stroke caused by congestion, appropriate for treatment and recovery of ischemic infarction

This product is listed in the National Catalogues of Medicine Insurance and Occupational Injury Insurance, with nation-wide medical insurance, superior formula, typical material and unique material source. In the formula, salvia miltiorrhiza, as sovereign drug, is made from little purple salvia miltiorrhiza in Yunnan with erigeron breviscapus, ligusticum wallichii, arrowroot as auxiliary materials, and erigeron breviscapus is a kind of typical medicine material in Yunnan. The Group plan to launch it as a major product in 2015.

Research and Development

The Group strategically established own R&D system including two major parts: internal R&D system and external R&D system. The internal R&D system set up three-level R&D system in a systematic way, while the external R&D system comprises the internal and international R&D system. Planned and organized for three years, the internal three-level R&D system of the Group was completely set up at the end of 2014.

The formation of internal three-level R&D system of the Group: the named three-level R&D system has following compositions and corresponding functions. 1) the first-level R&D system Operates with SHINEWAY Medicine Research Center as core, SHINEWAY Medicine Research Center is located at Yanjiao district of Hebei province, near to Beijing city, and its main function is to develop new medicines. 2) the second-level R&D system comprises two departments, namely technological department and medical department. This system plays a role of quality optimization and evidence-based medicine research of the listed products. Technological department is responsible for quality optimization of the listed products, including optimization of technology, quality improvement, energy conservation and waste gas emission mitigation, cost reduction, and establishment of corresponding technological platform in accordance with the production technology categories of products. Medical department is responsible for evidence-based medicine research of products including underlying evidence-based research and clinical evidence-based research, and mainly to provide the market department with evidence-based information and to assist it to develop new market. 3) the third-level R&D system represents the technician in the front line of production. This system operates by form of R&D groups with workshops as units, vice director of the workshop as headman, and technician or artisan as members. Its main function is to supervise the implementation of SOP and GMP for specific product in production, guarantee the quality of products, resolve technological difficulties in time, and report to senior organization for settlement in respect of significant problems.

Projects from Shineway's innovation research and development system achieved significant achievement in 2014, including one new drug application, one production application, two new drugs clinical trials applications to China Food and Drug Administration and three products in food category reported for the completion of the Chinese research and applied for trial production. We had 14 new projects in 2014 including 4 Chinese medicine projects, 6 chemical drugs projects and 4 healthcare product projects. There were 16 patent applications, including 1 patent transfer, and 8 patent authorization. There were 2 National Quality applications, 2 National Major Projects, 1 International Cooperation Project Funds Projects, 1 Ministerial Scientific and Technological Project, 2 Provincial Scientific and Technological Projects, 1 National Science and Technology Advancement Second Prize Award and 1 Provincial Award. Projects under research and development comprise 12 traditional Chinese medicines, including injection and oral preparation and one first-class new medicine; 10 chemical drugs with focus on R&D area of anticancer drug and cancer adjuvant; 1 listed product made from bio-pharmaceuticals, which is in the progress of clinical evidence-based medical research, research of proteomics and strict market layout; 10 health R&D projects, which focus on the development of mid- to high-end products and sufficiently absorb scarce materials to meet core need of health.

Management Discussion and Analysis

In 2014, the medical department was established as independent R&D department and actively conducted the evidence-based medical research for listed products, and set up 14 projects including one clinical trial Phase IV research. Evidence-based research focused on major products and products with market potential. Medical department cooperates closely with market department to actively prepare for development of high-end market and provide systematic medical information for the marketing of listed products, so as to be in line with new layout and new plan of marketing.

In 2014, technology department and the whole three-level R&D system comprehensively systemize three main technology platforms and corresponding key products. Three main technology platforms represent technology platforms for traditional Chinese medicine injection, soft capsule preparation and traditional Chinese medicine granule. The Group recorded significant achievement in terms of further optimizing production technology, raising and ensuring quality, reducing production cost, energy conservancy and environmental protection. Of which, the comprehensive quality control system for traditional Chinese medicine injection and its application in Qing Kai Ling, Shu Xue Ning and Shen Mai injection was awarded the second prize of National Science and Technology Advancement Award.

At the beginning of 2015, the R&D system newly established by the Group will comprehensively plan for the product development and technology supporting, and our whole technicians team will work actively. Thus SHINEWAY will enter into a new era heading for high-end pharmaceutical industry and internationalization.

PATENT APPLICATIONS

The Group continued to strengthen the protection of its intellectual property rights. During 2014, the Group received 12 invention patents from State Intellectual Property Office of the PRC.

As at the date of this annual report, the Group has obtained 43 patents for our inventions, and a total of 23 patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

As of 31 December 2014, the Group had 3 products listed as State Protected Chinese Medicines, including Jiangzhi Tongluo Soft Capsule, Xuanmai Ganjie Lozenge and Shujin Tongluo Granule.

PROSPECT

In recent years, medical industry grew steadily, following the extension of medical reform, the coverage of medical insurance expanded significantly, the medicine quality standard system and management were improved constantly, and the relevant policies issued by the State Council accelerated the development of health service industry, all these indicated a prosperous future of the medical industry development. Currently, the medical industry is in a key period during which its structure is transformed and upgraded, such industry will experience a remarkable growth in its innovation ability and a larger breakthrough in its future development.

Following the extension of the new version of Essential Drug List and the supplemental Essential Drug catalogues of provinces, the sales volume in fundamental medical market constantly increases, and the superior growth enterprises with continuous competition will provide a favorable opportunity for its rapid growth. While, the medical industry also faces uncertainties in many aspects including medical insurance payment system reform, drug price reduction and medical tenders, all of which will be the main policy factors unchangeably affect the industry growth and profit margin in the future. Therefore, the medical industry development will be full of opportunities and challenges.

Official implementation of the new version of GMP, especially the coming end of sterile preparation of oral products following the end of sterile preparation of injection products causing the potential elimination of non-compliance enterprises, will lead to a reset in medical industry and an accelerated improvement in industry concentration. It is helpful to the orderly competition and survival of the fittest. All the product lines of SHINEWAY have fully passed the new version of GMP certification, which sets up a leader position in the industry and promotes the improvement of quality regulation system of our enterprise.

SHINEWAY focuses on the main business of modern Chinese medicine, positively copes with policy changes, strengthens the academic education and terminal network construction, improves the control of terminals; speeds up R&D and merger matters, adjusts the products structure; accelerates the construction of talents team, improves the professional capacity of employees, creates a positive organizational atmosphere, stimulates the innovation energy of employees; promotes outstanding performance, enhances the operation and management ability. Basing on the brand effectiveness and mature marketing network and scientific research innovation strength, the Group will try to realise a maximization in the efficiency of marketing value chain through making new products available continuously in the market and striving to innovate patterns and improve marketing ability, to ensure the achievement of strategic target of our Group.

GROWTH STRATEGIES

The Group shall consistently implement the following growth strategies, together with our strong management team and our enormous manufacturing capacity to attain higher growth and return:

1. Marketing Strategy

- Study health care system reform policy, cope with market changes, focus on three terminals – hospital, drug store and grass-root medical institution, strengthen academic education, improve terminal coverage and enhance the productivity of the target terminals.

- Integrated commercial channel platforms, sufficiently take advantage of the channel, optimize customer structure and strengthen customer management by objectives.

- Seize opportunities of the fundamental pharmaceuticals market, make intensive cultivation for grass-root medical terminals and promote the coverage and sales volume of the fundamental pharmaceutical products.

- Make innovative breakthrough in the high-end hospitals market, implement refined management, intensify the promotion of new products and raise the hospitals terminal market share.

- Build OTC professional sale teams in major cities, develop over ten thousands drug stores, strengthen strategic cooperation with retails in major cities, enhance price management and improve the sales volume of terminals.

- Focus on over one thousand districts and counties, achieve to cover over ten thousands health centers (communities), drug stores and over one thousand county hospitals and raise terminals coverage.

- Strengthen brand construction, integrate media resources, intensify stereo promotion of the online advertisements and implementation of the offline academic and terminal educational activities, comprehensively improve the use efficiency of advertisement resources, and raise the public awareness of our product band and resource utilization.

- Reinforce academic marketing, complete the academic promotion system of full products with academic marketing oriented, and dig the core value of products to improve the strength of our product.

2. Expanding Manufacturing Capacity

The new and modified workshops expand the overall Chinese medicine extraction capacity of injections and granules. Our new injection workshop has gained its new GMP certification and commenced production. On the other hand, our new extraction workshop has also completed its testing stage and started production during the year. Our extraction capacity has increased from 10,000 tons to 20,000 tons.

3. Product Strategies

- Further increase sales contribution and achieve steady growth in core products (namely Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Pediatric Qing Fei Hua Tan Granule).

- Continue to nurture emerging products (such as Huang Qi Injection, Qing Kai Ling Soft Capsule, Huamoyan Granule, Shujin Tongluo Granule and Jiangzhi Tongluo Soft Capsule) and promote their sales volume.

- Strengthen the development of new products on the market, focusing on cultivating exclusive new products, increase efforts to promote and enhance the proportion of sales of new products.

- Focus on grassroots, retail and hospital major terminal markets. To deploy product portfolio strategy and implementation of the product development plan.

4. Merger, Acquisition and Investment Strategies

- Leverage on the favorable opportunity that the extensive reform in pharmaceutical market and the implementation of new version of GMP speed up the upgrading of the transformation, in virtue of the resource advantage of the Group's brand, sales network and management experiences, rapidly offset the inadequacies in the Group's existing products and production capacity, and integrate the market resources, so as to drive the rapid development of the Group.

- Strengthen and diversify the Chinese medicine product line of the Group, actively seek and merge those Chinese medicine products with market potential, and build series of product groups of tumour medicines, cardiovascular medicines, diabetes medicines, anti-viral medicines and gynecological drugs, etc.

- Seek good strains, diversify chemical drug product chains, realise the development and production of the chemical drug, and gradually expand its sales scale, with expectation of effectively supplement the sales business of our Chinese medicine.

- Extend new areas for prescriptive Chinese medicine granules, we have completed the research work on the preparing technology and quality standard required by the State Administration of Traditional Chinese Medicine for over 600 kinds of prescriptive Chinese medicine granules which are also eligible to be used clinically by medical units above the county level in Hebei Province, and will be a new growth point of our business.

FINANCIAL ANALYSIS

Turnover

In 2014, the Group recorded an increase in turnover of 1.9% from last year. Sales of injection products reached RMB1,347,450,000, up 0.9% as compared with 2013. Sales of injection products now account for 60.4% of the Group's turnover. Sales of soft capsule products were RMB446,130,000, up 1.9% from last year. Soft capsule products now account for approximately 20.0% of the Group's turnover. Sales of granule products amounted to RMB357,202,000, up 4.6% from last year. Granule products now account for 16.0% the Group's turnover. Sales of the Group's products of other formats were RMB78,419,000 which accounts for approximately to 3.6% of the Group's turnover.

Management Discussion and Analysis

During the year, turnover of medicines for cardiovascular diseases, anti-viral medicines, medicines for curing respiratory system and medicines for treating other illness respectively accounted for 47.0% (2013: 46.4%), 31.4% (2013: 32.4%), 5.5% (2013: 5.8%) and 16.1% (2013: 15.4%) of the Group's total turnover respectively in 2014.

Turnover of prescription and non-prescription medicines of the Group were RMB1,833,522,000 and RMB395,679,000, accounting for approximately 82.3% and 17.7% of the total turnover respectively in 2014. As at 31 December 2014, the Group had over 60 products that were included in the Essential Drug List.

Cost of Sales

Cost of sales in 2014 was RMB751,198,000, representing 33.7% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 69.2%, 11.1% and 19.7% of total cost of sales.

Gross Margin

For 2014, average gross margins of injection products, soft capsule products and granule products were 66.3%, 71.9% and 61.5% respectively. Overall gross margin was 66.3%.

Other Income

Other income mainly includes government subsidies of RMB49,412,000 (2013: RMB83,989,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in PRC by the Group.

Investment Gain

Investment gain mainly includes interest income from bank deposits and investments in debt securities of RMB54,678,000 (2013: RMB59,543,000) and RMB75,025,000 (2013: RMB29,846,000) respectively.

Distribution Costs

During the year the Group strengthened its cost control policy, the distribution costs have decreased by 6.3% and accounted for 18.5% of turnover in 2014 as compared to 20.1% in last year.

Administrative Expenses and Research and Development Costs

Administrative expenses and research and development costs have increased by 5.9% from last year, representing 16.4% (2013: 15.8%) of the Group's turnover. Rise in administrative expenses was mainly due to the employees' share-based payment expense has increased from RMB13,996,000 in last year to RMB31,512,000 in 2014. Administrative expenses also comprised of non-productive depreciation expenses of fixed assets which accounts for 1.2% of the Group's total turnover in 2014 (2013: 0.8%). Research and development expenses have decreased by 3.4% from last year, accounted for 3.6% of the Group's turnover in 2014 as compared to 3.8% in 2013.

Income Tax Rate

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

Certain subsidiaries which are operating in the Western China or recognised as High and New-Tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC Enterprise Income Tax at concessionary rate of 15% for both years. The tax concessions granted to certain subsidiaries operating in the Western China or recognised as High and New-Tech Enterprise will expire in 2020 and 2014 respectively.

Dividends

Details of dividends and dividend policy are set out in the director's report on page 32 of this annual report.

Capital Structure

As at 31 December 2014, there was no change in the capital structure and issued share capital of the Group.

Liquidity and Financial Resources

As at 31 December 2014, bank deposits of the Group approximately amounted to RMB2,688,148,000 (2013: RMB2,291,905,000), of which RMB2,644,326,000 (2013: RMB2,235,932,000) were denominated in RMB, others being equivalent to RMB34,239,000, RMB9,443,000 and RMB140,000 (2013: RMB46,109,000, RMB9,727,000 and RMB137,000) were denominated in Hong Kong Dollars, Australian Dollars and United States Dollars respectively.

The directors of the Company (the "Directors") believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

Bills and Trade receivables

As at 31 December 2014, bills and trade receivables decreased by 13.3% and increased by 28.0% respectively as compared to the balance as at 31 December 2013. Turnover days of bills and trade receivables were 102.4 days and 1.9 days (2013: 97.7 days and 2.5 days respectively).

Inventories

As at 31 December 2014, inventories in the amount of RMB285,672,000 increased by 16.8%, as compared to the balance as at 31 December 2013. As at 31 December 2014, raw materials, work in progress and finished goods accounted for 46.7%, 22.0% and 31.3% (2013: 47.1%, 24.3% and 28.6%) of inventories respectively. Turnover of finished goods inventories in 2014 was 38.7 days as compared to 34.6 days in 2013.

Management Discussion and Analysis

Property, Plant and Equipment

As at 31 December 2014, property, plant and equipment amounted to RMB1,574,725,000 decreased by 1.5%. The new construction works of plants located in Shijiazhuang, Langfang and Sichuan comprised injection workshop projects amounted to approximately RMB27,051,000; extraction workshop projects amounted to approximately RMB30,377,000 and new administrative buildings and peripheral facilities amounted to approximately RMB22,010,000. Besides there was also new additions to plant and machineries of approximately RMB9,744,000 during the year.

Acquisition of a subsidiary

In March 2014, the Group acquired 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited (formerly known as Jinan Quanli Pharmaceutical Company Limited) at an aggregate consideration of RMB8,000,000 and since then it became a subsidiary of the Group. This subsidiary was incorporated in PRC with principal activities in manufacturing and trading of medicine.

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. Intangible assets balance as at 31 December 2014 increased by 44.0 times to RMB23,286,000 from 31 December 2013, such increase was mainly attributable to the addition of drugs production licenses via acquisition of Shineway Pharmaceutical Group (Shandong) Company Limited (formerly known as Jinan Quanli Pharmaceutical Company Limited) in 2014.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, the acquisition of 100% equity interests of Shineway Pharmaceutical (Zhangjiakou) Co., Ltd and Shineway Pharmaceutical (Sichuan) Company Limited in 2010 and the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited (formerly known as Jinan Quanli Pharmaceutical Company Limited) in 2014.

Bills and Trade Payables

As at 31 December 2014, turnover days of bills and trade payables were 9.7 days and 92.8 days (2013: 8.0 days and 118.6 days).

Loans and Bank Borrowings

As at 31 December 2014, the Group had bank borrowings and bills payables amounted to RMB200,000,000 (2013: RMB500,000,000) and RMB28,481,000 (2013: RMB11,427,000) respectively. These liabilities are repayable within one year. Bank deposits of RMB240,410,000 (2013: RMB538,690,000) were pledged to banks to secure these bank borrowings and bills payables. Hence, the Group's gearing ratio based on interest bearing debt for the year is 4.1% (2013: 11.3%).

Pledge of Assets

As at 31 December 2014, the Group secured the bank borrowings of RMB200,000,000 (2013: RMB500,000,000) and bills payables of RMB28,481,000 (2013: RMB11,427,000) by pledging bank deposits amounting RMB240,410,000 (2013: RMB538,690,000).

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2014 (2013: Nil).

Exposure to Fluctuations in Exchange Rates

A majority of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and a majority of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange loss for the year was arising from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2014, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Employees

As at 31 December 2014, the Group had 4,567 (2013: 4,260) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

Directors and Senior Management

DIRECTORS

Executive Directors

LI Zhenjiang (李振江), aged 59, is an executive Director and one of the founders of the Group. Mr. Li obtained an EMBA degree from the Yangtze Commercial Institute. Mr. Li joined the predecessor of the Group in 1974 and has been the Chairman and President of the Group and its predecessor since 1984 with responsibility for business development and strategy. He has more than 20 years' experience in the operation and management of modern Chinese medicine enterprises. Mr. Li takes charge of the overall management of the Group and is also specifically responsible for the Group's research and development activities. Mr. Li is a Representative to the 10th and 11th National People's Congress. He was named as an Outstanding Entrepreneur in the PRC Pharmaceutical Industry in 1994 and has received a National Wu Yi Labour Award and special subsidies of the State Council. Mr. Li is the vice-chairman of the PRC Chinese Medicine Association. Mr. Li is also directors of several members of the Group. Mr. Li is the father of Ms. Lee Ching Ton Brandelyn, the executive Director.

XIN Yunxia (信蘊霞), aged 51, is an executive Director and one of the founders of the Group. Ms. Xin graduated from the Yangtze Commercial Institute with an EMBA degree. Ms. Xin is primarily responsible for the Group's human resources management and operation. Ms. Xin joined the predecessor of the Group in 1981, focused on administration. She was the Deputy General Manager (human resources management) of Shineway Medical immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Xin has more than 20 years' experience in business management in the industry with the Group.

LI Huimin (李惠民), aged 47, is an executive Director. He graduated from Hebei Party School in 1997 where he majored in economic administration. He is primarily responsible for the marketing and sales of the Group's products and, since joining the Group in 1992, focused on sales and marketing. Immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004, Mr. Li was the sales and marketing manager of Shineway Medical. He has developed a deep understanding of sales management in the PRC Chinese medicine industry with more than 15 years' experience. Mr. Li is a vice-chairman of Hong Kong Chinese Prepared Medicine Traders Association since 2010.

LEE Ching Ton Brandelyn (李婧彤), aged 32, is an executive Director appointed in 2012. She has studied in the United Kingdom and Australia, majoring in business administration. Ms. Lee has solid knowledge in finance principles. Ms. Lee has worked in areas relating to corporate development in the Company, thus has accumulated a definite amount of administration and management experience. She has been the Company's Executive Assistant since August 2010. Ms. Lee is the daughter of Mr. Li Zhenjiang, the chairman and the executive Director.

WANG Zheng Pin (王正品), aged 61, is an executive Director appointed in 2013. He is a United States citizen. He obtained doctor's degree in China and attended postdoctoral training in Biochemistry in the United States. He has 20 years of experience in research on traditional Chinese medicine, around 15 years of experience in research and industrialized pharmaceutical products, and 8 years of teaching experience in university. He has served as chief scientific officer in a pharmaceutical company in China, and has also served as a chief technology officer in an American biopharmaceutical company. He has solid knowledge and skills on pharmaceutical product development. He has joined the Company as Chief Scientific Officer since May 2013.

CHEN Zhong (陳鍾), aged 48, is an executive Director appointed on 1 December 2014. He is qualified as a chief senior engineer and is a certified pharmacist. He graduated from Hebei Medical University in 1990 with a bachelor's degree in pharmacy. Mr. Chen is a leader of Modern Traditional Chinese Medicines Manufacturing Technology of Hebei Province, chief officer of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection, chief officer of Chinese Medicine Injection Engineering and Technology Research Centre in Hebei Province, general vice-officer of National-Recognition on Enterprise Technology Centre, deputy officer of specialized committee of traditional Chinese medicines on economic in China Association of Traditional Chinese Medicine and price review expert on medicines in National Development and Reform Commission of the People's Republic of China. Mr. Chen joined the Company's group in 1990 and is currently the vice president of the Shineway Pharmaceutical Group Limited (formerly known as Shineway Pharmaceutical Company Limited), director of Hebei Shineway Pharmaceutical Company Limited, director of Xizang Shineway Pharmaceutical Company Limited and director of Shineway Pharmaceutical (Hainan) Company Limited. He is responsible for quality control on production and technology management activities of the Company's group with over 20 years of experience.

Independent Non-Executive Directors

HUNG Randy King Kuen (孔敬權), aged 49, was appointed as an non-executive Director in 2011, and was re-designated to independent non-executive Director on 17 February 2014. Mr. Hung holds an MBA degree from the University of London, a bachelor's degree of science in accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance. He has extensive experience in corporate finance and investor relation. Mr. Hung is currently an executive director and chief financial officer of China Fiber Optic Network System Group Limited (stock code: 3777), and an independent non-executive director of Zhongyu Gas Holdings Limited (stock code: 3633). Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, a vice chairman of the Hong Kong Investor Relations Association and a council member of the Hong Kong Institute of Directors.

Directors and Senior Management

CHENG Li (程麗), aged 55, was appointed as an independent non-executive Director in 2006. She has a legal science bachelor's degree and the legal science master's degree from the law department of Japan Special Training University. She also studied in Sino-Japanese Investment Trade Promotion Association. She joined Commerce & Finance Law Office in 1995 and became a partner of Commerce & Finance Law Office since 2002. She is currently a member of Beijing Lawyer Association.

SUN Liutai (孫劉太), aged 51, was appointed as an independent non-executive Director in 2010. He has studied postgraduate programme in Economic Management Institute of North Western University. Mr. Sun has sound experience in accounting profession and finance. In 2003, he was appointed by Hebei Securities and Futures Commission to investigate a company listed on Shenzhen Stock Exchange. He worked as an assistant manager of general strategic department in China Investment Bank Hebei branch from 1987 to 1992, and worked as an assistant general manager in a Hebei Investment Management Consultancy Company in 1992 to 1995. He then worked as a principal accountant in Hebei Yongzhengde Certified Public Accountants from 1995 to 2002, during which he was engaged in audit of a company listed on the Shanghai Stock Exchange. Mr. Sun was appointed as a partner of Hebei Peking Certified Public Accountants from 2002 to present. Mr. Sun was a general committee of Hebei Society of Certified Public Accountants in 2002 to 2008, and was employed as an independent director and audit in-charge of Qinhuangdao Yaohua Glass Co., Ltd (a company listed on the Shanghai Stock Exchange, stock code: 600716) from May 2002 to June 2008. He is a Chinese Certified Public Accountant.

REN Dequan (任德權), aged 71, was appointed as independent non-executive Director in 2006 and resigned on 17 February 2014. Mr. Ren graduated from East China Chemical Industry Institute (now known as East China Engineering University). He has previously served as the deputy general manager of China Medicinal Herbs Corporation, director of science and technology education of National Medicine Administrative Bureau, general manager of China Pharmaceuticals Corporation, deputy commissioner of National Chinese Medicine Administrative Bureau and deputy commissioner of National Drugs Surveillance Administrative Bureau. From March 2003 to March 2005, he was appointed as assistant commissioner of National Food and Drug Surveillance Administrative Bureau. In 2005, he has retired and was appointed as the honorary president of the Modern Chinese Medicine International Association.

SENIOR MANAGEMENT

WANG Qinli (王欽禮), aged 52, is the Deputy General Manager since 2003. Mr. Wang graduated from Henan Chinese Medical Institute with a bachelor's degree in Chinese medicine in 1986. Prior to joining the Group, Mr. Wang has worked in technology and new medicine research at a pharmaceutical manufacturer from 1986 to 1996 in Henan Province, the PRC, where he was promoted to Head of New Medicine Research and Head of Technology Department. Mr. Wang joined the Group in 1996 as manager of the research and development department. Mr Wang is responsible for overseeing the Group's production management and technology development.

YANG Chuanjun (楊傳俊), aged 50, re-joined the Group in August 2014 as Deputy Sales Manager, responsible for the Group's sales activities. Mr. Yang obtained a bachelor's degree in Clinical Medicine from Tongji University, a master's degree in Pharmaceutical Science from Shanghai Institute of Materia Medica of University of Chinese Academy of Sciences and a MBA degree from University of Calgary. Mr. Yang has worked in sales or marketing department in such multinational corporations as Amgen Greater China, GlaxoSmithKline China and Mundipharma (China) Pharmaceutical (formerly known as Beijing Mundipharma Pharmaceutical). Mr. Yang has committed in sales and marketing activities in China Shineway from 2003 to 2009, with extensive sales experience in the Company and industry.

LUK Yat Hung (陸一鴻), aged 56, is the Investor Relation Manager of the Group. Mr. Luk is a fellow member of both Chartered Association of Certified Accountants of the United Kingdom and Hong Kong Institute of Certified Public Accountants with a master degree in business administration with Oklahoma City University and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Prior to joining the Group, Mr. Luk served in a number of international conglomerates and listed groups as chief financial officer and executive director responsible for corporate finance, investor relations and corporate communication. Mr. Luk joined the Group in 2010. Mr. Luk is responsible for the Group's investor relations and corporate communication.

LEE Bun Ching Terence (李品正), aged 42, is the Financial Controller of the Group. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor degree in Accounting and Financial Analysis and a master degree in Economics and Finance from the University of Warwick in the United Kingdom. Mr. Lee has extensive work experience in the field of auditing, accounting, finance and taxation. Prior to joining the Group, he served as the Group Accounting Controller of a listed company in Hong Kong for over 3 years. Between 1996 and 2007, Mr. Lee worked in a reputable international accounting firm and was a Senior Manager when he left in 2007. He joined the Group in 2011.

COMPANY SECRETARY

WONG Mei Shan (汪美珊), aged 40, is the Company Secretary and Finance Manager of the Group. Ms. Wong is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants. She has a bachelor's degree in Accounting from the Hong Kong University of Science and Technology and a bachelor of Laws from the University of London and has extensive work experience in accounting. Prior to joining the Group, Ms. Wong has worked in two international accounting firms for 5 years and was an Assistant Manager when she left in 2002 and in a subsidiary of a listed company in Hong Kong as an accountant for 3 years. Ms. Wong joined the Group in 2006.

Directors' Report

The Board is pleased to present to the shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are research, development, manufacture and trading of modern Chinese medicines.

RESULTS

The results of the Group for the year ended 31 December 2014, prepared in accordance with the international accounting standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this annual report.

DIVIDENDS

An interim dividend of RMB11 cents per share, amounting to RMB90,970,000, was paid to the shareholders on 31 October 2014.

The Board now recommends a final dividend of RMB12 cents per share and a special dividend of RMB10 cents per share for the year ended 31 December 2014, to be paid on 19 June 2015, to the shareholders whose names appear on the register of members of the Company on 9 June 2015. The proposed final dividend and special dividend will be voted by shareholders at the annual general meeting (the "AGM") to be held on 29 May 2015.

FINANCIAL HIGHLIGHTS

A summary of the results and assets and liabilities for the last five years, as extracted from the relevant audited financial statements, is set out on page 3 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in the Consolidated Statement of Changes In Equity and also in note 26 to the consolidated financial statements. As at 31 December 2014, the Company's reserves available for distribution to shareholders amounted to RMB725,110,000 (2013: RMB688,428,000).

DEBENTURES

The Company has not issued any debentures during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. Li Zhenjiang
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
Dr. Wang Zheng Pin
Mr. Chen Zhong (appointed on 1 December 2014)

Independent Non-Executive Directors:

Mr. Hung Randy King Kuen (re-designated on 17 February 2014)
Ms. Cheng Li
Mr. Sun Liutai
Mr. Ren Dequan (resigned on 17 February 2014)

The biographical details of the Directors are set out on pages 28 to 30 of this annual report.

Each of Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin, Ms. Lee Ching Ton Brandelyn and Dr. Wang Zheng Pin has entered into a service contract with the Company for a term of two years commencing from 1 October 2014. Mr. Chen Zhong has entered into a service contract with the Company for a term of two years commencing from 1 December 2014. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has been appointed for a term of two years. The appointment of each of the independent non-executive Directors is subject to retirement by rotation in accordance with the Company's articles of association (the "Articles of Association").

Other than disclosed above, none of the Directors has entered into or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

Directors' Report

The Company had received confirmation from each of the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered all independent non-executive Directors to be independent.

Pursuant to Article 87(1) of the Articles of Association, Mr. Li Huimin, Ms. Lee Ching Ton Brandelyn and Mr. Sun Liu Tai will retire from the Board at the forthcoming AGM. Pursuant to Article 86(3) of the Articles of Association, Mr. Chen Zhong will hold office until the forthcoming AGM. The above-mentioned Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Details of Directors' emoluments on a named basis are set out in note 10 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the consolidated financial statements, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2014, the interests and short positions of the Directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of relevant company	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust (Note)	533,288,990	64.48%
Lee Ching Ton Brandelyn	Company	Beneficiary owner	835,000	0.10%

Name of Director	Name of relevant company	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Xin Yunxia	Company	Beneficiary owner	498,000	0.06%
Chen Zhong	Company	Beneficiary owner	180,000	0.02%
	Company	Interest of spouse	100,000	0.01%

Note: These 533,288,990 shares of the Company ("Shares") are held by Forway Investment Limited ("Forway"). Forway is owned as to 100% by Fiducia Suisse SA, a trust company, in its capacity as the trustee of The Li Family 2004 Trust. The Li Family 2004 Trust is a discretionary trust, the founder (as defined in the SFO) of which is Mr. Li Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang (excluding Mr. Li Zhenjiang himself). Accordingly, Mr. Li Zhenjiang is deemed to be interested in the 533,288,990 Shares under the SFO.

Certain Directors have been granted Share Options under the Scheme (details are set out in the section headed "Share Option Scheme" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Save as disclosed above, as at 31 December 2014, none of the Directors or chief executives of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year was the Company, its holding companies, fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 31 December 2014, interest of every person (not being a Director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Forway	Beneficial owner	533,288,990	64.48%
Fiducia Suisse SA (Notes 1 and 2)	Trustee of discretionary trust	533,288,990	64.48%
Schroders Plc	Beneficial owner	41,545,988	5.02%

Notes:

(1) Interests of Forway and Fiducia Suisse SA in the Shares were duplicated.

(2) The entire issued share capital of Forway is owned by Fiducia Suisse SA in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang (excluding Li Zhenjiang himself).

Save as disclosed above, as at 31 December 2014, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The existing share option scheme (the "Scheme"), which was adopted by the Company pursuant to the written resolutions of the sole shareholder of the Company passed on 10 November 2004 is for the primary purpose of providing a flexible means of giving incentives to, rewarding, remunerating, compensating and/or providing benefits to the following participants, and for such other purposes as the Board may approve from time to time:

(i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;

(iii) any consultant, professional and other advisers to any member of the Group;

(iv) any chief executive or substantial shareholder of any member of the Group;

(v) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up Options.

The total number of shares in respect of which options may be granted under the Scheme is 80,000,000 shares, which is equivalent to 10% of the total number of shares of the Company in issue on the date of commencement of dealings in the shares of the Company on the Stock Exchange.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant in excess of HK$5 million,

Such grant of option shall be subject to prior approval of the shareholders of the Company who are not connected persons of the Company as defined in the Listing Rules.

An option must be exercised within 10 years from the date of grant or such shorter period as the Board may notify to the grantee.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Subject to terms and conditions upon which the option was granted, options may be exercise at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme has a life of 10 years and has expired on 9 November 2014.

On 2 September 2013, 5 September 2013 and 7 November 2014, 28,000,000, 500,000 and 2,000,000 share options were granted respectively to certain grantees (the "Share Option") under the Scheme, among which 4,600,000 share options were granted to executive Directors. The following share options were outstanding under the Scheme during the period:

		No. of shares comprised in Share Options					
Name of grantees	Date of grant	As at 1 Jan 2014	Granted during the year	Lapsed during the year	As at 31 Dec 2014	Note	Exercise price per share (HK$)
Ms. Xin Yunxia	2 Sept 2013	1,000,000	-	-	1,000,000	1	11.84
Mr. Li Huimin	2 Sept 2013	300,000	-	-	300,000	1	11.84
Mr. Li Huimin	5 Sept 2013	500,000	-	-	500,000	2	11.84
Ms. Lee Ching Ton Brandelyn	2 Sept 2013	800,000	-	-	800,000	1	11.84
Dr. Wang Zheng Pin	2 Sept 2013	1,000,000	-	-	1,000,000	1	11.84
Mr. Chen Zhong	2 Sept 2013	1,000,000	-	-	1,000,000	1	11.84
Other Employees	2 Sept 2013	23,900,000	-	3,500,000	20,400,000	1	11.84
Other Employees	7 Nov 2014	-	2,000,000	-	2,000,000	3	14.12
					27,000,000		

Notes:

(1) The options have a validity period of 6 years from the date of grant on 2 September 2013.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 2 September 2014 to be designated by the Company;

(ii) up to 20% within such period(s) during the year commencing on 2 September 2015 to be designated by the Company;

(iii) up to 20% within such period(s) during the year commencing on 2 September 2016 to be designated by the Company;

(iv) up to 20% within such period(s) during the year commencing on 2 September 2017 to be designated by the Company; and

(v) up to 20% within such period(s) during the year commencing on 2 September 2018 to be designated by the Company.

The market price per share immediately before the date on which the options were granted was HK$11.64.

(2) The options have a validity period of 6 years from the date of grant on 5 September 2013.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 5 September 2014 to be designated by the Company;

(ii) up to 20% within such period(s) during the year commencing on 5 September 2015 to be designated by the Company;

(iii) up to 20% within such period(s) during the year commencing on 5 September 2016 to be designated by the Company;

(iv) up to 20% within such period(s) during the year commencing on 5 September 2017 to be designated by the Company; and

(v) up to 20% within such period(s) during the year commencing on 5 September 2018 to be designated by the Company.

The market price per share immediately before the date on which the options were granted was HK$11.84.

(3) The options have a validity period of 6 years from the date of grant on 7 November 2014.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 7 November 2015 to be designed by the Company;

(ii) up to 20% within such period(s) during the year commencing on 7 November 2016 to be designed by the Company;

(iii) up to 20% within such period(s) during the year commencing on 7 November 2017 to be designed by the Company;

(iv) up to 20% within such period(s) during the year commencing on 7 November 2018 to be designed by the Company; and

(v) up to 20% within such period(s) during the year commencing on 7 November 2019 to be designed by the Company.

The market price per share immediately before the date on which the options were granted was HK$13.54.

The details of the Share Option are set out in Note 30 to the consolidated financial statements.

However, save as disclosed above, no option was granted, exercised, cancelled or lapsed during the year and as at the date of this annual report since adoption.

The number of shares available for issue under the Scheme is 27,000,000 shares, representing approximately 3.26% of the total number of shares in issue of the Company as at the date of this annual report.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2014, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers of the Group were 9.4% and 25.4% respectively of the Group's turnover for the year.

The aggregate purchases attributable to the largest supplier and five largest suppliers of the Group were 5.5% and 20.6% respectively of the Group's purchases for the year.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interests in the five largest customers or suppliers of the Group.

CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions:

Tenancy Agreement with 神威醫藥科技股份有限公司 (Shineway Medical Science & Technology Co., Ltd) ("Shineway Medical")

On 8 April 2013, a tenancy agreement (the "Tenancy Agreement") was entered into between Xizang Shineway Pharmaceutical Company Limited ("Xizang Shineway") and Shineway Medical, a connected person of the Company by virtue of being indirectly owned by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Tenancy Agreement, Shineway Medical has conditionally leased to Xizang Shineway a portion of office space with an area of approximately 1,147 square meters in the office owned by Shineway Medical for a period of 2 years from 1 January 2013. For the year ended 31 December 2014, rental expenditure paid by Xizang Shineway to Shineway Medical amounted to approximately RMB2,302,964 (2013: RMB2,302,964).

On 12 February 2015, the Tenancy Agreement has been renewed for a period of three years from 1 January 2015. The proposed annual caps of the Tenancy Agreement for the three years ending 31 December 2017 are RMB2,302,964.

General Services Agreement Between 神威藥業集團有限公司 (Shineway Pharmaceutical Group Limited) ("Shineway Pharmaceutical") and Shineway Medical

On 8 April 2013, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"). Pursuant to the General Services Agreement I, Shineway Medical has agreed to provide Shineway Pharmaceutical with property management services, staff benefits facilities and production support services for a term commencing from 1 January 2013 until 31 December 2014. The transaction amount and cap amount of such transaction for the year ended 31 December 2014 are RMB7,971,000 and RMB8,000,000 respectively (2013: RMB7,380,000 and RMB7,400,000 respectively).

On 12 February 2015, General Services Agreement I has been renewed for a period of three years from 1 January 2015. The proposed annual caps for General Services Agreement I for the three years ending 31 December 2017 are RMB8,400,000, RMB8,700,000 and RMB9,000,000 respectively.

General Services Agreement between 河北神威藥業有限公司 (Hebei Shineway Pharmacetical Company Limited) ("Hebei Shineway") and Shineway Medical Science & Technology (Lang Fang) Co., Ltd ("Shineway Lang Fang")

On 8 April 2013, Hebei Shineway, a wholly-owned subsidiary of the Company, and Shineway Lang Fang entered into a general services agreement ("General Services Agreement II"). The spouse of Mr. Li Zhenjiang, an executive Director, holds 30% of equity interest in Shineway Lang Fang. Accordingly, Shineway Lang Fang is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the General Services Agreement II, Shineway Lang Fang has agreed to provide Hebei Shineway with property management services, staff benefits facilities and production support services for a term commencing from 1 January 2013 until 31 December 2014. The transaction amount and cap amount of such transaction for the year ended 31 December 2014 are RMB2,297,000 and RMB2,300,000 respectively (2013: RMB2,127,000 and RMB2,200,000 respectively).

On 12 February 2015, General Services Agreement II has been renewed for a period of three years from 1 January 2015. The proposed annual caps for General Services Agreement II for the three years ending 31 December 2017 are RMB2,400,000, RMB2,500,000 and RMB2,600,000 respectively.

Land Lease Agreement with Shineway Medical

On 8 April 2013, a land lease agreement (the "Land Lease Agreement I") was entered into between Shineway Pharmaceutical and Shineway Medical. Pursuant to the Land Lease Agreement I, Shineway Medical has conditionally leased to Shineway Pharmaceutical a land with an area of approximately 49,276 square meters owned by Shineway Medical for a period of 2 years from 1 January 2013. The transaction amount and cap amount of such transaction for the year ended 31 December 2014 both are RMB1,170,000 (2013: RMB1,170,000).

On 12 February 2015, Land Lease Agreement I has been renewed for a period of three years from 1 January 2015. The proposed annual caps for Land Lease Agreement I for the three years ending 31 December 2017 are RMB1,277,100.

Land Lease Agreement with Shineway Lang Fang

On 8 April 2013, a land lease agreement (the "Land Lease Agreement II") was entered into between Hebei Shineway and Shineway Lang Fang. Pursuant to the Land Lease Agreement II, Shineway Lang Fang has conditionally leased to Hebei Shineway a land with an area of approximately 20,986 square meters owned by Shineway Lang Fang for a period of 2 years from 1 January 2013. The transaction amount and cap amount of such transaction for the year ended 31 December 2014 both are RMB931,000 (2013: 931,000).

On 12 February 2015, Land Lease Agreement II has been renewed for a period of three years from 1 January 2015. The proposed annual caps for Land Lease Agreement II for the three years ending 31 December 2017 are RMB1,012,397.

Sales to Hebei Shineway Chain Drugstores Co., Ltd ("Shineway Drugstores)

On 12 February 2015, a Supply Agreement (the "Supply Agreement") was entered into between the Company and Shineway Drugstores, a connected person of the Company by virtue of being indirectly owned 80% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Supply Agreement, the Company agrees to procure the subsidiaries of the Company to supply Chinese pharmaceutical products researched, manufactured and wholesaled by the Group to Shineway Drugstores. The proposed annual caps for Supply Agreement for the three years ending 31 December 2017 are RMB38,000,000, RMB50,000,000 and RMB60,000,000 respectively.

As one or more applicable percentage ratios (other than the profits ratio) in respect of the annual caps for the transactions contemplated under each of (1) the aggregate of the General Services Agreement I and the Land Lease Agreement I, (2) the aggregate of the General Services Agreement II and the Land Lease Agreement II and (3) the Supply Agreement, on an annual basis, exceeds 0.1% but is less than 5%, the transactions contemplated under the aforesaid agreements are subject to the reporting and announcement requirements under the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules. One of the applicable percentage ratios in respect of the annual caps for the Tenancy Agreement exceeds 0.1% but is less than 5% and is a de minimis continuing connected transaction under Rule 14A.76(1) of the Listing Rules. Consequently, the Tenancy Agreement is exempted from the requirements of announcement, circular and independent shareholders' approval.

The independent non-executive Directors have reviewed the continuing connected transactions disclosed above and confirmed that the transactions have been entered into:

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

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has provided a letter to the Board and confirmed that for the year ended 31 December 2014 the Continuing Connected Transactions (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Company for those transactions that involve provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions and (iv) have not exceeded the cap disclosed in the previous continuing connected transaction announcement on the Stock Exchange by the Company dated 8 April 2013.

The Company confirms that it has complied with the disclosures requirements in accordance with Chapter 14A of the Listing Rules. The above connected transactions are also reported in note 34 to the consolidated financial statements of this annual report as Related Party Transactions.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2014.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Directors' fees, basic salaries, housing allowances, other allowances and benefits in kind are disclosed in note 10 to the consolidated financial statements.

The contributions to pension schemes for Directors for the financial year are disclosed in note 10 to the consolidated financial statements.

Pursuant to the Directors' service contracts with the Company, all executive Directors may be entitled to a discretionary bonus to be determined by the Board (or its duly appointed remuneration committee) at its absolute discretion having regard to the performance of the Group, provided that the aggregate amount of the bonus payable to those Directors in respect of any financial year shall not exceed 5% of the audited consolidated net profit after taxation but before extraordinary items of the Company for the relevant financial year.

There was no compensation paid during the financial year ended 31 December 2014 or receivable by Directors or past Directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

PENSION SCHEMES

The pension schemes of the Group are primarily in the form of contributions to the Hong Kong Mandatory Provident Fund and China's statutory public welfare fund.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float throughout the year of 2014 as required under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group has not made charitable donations (2013: RMB2,000,000).

AUDITOR

A resolution will be submitted to the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Li Zhenjiang
Chairman of the Board

Hong Kong, 27 March 2015

Corporate Governance Report

Dear Shareholders,

The Group is firmly committed to statutory and regulatory corporate governance standards and adhere to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness.

The Board believes that good corporate governance practices are essential elements in guiding the growth and management of the business of the Group. Therefore the Board reviews its corporate governance practices from time to time to ensure that they protect the shareholders' interest, comply with legal and professional standards and reflect the latest local and international circumstances and development. The Board will continue to commit itself to achieving a high quality of corporate governance.

During the year, there is no significant change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2014, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for code provision A.2.1 as described below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors on terms no less exacting than those set out in the Model Code. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding Directors' securities transactions during the year.

BOARD OF DIRECTORS

The Board represents shareholders in overseeing the Group's business. The Directors recognise their responsibilities to enhance shareholders' value and to conduct themselves in accordance with their duty of care and loyalty.

Corporate Governance Report

As at the date of this annual report, the Board comprises six executive Directors and three independent non-executive Directors. Pursuant to the requirements of the Listing Rules, the Company has received written confirmation from each independent non-executive Director of his/her independence during his/her period of service during the year. The Group considered them to be independent. The names of the Directors and their respective biographies are set out on pages 28 to 30 of this annual report. The information is also published on the Company's websites.

The Company had arranged for appropriate liability insurance for the directors and officers of the Group for indemnifying their liabilities arising from corporate activities.

Each of the independent non-executive Directors has been appointed for a term of two years and subject to retirement by rotation in accordance with the Articles of Association.

Every newly appointed Director will be given an induction so as to ensure that he/she has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Directors may request the Company to provide independent professional advice at the Company's expense to discharge his/her duties to the Company. Directors' training is an ongoing process. During the year, the Company had provided to the Directors regular updates and presentations on changes and developments to the Group's business and to the legislative regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with their record of training they received during the year ended 31 December 2014.

During the year ended 31 December 2014, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management. The Board has also reviewed and ensured compliance of the relevant legal and regulatory requirements, the code of conducts, the Code and the disclosure in the Corporate Governance Report.

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it.

Three board committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"), have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's businesses to the management of the Company and its subsidiaries respectively. Major corporate matters that are specifically delegated by the Board to the management include the preparation of financial statements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

Corporate Governance Report

The Board had met four times during the year to review the financial performance of the Group, major issues (whether or not required by the Listing Rules) and also on other occasions when Board decisions were required. The views of independent non-executive Directors were actively solicited by the Group if they were unable to attend meetings of the Board.

The major issues which were brought before the Board for their decisions during the year include:

1. formulation of operational strategies and review of its financial performance and results and the internal control system;

2. determine details of the Scheme;

3. proposals related to potential acquisitions, investments, or any significant capital expenditures; and

4. the declaration of interim dividend and recommendation to shareholders on final dividend.

From April 2012 onwards, all Directors have been provided, on a monthly basis, with the Group's management information updates to give them aware of the Group's affairs and facilitates them to discharge their duties under the relevant requirements of the Listing Rules.

The Board held four Board meetings and one annual general meeting ("AGM") in 2014. Details of the attendance of the Board are as follows:

	Attended/Held	
	Board Meeting	**AGM**
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	4/4	1/1
Ms. Xin Yunxia	4/4	1/1
Mr. Li Huimin	4/4	1/1
Ms. Lee Ching Ton Brandelyn	4/4	1/1
Dr. Wang Zheng Pin	4/4	1/1
Mr. Chen Zhong (appointed on 1 December 2014)	–/–	–/–
Independent Non-executive Directors		
Mr. Hung Randy King Kuen (re-designated on 17 February 2014)	3/4	1/1
Ms. Cheng Li	4/4	1/1
Mr. Sun Liutai	4/4	1/1
Mr. Ren Dequan (resigned on 17 February 2014)	–/–	–/–

The Directors acknowledged that they are responsible for the preparation of the accounts which give a true and fair view of the affairs of the Group. The auditor is responsible to form an independent opinion, based on their audits, on the Group's financial statements and express their opinions.

The Board has the overall responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Company's assets. The internal audit department has been conducting regular review of the system's effectiveness and reports to the Directors and the audit committee on its material findings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 of the Code stipulates that the roles of chairman of the board (the "Chairman") and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive officer should be clearly established and set out in writing. The Company does not use the title "Chief Executive Officer". The duty of chief executive officer has been assumed by the president of the Company (the "President").

Mr. Li Zhenjiang has been both the Chairman and President. His responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2014, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to corporate governance and regulations:

	Attending training course	Self-study of relevant materials and/or regulatory updates
Executive Directors		
Mr. Li Zhenjiang	✓	✓
Ms. Xin Yunxia	✓	✓
Mr. Li Huimin	✓	✓
Ms. Lee Ching Ton Brandelyn	–	✓
Dr. Wang Zheng Pin	–	✓
Mr. Chen Zhong (appointed on 1 December 2014)	–	✓
Independent Non-executive Directors		
Mr. Hung Randy King Kuen (re-designated on 17 February 2014)	✓	✓
Ms. Cheng Li	✓	✓
Mr. Sun Liutai	–	✓
Mr. Ren Dequan (resigned on 17 February 2014)	–	✓

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference as disclosed on the Company's websites and the website of the Stock Exchange. The primary duties of the Remuneration Committee include the following:

I. to make recommendation to the Board on (a) the Company's policy and structure for all remuneration of Directors and senior management, and (b) the Company's establishment of a formal and transparent procedure for developing policy on such remuneration;

2. to determine the specific remuneration packages of all executive Directors, and senior management, including benefits in kind, pension rights, and compensation payments (including any compensation for loss or termination of office or appointment);

3. to make recommendation to the Board on the remuneration of independent non-executive Directors;

4. to have due consideration of all relevant factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

6. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. to review and approve the compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

As at the date of this annual report, the members of the Remuneration Committee comprises two independent non-executive Directors, Ms. Cheng Li and Mr. Sun Liutai, and executive Director Ms. Xin Yunxia. Ms. Cheng Li is the chairman of the Remuneration Committee. The Remuneration Committee met four times during the year to review the long term incentive scheme of the Group, and assess the performance of executive Directors.

Individual attendance of each Remuneration Committee member is as follows:

	Attendance
Ms. Cheng Li *(Chairman)*	4/4
Mr. Sun Liutai	4/4
Ms. Xin Yunxia	4/4

The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The emoluments of the Directors are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Further details on the emolument policy and basis of determining the emolument payable to the Directors are disclosed on pages 44 of this annual report.

The Group's share option scheme as described on pages 36 to 40 of this annual report is adopted as the Group's long term incentive scheme.

NOMINATION COMMITTEE

The Nomination Committee was established with written terms of reference in compliance with the Code. The members of the Nomination Committee comprises one executive Director Mr. Li Zhenjiang and two independent non-executive Directors, Mr. Ren Dequan (up to date of resignation on 17 February 2014), Mr. Sun Liutai and Mr. Hung Randy King Kuen (from date of appointment on 17 February 2014). Mr. Li Zhenjiang is the chairman of the Nomination Committee. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of independent non-executive Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspective, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the year and up to the date of this annual report, the Nomination Committee had considered and accepted the nomination of an executive Director who joined the Group on 1 December 2014. The Nomination Committee also has considered and recommended the re-designation of a non-executive Director to an independent non-executive Director on 17 February 2014.

All Directors are appointed for a fixed term. The Articles of Association required that one-third of the Directors (including executive and independent non-executive Directors) shall retire each year. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

Individual attendance of each Nomination Committee member during the year ended 31 December 2014 was as follows:

	Attendance
Mr. Li Zhenjiang *(Chairman)*	2/2
Mr. Sun Liutai	2/2
Mr. Hung Randy King Kuen (appointed on 17 February 2014)	1/1
Mr. Ren Dequan (resigned on 17 February 2014)	1/1

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Sun Liutai, Mr. Ren Dequan (resigned on 17 February 2014), Ms. Cheng Li and Mr. Hung Randy King Kuen (appointed on 17 February 2014). All of the members of the Audit Committee are independent non-executive Directors. Mr. Sun Liutai, who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee. No member of this committee is a member of the former or external auditor of the Company. The committee members possess diversified industry experience.

The Audit Committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted terms of reference of the audit committee which complies with the provisions of the Code. The terms of reference of the Audit Committee is available on the Company's websites and the website of the Stock Exchange.

Individual attendance of each Audit Committee member during the year ended 31 December 2014 was as follows:

	Attendance
Mr. Sun Liutai *(Chairman)*	4/4
Ms. Cheng Li	4/4
Mr. Hung Randy King Kuen (appointed on 17 February 2014)	4/4
Mr. Ren Dequan (resigned on 17 February 2014)	–/–

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 56 of this annual report.

INTERNAL CONTROL

The Board is responsible for ensuring that sound and effective internal control systems are maintained within the Group. The Group has adopted a set of internal control procedures and policies to safeguard the assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations. The internal control systems are designed to ensure that the financial and operational functions, compliance control, material control, asset management and risk management functions are in place and functioning effectively.

The Board and the Audit Committee have delegated the Group's internal audit department to conduct periodic review of the effectiveness of the internal control systems of the Group covering all material controls, including financial, operational and compliance controls as well as risk management functions.

Based on the assessments made by the Group's internal audit department, the Board considered that the internal control systems of the Group are effective and the Audit Committee has found no material deficiencies on the internal control based on the assessments made by the Group's internal audit department.

AUDITOR'S REMUNERATION

Since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders annually. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$1,915,000 (2013: HK$1,869,000), and in addition to a total of HK$410,000 (2013: HK$410,000) for other services, including the review of interim financial statements.

ACCOUNTABILITY AND AUDIT

The Directors acknowledged their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports. They are not aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the group is set out in the Independent Auditor's Report on pages 57 to 58.

In preparing the financial statements for the year ended 31 December 2014, the Directors have adopted appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

The Group has announced its annual and interim results in a timely manner within the limits of three months and two months respectively after the end of the relevant financial periods, as laid down in the Listing Rules.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communication with shareholders and investors. Since our listing on the Main Board of the Stock Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year ended 31 December 2014, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We held a number of site visits for investors.

To foster effective communication, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its websites and the website of the Stock Exchange.

Since October 2005, to enable the shareholders to better evaluate the operations and performance of the Group, the Group has been announcing quarterly financial information on turnover in due course after the relevant period ended.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communication between the Board and shareholders. Directors and senior management will make an effort to attend the annual general meeting. The chairman of the Board, as well as the respective chairmen of the Audit Committee and the Remuneration Committee and external auditor will usually be available during the annual general meeting to address shareholders' queries. All shareholders are given at least 20 clear business days' notice of the annual general meeting and they are encouraged to attend the annual general meeting and other shareholders' meetings. Questions from the shareholders at such meetings are encouraged and welcomed.

SHAREHOLDERS' RIGHTS

(i) Procedures for members to convene an extraordinary general meeting ("EGM")

Shareholder(s) 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 sent to the Board or the Company Secretary of the Company, 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 two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the Shareholder(s) concerned themselves may do so in the same manner.

If the requisition is in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

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

– not less than twenty-one clear days' notice in writing if the proposal constitutes a special resolution of the Company; and

– not less than fourteen clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

(ii) Procedures for putting enquiries to the Board

Shareholder(s) may at any time put forward their enquiries to the Board by sending letter to:
Company Secretary
China Shineway Pharmaceutical Group Limited
Suite 5201, 52/F
Central Plaza
18 Harbour Road
Wan Chai, Hong Kong

(iii) Procedures for putting forward proposals at a general meeting

According to our articles of association, any shareholder(s) duly qualified to attend and vote at general meetings of the Company wish(es) to propose a person (other than himself) for election as a director (the "Candidate") at a general meeting of the Company, the following documents must be lodged at the head office or registered office: (i) a written notice of such proposed duly signed by the shareholder(s) concerned; and (ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected. The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

CODE OF CONDUCT

Employees of the Group have maintained high levels of ethical standards. The Group published an employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. Trainings on the contents of the employee handbook have been held regularly. The employees at all levels are expected to act in an honest, diligent and responsible manner.

Audit Committee Report

Dear Shareholders,

The Audit Committee formally met four times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgmental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response; and review the Group's adherence to the Corporate Governance Code as set out at Appendix 14 to the Listing Rules.

The Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2015 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Sun Liutai *(Chairman)*
Ms. Cheng Li
Mr. Hung Randy King Kuen (appointed on 17 February 2014)
Mr. Ren Dequan (resigned on 17 February 2014)

27 March 2015

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 120, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance (Cap 622) (the "Hong Kong Companies Ordinance"), and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

Independent Auditor's Report

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Turnover	5	**2,229,201**	2,187,115
Cost of sales		**(751,198)**	(712,692)
Gross profit		**1,478,003**	1,474,423
Other income		**55,161**	85,572
Investment income	6	**129,703**	89,389
Net exchange loss		**(4,790)**	(1,726)
Distribution costs		**(411,658)**	(439,137)
Administrative expenses		**(285,403)**	(262,025)
Research and development costs		**(80,419)**	(83,288)
Share of profit of an associate		**–**	1,184
Loss on disposal of an associate		**–**	(1,467)
Finance costs	7	**(16,861)**	(3,279)
Profit before taxation		**863,736**	859,646
Taxation	8	**(159,046)**	(176,004)
Profit and total comprehensive income for the year	9	**704,690**	683,642
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**704,775**	683,647
Non-controlling interests		**(85)**	(5)
		704,690	683,642
Earnings per share	12		
– Basic		**85 cents**	83 cents
– Diluted		**85 cents**	83 cents

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,574,725**	1,599,242
Prepaid lease payments	14	**141,808**	144,216
Intangible assets	15	**23,286**	518
Goodwill	16	**99,654**	91,663
Deposit for acquisition of a subsidiary		**30,000**	–
Deposits for acquisition of intangible assets		**64,000**	–
Deferred tax assets	17	**24,116**	25,439
		1,957,589	1,861,078
Current assets			
Inventories	18	**285,672**	244,484
Trade receivables	19	**12,933**	10,105
Bills receivables	19	**580,884**	669,941
Prepayments, deposits and other receivables		**141,688**	122,091
Pledged bank deposits	20	**240,410**	538,690
Bank balances and cash	21	**2,688,148**	2,291,905
		3,949,735	3,877,216
Current liabilities			
Trade payables	22	**174,006**	208,152
Bills payables	22	**28,481**	11,427
Other payables and accrued expenses		**439,356**	418,455
Amounts due to related companies	23	**7,062**	11,330
Deferred income	24	**4,630**	1,140
Tax liabilities		**32,450**	29,496
Bank borrowing	25	**200,000**	500,000
		885,985	1,180,000
Net current assets		**3,063,750**	2,697,216
Total assets less current liabilities		**5,021,339**	4,558,294
Non-current liabilities			
Deferred tax liabilities	17	**23,638**	28,802
Deferred income	24	**104,793**	99,876
		128,431	128,678
		4,892,908	4,429,616

Consolidated Statement of Financial Position

At 31 December 2014

	NOTE	2014 RMB'000	2013 RMB'000
Capital and reserves			
Share capital	26	**87,662**	87,662
Reserves		**4,804,809**	4,341,432
Equity attributable to owners of the Company		**4,892,471**	4,429,094
Non-controlling interests		**437**	522
		4,892,908	4,429,616

The consolidated financial statements on pages 59 to 120 were approved and authorised for issue by the Board of Directors on 27 March 2015 and are signed on its behalf by:

LI ZHENJIANG
DIRECTOR

LI HUIMIN
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Statutory surplus reserve fund RMB'000 (Note b)	Discretionary surplus reserve fund RMB'000 (Note b)	Share options reserve RMB'000	Accumulated profits RMB'000	Total equity attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013	87,662	767,388	83,758	430,166	154,760	–	2,472,357	3,996,091	527	3,996,618
Profit and total comprehensive income for the year	–	–	–	–	–	–	683,647	683,647	(5)	683,642
Transfers	–	–	–	851	–	–	(851)	–	–	–
Dividends paid (Note 11)	–	–	–	–	–	–	(264,640)	(264,640)	–	(264,640)
Recognition of equity-settled share-based payments	–	–	–	–	–	13,996	–	13,996	–	13,996
At 31 December 2013	87,662	767,388	83,758	431,017	154,760	13,996	2,890,513	4,429,094	522	4,429,616
Profit and total comprehensive income for the year	–	–	–	–	–	–	704,775	704,775	(85)	704,690
Transfers	–	–	–	1,162	–	–	(1,162)	–	–	–
Dividends paid (Note 11)	–	–	–	–	–	–	(272,910)	(272,910)	–	(272,910)
Recognition of equity-settled share-based payments	–	–	–	–	–	31,512	–	31,512	–	31,512
At 31 December 2014	87,662	767,388	83,758	432,179	154,760	45,508	3,321,216	4,892,471	437	4,893,908

Notes:

(a) Merger reserve of the Group represents the difference between the net asset value of the subsidiaries and the nominal amount of the Company's shares which were issued as consideration for the subsidiaries at the time of the group reorganisation in preparation for the listing of the Company's shares.

(b) Statutory surplus reserve fund and discretionary surplus reserve fund are appropriated each year by certain subsidiaries on the basis of 10% of the profit after taxation as determined by the board of directors of the relevant subsidiaries and at the rate decided by the shareholders annually, respectively, in accordance with the Articles of Associations ("Articles") of the relevant subsidiaries. According to the provision of the Articles, in normal circumstances, this reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	NOTE	2014 RMB'000	2013 RMB'000
Operating activities			
Profit before taxation		**863,736**	859,646
Adjustments for:			
Amortisation of intangible assets		**2,083**	220
Depreciation of property, plant and equipment		**142,239**	97,840
Loss (gain) on disposal of property, plant and equipment		**252**	(80)
Interest expense		**16,861**	3,279
Interest income		**(54,678)**	(59,543)
Investment income from debt-related products		**–**	(3,352)
Investment income from short-term debt related products		**(75,025)**	(26,494)
Share of profit of an associate		**–**	(1,184)
Loss on disposal of an associate		**–**	1,467
Amortisation of prepaid lease payments		**3,645**	3,633
Government grant recognised as other income		**(3,703)**	(5,459)
Share-based payment expense		**31,512**	13,996
Operating cash flows before movements in working capital		**926,922**	883,969
Increase in inventories		**(40,980)**	(40,519)
Decrease (increase) in trade and bills receivables		**86,229**	(158,428)
Increase in prepayments, deposits and other receivables		**(13,517)**	(4,853)
Decrease in trade and bills payables		**(17,092)**	(55,223)
(Increase) decrease in other payables and accrued expenses		**2,008**	49,088
(Increase) decrease in amounts due to related companies		**(4,268)**	2,321
Cash generated from operations		**939,302**	676,355
People's Republic of China Enterprise Income Tax paid		**(166,144)**	(156,469)
Net cash generated from operating activities		**773,158**	519,886

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	NOTE	2014 RMB'000	2013 RMB'000
Investing activities			
Withdrawal of pledged bank deposits		**538,690**	19,860
Net proceeds from short-term debt related products		**75,025**	26,494
Interest received		**48,623**	46,071
Government grants received		**12,110**	12,040
Proceeds from disposal of property, plant and equipment		**180**	295
Placement of pledged bank deposits		**(240,410)**	(538,690)
Purchase of property, plant and equipment		**(104,177)**	(261,886)
Deposits for intangible assets		**(64,000)**	–
Deposit for acquisition of a subsidiary		**(30,000)**	–
Acquisition of a subsidiary	29	**(7,951)**	–
Proceeds from redemption of debt related products		**–**	212,102
Proceeds from disposal of an associate		**–**	16,730
Acquisition of debt-related products		**–**	(208,750)
Net cash generated from (used in) investing activities		**228,090**	(675,734)
Financing activities			
Repayment of bank loans		**(515,000)**	–
Dividends paid		**(272,910)**	(264,640)
Interest paid		**(17,092)**	–
New bank loan raised		**200,000**	500,000
Net cash (used in) from financing activities		**(605,002)**	235,360
Net increase in cash and cash equivalents		**396,246**	79,512
Cash and cash equivalents at beginning of the year		**2,291,905**	2,212,391
Effect of exchange rate changes of cash and cash equivalents		**(3)**	2
Cash and cash equivalents at end of the year, representing bank balances and cash		**2,688,148**	2,291,905

1. GENERAL

The Company is a listed company registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 August 2002 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in the notes 35 to the consolidated financial statements, respectively.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time in the current year.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting
IFRIC INT-21	Levies

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IAS 36 "Recoverable amount disclosures for non-financial assets"

The Group has applied the amendments to IAS 36 "Recoverable amount disclosures for non-financial assets" for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 "Fair value measurements".

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

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

IFRS 9	Financial instruments[1]
IFRS 14	Regulatory deferral accounts[2]
IFRS 15	Revenue from contracts with customers[3]
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants[5]
Amendments to IAS 19	Defined benefit plans: Employee contributions[4]
Amendments to IAS 27	Equity method in separate financial statements[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception[5]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[5]
Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle[6]
Amendments to IFRSs	Annual improvements to IFRSs 2011-2013 cycle[4]
Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for first annual IFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[5] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 9 "Financial instruments"

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

Key requirements of IFRS 9 are described below:

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 9 "Financial instruments" (Continued)

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

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 will not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's financial instruments reported at the end of the reporting period.

IFRS 15 "Revenue from contracts with customers"

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and the related interpretations when it becomes effective.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 15 "Revenue from contracts with customers" (Continued)

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

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

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

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

The directors of the Company anticipate that the application of the other new and revised IFRSs will have no material effect on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets comprise loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

Financial liabilities including trade and other payables, bills payables, bank borrowing and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

Leasing

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

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

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

Research and development expenditure

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

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

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees
For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2014, the carrying amount of goodwill is RMB99,654,000 (2013: RMB91,663,000). Details of the impairment loss calculation are disclosed in note 16.

5. TURNOVER AND SEGMENT INFORMATION

Operating segments

The Group's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. The Chairman of the Board of Directors of the Group, being the chief operating decision maker ("CODM"), reviews the revenue and the profit for the year of the Group as a whole for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM. Therefore, the operation of the Group constitutes one single reportable segment.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2014 **RMB'000**	2013 RMB'000
Injections	**1,347,450**	1,334,872
Soft capsules	**446,130**	437,885
Granules	**357,202**	341,532
Others	**78,419**	72,826
	2,229,201	2,187,115

Geographical information

Sales of the Group to external customers were substantially made in the People's Republic of China (the "PRC") including Hong Kong.

All non-current assets of the Group including goodwill are located in the PRC including Hong Kong.

Information about major customers

For each of the year ended 31 December 2014 and 2013, there was no customer with turnover accounted for more than 10% of the Group's total turnover.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2014

6. INVESTMENT INCOME

	2014 RMB'000	2013 RMB'000
Interest on bank deposits	54,678	59,543
Investment income from debt related products (Note a)	–	3,352
Investment income from short-term debt related products (Note b)	75,025	26,494
	129,703	89,389

Notes:

(a) These debt related products were entered into and matured during the year ended 31 December 2013 with effective interest rate ranged from 4.9% to 5.0% per annum. No debt related products were entered during the year ended 31 December 2014.

(b) These short-term debt related products were entered into and matured during both years with effective interest rate ranged from 5.5% to 6.5% (2013: 4.4% to 5.8%) per annum. In the opinion of the directors of the Company, these short-term debt related products are in large amounts, with quick turnover and short maturities. Accordingly, the cash receipts and payments for these short-term debt related products are presented on a net basis in the consolidated statement of cash flows.

7. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on bank borrowings wholly repayable within one year	16,861	3,279

8. TAXATION

	2014 RMB'000	2013 RMB'000
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**143,112**	142,210
Overprovision in prior years	**(1,862)**	(1,979)
Withholding tax paid on distributed profits	**–**	7,500
	141,250	147,731
Deferred tax (note 17)	**17,796**	28,273
	159,046	176,004

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

	2014 RMB'000	2013 RMB'000
Profit before taxation	**863,736**	859,646
Tax at the applicable tax rate of 25% (2013: 25%)	**215,934**	214,912
Tax effect of expenses not deductible for tax purposes	**14,864**	13,050
Tax effect of income not taxable for tax purposes	**(7,312)**	(2,687)
Tax effect of share of result of an associate	**–**	(296)
Tax losses not recognised	**6,419**	4,375
Income tax on concessionary rate	**(92,791)**	(91,185)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**6,776**	4,385
Withholding tax on distributed profits of subsidiaries operating in the PRC	**–**	7,500
Withholding tax on undistributed profits of subsidiaries operating in the PRC	**17,000**	27,850
Overprovision in prior years	**(1,862)**	(1,979)
Others	**18**	79
Taxation charge for the year	**159,046**	176,004

8. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the year. The Company and its subsidiaries operating in Hong Kong do not have assessable profits, accordingly, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements.

The provision for PRC Enterprise Income Tax ("PRC EIT") is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for both years. Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Certain subsidiaries which are operating in the Western China or recognised as High and New-Tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both years. The tax concessions granted to certain subsidiaries operating in the Western China or recognised as High and New-Tech Enterprise will expire in 2020 and 2014, respectively. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

Under the applicable corporate tax law in Australia, income tax is charged at 30% of the estimated assessable profits.

9. PROFIT FOR THE YEAR

	2014	2013
	RMB'000	RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (see note 10)	**42,367**	35,680
Other staff costs	**207,918**	169,987
Other staff's pension costs	**40,250**	49,923
Share-based payment expense for other staff	**25,759**	12,226
	316,294	267,816
Amortisation of intangible assets	**2,083**	220
Amortisation of prepaid lease payments	**3,645**	3,633
Auditor's remuneration	**1,546**	1,474
Depreciation of property, plant and equipment	**142,239**	97,840
Loss (gain) on disposal of property, plant and equipment	**252**	(80)
Rental expenses under operating lease in respect of rented premises	**5,447**	5,327
Government subsidies (included in other income) (Note)	**(49,412)**	(83,989)

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. In 2014, government subsidies of (a) RMB45,709,000 (2013: RMB78,530,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB3,703,000 (2013: RMB5,459,000) represent recognition of deferred income upon completion of related research activities (note 24).

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

Directors' and chief executive's emoluments:

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Pension costs RMB'000	Performance related incentive payments RMB'000	Share-based payment expense RMB'000	Total remuneration RMB'000
Year ended 31 December 2014						
Executive directors:						
Li Zhenjiang	**113**	**2,593**	**13**	**29,300**	**–**	**32,019**
Xin Yunxia	**81**	**1,269**	**13**	**–**	**1,237**	**2,600**
Li Huimin	**55**	**829**	**13**	**62**	**1,052**	**2,011**
Lee Ching Ton Brandelyn	**39**	**593**	**13**	**–**	**990**	**1,635**
Wang Zheng Pin	**51**	**1,049**	**13**	**–**	**1,237**	**2,350**
Chen Zhong (appointed on 1 December 2014)	**9**	**114**	**–**	**–**	**1,237**	**1,360**
Independent non-executive directors:						
Sun Liutai	**125**	**–**	**–**	**–**	**–**	**125**
Cheng Li	**125**	**–**	**–**	**–**	**–**	**125**
Hung Randy King Kuen	**125**	**–**	**–**	**–**	**–**	**125**
Ren Dequan (resigned on 17 February 2014)	**17**	**–**	**–**	**–**	**–**	**17**
	740	**6,447**	**65**	**29,362**	**5,753**	**42,367**
Year ended 31 December 2013						
Executive directors:						
Li Zhenjiang	59	1,794	12	28,500	–	30,365
Xin Yunxia	55	740	12	–	491	1,298
Li Huimin	50	695	12	54	395	1,206
Lee Ching Ton Brandelyn	33	435	12	–	393	873
Wang Zhihua (resigned on 1 June 2013)	17	227	5	–	–	249
Wang Zheng Pin (appointed on 1 June 2013)	28	675	7	–	491	1,201
Independent non-executive directors:						
Sun Liutai	122	–	–	–	–	122
Cheng Li	122	–	–	–	–	122
Hung Randy King Kuen	122	–	–	–	–	122
Ren Dequan	122	–	–	–	–	122
	730	4,566	60	28,554	1,770	35,680

Note: The performance related incentive payments were determined with reference to the individual performance for the year.

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

Mr. Li Zhenjiang is also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as chief executive.

Employees' emoluments:

The five highest paid individuals of the Group included 5 directors (2013: 3), details of whose emolument are set out above. The emolument of remaining 2 employees for the year ended 31 December 2013 (2014: nil) is as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries, allowance, other benefits and share-based payment expense	–	3,023
Pension costs	–	30
	–	3,053

Their emoluments were within the following bands:

	2014 **No. of** **employees**	2013 No. of employees
HK$1,500,001 to HK$2,000,000	–	2

During the year, no emolument was paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emolument during the year.

The emolument of directors and key executives is determined by the remuneration committee having regard to the Group's operating results, individual performance and market statistics.

11. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Dividends recognised as distributions during the year:		
Final dividend paid for 2013 of RMB12 cents (2012: RMB12 cents) per share	**99,240**	99,240
Special dividend paid for 2013 of RMB10 cents (2012: RMB9 cents) per share	**82,700**	74,430
Interim dividend paid for 2014 of RMB11 cents (2013: RMB11 cents) per share	**90,970**	90,970
	272,910	264,640
Dividends proposed:		
Proposed final dividend of RMB12 cents (2013: RMB12 cents) per share	**99,240**	99,240
Proposed special dividend of RMB10 cents (2013: RMB10 cents) per share	**82,700**	82,700
	181,940	181,940

The final dividend of RMB12 cents per share and special dividend of RMB10 cents per share, totalling RMB22 cents, have been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

12. EARNINGS PER SHARE

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

	2014	2013
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**704,775**	683,647

	Number of ordinary shares	
	2014	2013
Number of ordinary shares for the purpose of basic and diluted earnings per share	**827,000,000**	827,000,000

The computation of diluted earnings per share for the year ended 31 December 2014 and 2013 has not assumed the exercise of the Company's share options because the adjusted exercise prices of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the year ended 31 December 2014 and 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machineries	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2013	602,519	598,002	41,351	6,280	593,339	1,841,491
Currency realignment	–	–	(31)	–	–	(31)
Additions	5,820	37,044	14,843	209	241,135	299,051
Reclassifications	99,383	88,573	371	–	(188,327)	–
Disposals	–	(1,538)	(591)	(1,409)	–	(3,538)
At 31 December 2013	707,722	722,081	55,943	5,080	646,147	2,136,973
Currency realignment	–	–	30	–	–	30
Additions	4,528	9,744	3,582	436	96,011	114,301
Acquisition of a subsidiary (note 29)	2,440	1,333	37	42	–	3,852
Reclassifications	370,459	281,545	1,827	–	(653,831)	–
Disposals	–	(2,937)	(793)	(723)	–	(4,453)
At 31 December 2014	1,085,149	1,011,766	60,626	4,835	88,327	2,250,703
DEPRECIATION						
At 1 January 2013	115,527	298,189	24,277	5,250	–	443,243
Currency realignment	–	–	(29)	–	–	(29)
Charge for the year	32,017	58,335	7,025	463	–	97,840
Eliminated on disposals	–	(1,445)	(581)	(1,297)	–	(3,323)
At 31 December 2013	147,544	355,079	30,692	4,416	–	537,731
Currency realignment	–	–	29	–	–	29
Charge for the year	50,411	83,675	7,841	312	–	142,239
Eliminated on disposals	–	(2,583)	(764)	(674)	–	(4,021)
At 31 December 2014	197,955	436,171	37,798	4,054	–	675,978
CARRYING VALUES						
At 31 December 2014	887,194	575,595	22,828	781	88,327	1,574,725
At 31 December 2013	560,178	367,002	25,251	664	646,147	1,599,242

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives after taking into account their estimated residual values using the straight-line method as follows:

Buildings	20 years or over the unexpired lease terms, whichever is shorter
Plant and machineries	3 to 10 years
Office equipment	5 years
Motor vehicles	3 years

The buildings are located in the PRC and held under medium-term leases.

14. PREPAID LEASE PAYMENTS

	2014 **RMB'000**	2013 RMB'000
Medium-term leasehold land in the PRC	**145,466**	147,849
Less: Amount charged within one year (included in other receivables)	**(3,658)**	(3,633)
	141,808	144,216

Movements of prepaid lease payments are as follows:

	2014 **RMB'000**	2013 RMB'000
At 1 January	**147,849**	151,482
Acquisition of a subsidiary (note 29)	**1,262**	–
Expense for the year	**(3,645)**	(3,633)
At 31 December	**145,466**	147,849

The lease term over which the prepaid lease payments are amortised ranged from 45 to 50 years.

15. INTANGIBLE ASSETS

Movements of intangible assets are as follows:

	2014 RMB'000	2013 RMB'000
At 1 January	**518**	738
Acquisition of a subsidiary (note 29)	**24,851**	–
Amortisation for the year	**(2,083)**	(220)
At 31 December	**23,286**	518

The intangible assets represent patents with finite useful lives. Such intangible assets are amortised on straight line basis over the useful lives from 2 to 20 years.

16. GOODWILL

	2014 RMB'000	2013 RMB'000
COST		
At 1 January	**91,663**	91,663
Acquisition of a subsidiary (note 29)	**7,991**	–
At 31 December	**99,654**	91,663

The management annually determines if there is impairment of its cash-generating unit ("CGU") containing goodwill.

For the purpose of impairment testing, goodwill has been allocated to the CGU including seven subsidiaries with principal activities of manufacturing and trading of Chinese pharmaceutical products. These seven subsidiaries are Shineway Pharmaceutical Sales Company Limited, Shineway Pharmaceutical (Hainan) Company Limited, Xizang Shineway Pharmaceutical Company Limited, Shineway Pharmaceutical (Chengdu) Company Limited, Shineway Pharmaceutical (Zhangjiakou) Company Limited, Shineway Pharmaceutical (Sichuan) Company Limited and Shineway Pharmaceutical Group (Shandong) Company Limited. During the year ended 31 December 2014, management of the Group has determined that there is no impairment of its CGU containing goodwill.

16. GOODWILL (Continued)

The recoverable amount of the above CGU has been determined based on a value in use calculation which uses cash flow projections based on most recent financial budgets approved by management covering a five-year period, and discount rate of 8.5% (2013: 12%). Cash flows beyond the five-year period have been extrapolated using an estimated constant growth rate of 7% (2013: 8%) which does not exceed the average growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. The management believe that any reasonable possible change in the key assumptions oil which the recoverable amount is based would not cause the carrying amount of the Group of units to exceed the aggregate of its recoverable amount.

17. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2014	2013
	RMB'000	RMB'000
Deferred tax assets	**24,116**	25,439
Deferred tax liabilities	**(23,638)**	(28,802)
	478	(3,363)

17. DEFERRED TAXATION (Continued)

The followings are the major deferred tax liabilities and assets recognised and movement thereon during the current and prior years.

	Accelerated tax depreciation	Deferred income	Others	Fair value adjustment arising from acquisition of a subsidiary	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	5,317	18,667	926	–	24,910
Charge to profit or loss	(146)	–	(28,127)	–	(28,273)
At 31 December 2013	5,171	18,667	(27,201)	–	(3,363)
Acquisition of a subsidiary (note 29)	–	–	–	(6,213)	(6,213)
Transfer to tax payable	–	–	27,850	–	27,850
Charge to profit or loss	(146)	(856)	(17,259)	465	(17,796)
At 31 December 2014	5,025	17,811	(16,610)	(5,748)	478

Note: Others mainly represent deferred tax liabilities on undistributed profits of the PRC subsidiaries.

At the end of the reporting period, the Group has unused tax losses of approximately RMB140,710,000 (2013: RMB113,244,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of RMB42,276,000 (2013: RMB25,091,000) that will expire in 5 years (2013: 5 years). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributed profits of the PRC subsidiaries amounting to RMB2,836,099,000 (2013: RMB2,193,071,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. INVENTORIES

	2014 RMB'000	2013 RMB'000
Raw materials	**133,430**	115,238
Work in progress	**62,783**	59,350
Finished goods	**89,459**	69,896
	285,672	244,484

All inventories were carried at cost at the end of the reporting period.

19. TRADE AND BILLS RECEIVABLES

	2014 RMB'000	2013 RMB'000
Trade receivables	**13,057**	10,229
Less: Allowance for doubtful debts	**(124)**	(124)
	12,933	10,105
Bills receivables	**580,884**	669,941
	593,817	680,046

The Group allows a credit period normally ranging from six months to one year to its trade customers. The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2014 RMB'000	2013 RMB'000
Within 6 months	**593,817**	679,992
Over 6 months but less than 1 year	**–**	54
	593,817	680,046

19. TRADE AND BILLS RECEIVABLES (Continued)

Before accepting any new customer, the Group has appointed a special team to monitor the potential customer's credit quality and define credit limits by customer, which are reviewed every year. Except for the allowance for doubtful debts amounting to RMB124,000 at 31 December 2014 and 2013, there is no other adverse change in the credit quality of the customers from the date of credit was initially granted. All of the trade and bills receivables are not past due.

Movement in allowance for doubtful debts

	2014	2013
	RMB'000	RMB'000
At 1 January and 31 December	**124**	124

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB124,000 (2013: RMB124,000) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these balances.

20. PLEDGED BANK DEPOSITS

Pledged bank deposits of RMB240,410,000 (2013: RMB538,690,000) represent certain bank deposits pledged to banks to secure bills payables and bank borrowing of the Group amounting to RMB28,481,000 (2013: RMB11,427,000) and RMB200,000,000 (2013: RMB500,000,000), respectively. The pledged bank deposits carry fixed interest rate ranged from 3.05% to 3.30% (2013: 3.05% to 3.30%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bills payables and bank borrowing.

21. BANK BALANCES AND CASH

At the end of the reporting period, bank balances and cash of RMB2,644,326,000 (2013: RMB2,235,932,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	2014	2013
	RMB'000	RMB'000
Hong Kong Dollars ("HKD")	**34,239**	46,109
United States Dollars	**140**	137

The effective interest rate on bank balances ranged from 0.01% to 2.60% (2013: 0.01% to 2.85%) per annum as at 31 December 2014.

22. TRADE AND BILLS PAYABLES

	2014	2013
	RMB'000	RMB'000
Trade payables	**174,006**	208,152
Bills payables	**28,481**	11,427
	202,487	219,579

22. TRADE AND BILLS PAYABLES (Continued)

An aged analysis of the Group's trade and bills payables at the end of the reporting period is as follows:

	2014 RMB'000	2013 RMB'000
Within 6 months	**193,669**	206,540
Over 6 months but less than 1 year	**1,866**	1,904
Over 1 year but less than 2 years	**2,465**	4,279
Over 2 years	**4,487**	6,856
	202,487	219,579

Trade and bills payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchase ranges from two months to six months.

23. AMOUNTS DUE TO RELATED COMPANIES

	2014 RMB'000	2013 RMB'000
Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang")	**5,793**	9,009
Shineway Medical & Science Technology Co., Ltd. ("Shineway Medical")	**1,269**	2,321
	7,062	11,330

Shineway Medical is a company ultimately controlled by the controlling shareholder of the Company and the controlling shareholder of Shineway Lang Fang.

The amounts due to related companies are unsecured, interest-free and repayable on demand.

24. DEFERRED INCOME

	2014 RMB'000	2013 RMB'000
At 1 January	**101,016**	94,435
Addition during the year	**12,110**	12,040
Recognised as other income	**(3,703)**	(5,459)
At 31 December	**109,423**	101,016
Analysed for reporting purpose as		
Current liabilities	**4,630**	1,140
Non-current liabilities	**104,793**	99,876
	109,423	101,016

Included in the deferred income at 31 December 2014 are government subsidies amounting to RMB38,179,000 (2013: RMB26,350,000) in relation to research and development expenses on certain new products not yet recognised. The subsidy is recognised as deferred income because there is an obligation to repay the subsidy if the related research is not successfully completed. The amount will be recognised in profit or loss when the related research is successfully completed. During the year, the Group received RMB12,110,000 (2013: RMB12,040,000) government subsidies in relation to research and development expenses and recognised RMB281,000 (2013: RMB5,459,000) in profit or loss as the related researches are successfully completed.

At 31 December 2014, the deferred income included a government subsidy amounting to RMB71,244,000 (2013: RMB74,666,000) received in 2011 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in the 邛崍醫藥產業園 ("Qionglai Pharmaceutical Area") in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for management's intended use. The Group has an obligation to repay the grant if the grant is not utilised for the development project. Deferred income amounting to RMB3,422,000 (2013: nil) is transferred to profit or loss as part of the development project has been completed during the year.

25. BANK BORROWING

The bank borrowing is secured and repayable within one year. At the end of the reporting period, the Group has pledged certain pledged bank deposits of RMB211,000,000 (2013: RMB527,000,000) to a bank to secure the bank borrowing granted to the Group. The bank borrowing carries a fixed interest at 2.85% (2013: 2.85%) per annum.

26. SHARE CAPITAL

	Number of shares	Amount
	'000	'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2013, 31 December 2013 and 31 December 2014	5,000,000	HK$500,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013 and 31 December 2014	827,000	HK$82,700
Shown in the financial statement as		RMB87,662

27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowing disclosed in note 25, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of the changes in the Group's business and economic conditions.

28. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2014 RMB'000	2013 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,558,969**	3,541,178
Financial liabilities		
Amortised cost	**562,960**	837,084

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables, pledged bank deposits, bank balances and cash, trade and other payables, bills payables, bank borrowing and amounts due to related companies. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

Several subsidiaries of the Company have foreign currency bank balances, which expose the Group to foreign currency risk. Approximately 1% (2013: 2%) of the Group's bank balances and cash are denominated in currencies other than the functional currency of the relevant group entities.

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to HKD as disclosed in note 21 with the functional currency of those subsidiaries in RMB.

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in RMB against HKD. 5% (2013: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2013: 5%) change in HKD. A negative number below indicates a decrease in profit for the year where RMB strengthens 5% (2013: 5%) against HKD. For a 5% (2013: 5%) weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

	HKD Impact	
	2014	2013
	RMB'000	RMB'000
Decrease in profit for the year	**(1,284)**	(1,729)

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

Interest rate risk

Interest bearing financial instruments are mainly time deposits, pledged bank deposits and bank borrowing which are all short-term in nature and carry fixed interest rates. The Group is exposed to fair value interest rate risk in relation to the fixed-rate time deposits, pledged bank deposits and bank borrowing (see notes 20, 21 and 25 for details). The Group is also exposed to cash flow interest rate risk relates to short-term debt-related products and debt-related products entered and matured during the year and bank balances. The Group currently does not have an interest rate hedging policy. The directors of the Company continuously monitor interest rate exposure and will consider enter into interest rate hedging should the need arise. The directors considered the Group's exposure of the bank balances to interest rate risk is not significant and therefore no sensitivity analysis is presented.

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of those financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual bill, trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

With respect to credit risk arising from the short-term debt-related products and debt-related products entered into and matured during the year, the directors of the Company considered that the Group's exposure to credit risk arising from default of the counterparties over the underlying assets of these products is limited as the investment decisions by the management of the Group are made with reference to the risk level of these products suggested by the banks and to the historical default rate of these products. The Group does not expect any significant loss on these products.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 97% (2013: 96%) of the total trade and bill receivables as at 31 December 2014.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average interest rate	Repayable on demand	Less than 6 months	6 – 12 months	Total undiscounted cash flows	Carrying amounts
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2014						
Trade payables	–	–	174,006	–	174,006	174,006
Bills payables	–	–	28,481	–	28,481	28,481
Other payables	–	–	153,411	–	153,411	153,411
Amounts due to related companies	–	7,062	–	–	7,062	7,062
Bank borrowing	2.85%	–	201,425	–	201,425	200,000
Total		7,062	557,323	–	564,385	562,960
2013						
Trade payables	–	–	208,152	–	208,152	208,152
Bills payables	–	–	11,427	–	11,427	11,427
Other payables	–	–	106,175	–	106,175	106,175
Amounts due to related companies	–	11,330	–	–	11,330	11,330
Bank borrowing	2.85%	–	7,125	507,125	514,250	500,000
Total		11,330	332,879	507,125	851,334	837,084

Fair value measurement of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

29. ACQUISITION OF A SUBSIDIARY

In March 2014, the Group acquired 100% equity interest in Shineway Pharmacentical Group (Shandong) Company Limited 神威藥業集團(山東)有限公司 (formerly known as 濟南全力製藥有限公司) ("Shineway Shandong"), which is engaged in the manufacturing and trading of pharmaceutical products and related business in the PRC, at a consideration of RMB8,000,000. This transaction has been accounted for using the acquisition method.

The net identifiable assets of the subsidiary acquired are as follows:

	Amount recognised at the date of acquisition RMB'000
Property, plant and equipment	3,852
Prepaid lease payments	1,262
Intangible asset	24,851
Inventories	208
Bank balances and cash	49
Other payables	(9,000)
Bank borrowings	(15,000)
Deferred tax liabilities	(6,213)
	9
Consideration transferred	8,000
Less: Net assets acquired	(9)
Goodwill arising on acquisition	7,991

Goodwill arose on the acquisition of Shineway Shandong because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Shineway Shandong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

29. ACQUISITION OF A SUBSIDIARY (Continued)

	RMB'000
Net cash outflow arising on acquisition:	
Cash consideration	(8,000)
Bank balances and cash acquired	49
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(7,951)

During the period, Shineway Shangdong contributed RMB1,915,000 to the Group's turnover and made a loss of RMB611,000 for the period between the date of acquisition and the end of the reporting period.

Had the acquisition of Shineway Shandong been effected at the beginning of the year, the total amount of revenue of the Group for the year ended 31 December 2014 would have been RMB2,230,040,000, and the amount of the profit for the year would have been RMB704,121,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

30. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 10 November 2004 for the primary purpose of providing incentives to:

(a) director or employee of any members of the Group;

(b) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or employee of any member of the Group;

(c) any consultant, professional and other advisers to any member of the Group;

(d) any chief executive or substantial shareholder of any member of the Group;

(e) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(f) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The Scheme has expired on 9 November 2014.

The total number of shares in respect of which options might be granted under the Scheme was not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and might be granted to any individual in any one year was not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Options might be exercised at any time from the date of grant of the share option to the 10 anniversary of the date of grant. The exercise price was determined by the directors of the Company, and would not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Details of specific categories of options are as follows:

Date of grant	Vesting period	Vesting proportion	Exercise period	Exercise price HK$
2.9.2013	2.9.2013 – 1.9.2014	20%	2.9.2014 – 1.9.2019	11.84
	2.9.2013 – 1.9.2015	20%	2.9.2015 – 1.9.2019	11.84
	2.9.2013 – 1.9.2016	20%	2.9.2016 – 1.9.2019	11.84
	2.9.2013 – 1.9.2017	20%	2.9.2017 – 1.9.2019	11.84
	2.9.2013 – 1.9.2018	20%	2.9.2018 – 1.9.2019	11.84
5.9.2013	5.9.2013 – 4.9.2014	20%	5.9.2014 – 4.9.2019	11.84
	5.9.2013 – 4.9.2015	20%	5.9.2015 – 4.9.2019	11.84
	5.9.2013 – 4.9.2016	20%	5.9.2016 – 4.9.2019	11.84
	5.9.2013 – 4.9.2017	20%	5.9.2017 – 4.9.2019	11.84
	5.9.2013 – 4.9.2018	20%	5.9.2018 – 4.9.2019	11.84
7.11.2014	7.11.2014 – 6.11.2015	20%	7.11.2015 – 6.11.2020	14.12
	7.11.2014 – 6.11.2016	20%	7.11.2016 – 6.11.2020	14.12
	7.11.2014 – 6.11.2017	20%	7.11.2017 – 6.11.2020	14.12
	7.11.2014 – 6.11.2018	20%	7.11.2018 – 6.11.2020	14.12
	7.11.2014 – 6.11.2019	20%	7.11.2019 – 6.11.2020	14.12

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options held by employees and directors during the year:

		Number of share options			
Date of grant	Exercise price	Outstanding at beginning of the year	Granted during the year	Lapsed during the year	Outstanding at end of the year
	HK$				
For the year ended 31 December 2014					
Directors					
2.9.2013	11.84	4,100,000	–	–	4,100,000
5.9.2013	11.84	500,000	–	–	500,000
		4,600,000	–	–	4,600,000
Employees:					
2.9.2013	11.84	23,900,000	–	(3,500,000)	20,400,000
7.11.2014	14.12	–	2,000,000	–	2,000,000
		23,900,000	2,000,000	(3,500,000)	22,400,000
		28,500,000	2,000,000	(3,500,000)	27,000,000
Exercisable at end of the year					–
Weighted average exercise price (HK$)		11.84	14.12	11.84	12.01

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

		Number of share options			
Date of grant	Exercise price	Outstanding at beginning of the year	Granted during the year	Lapsed during the year	Outstanding at end of the year
	HK$				
For the year ended 31 December 2013					
Directors					
2.9.2013	11.84	–	4,100,000	–	4,100,000
5.9.2013	11.84	–	500,000	–	500,000
		–	4,600,000	–	4,600,000
Employees:					
2.9.2013	11.84	–	23,900,000	–	23,900,000
		–	23,900,000	–	23,900,000
		–	28,500,000	–	28,500,000
Exercisable at end of the year					–
Weighted average exercise price (HK$)		–	11.84	–	11.84

During the year ended 31 December 2014, options were granted on 7 November 2014. The estimated fair value of the options granted on that date was HK$9,586,000.

During the year ended 31 December 2013, options were granted on 2 September 2013 and 5 September 2013. The estimated fair values of the options granted on those dates were HK$116,398,000 and HK$2,155,000, respectively.

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

Grant date	7.11.2014	2.9.2013	5.9.2013
Share price (HK$)	13.54	11.64	11.84
Exercise price (HK$)	14.12	11.84	11.84
Expected volatility	46.70%	48.35%	48.34%
Expected life (years)	6	6	6
Risk-free rate	1.42%	1.60%	1.72%
Expected dividend yield	3.00%	3.46%	3.40%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 6 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Change in the subjective input may materially affect the fair value estimates.

The Group recognised a total expense of RMB31,512,000 (2013: RMB13,996,000) for the year ended 31 December 2014 in relation to share options granted by the Company.

31. OPERATING LEASE COMMITMENTS

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

	2014	2013
	RMB'000	RMB'000
Within one year	**2,045**	6,648
In the second to fifth year inclusive	**1,348**	4,053
	3,393	10,701

Operating lease payments represent rentals payable by the Group for certain of its warehouse, staff quarters and offices. Leases are negotiated for terms ranged from 1 to 3 years with fixed rental.

31. OPERATING LEASE COMMITMENTS (Continued)

Included in the above, the Group had future aggregate minimum lease payments under non-cancellable operating leases with related parties which are ultimately controlled by the controlling shareholder of the Company as follows:

	2014	2013
	RMB'000	RMB'000
Within one year	**–**	4,133

32. RETIREMENT BENEFITS PLANS

The employees of the Group's PRC subsidiaries participate in retirement and medicare insurances in accordance with the PRC laws and related regulations. When an employee joins the Group, he is enrolled with the local retirement plan. Contributions to the retirement insurance, borne by the Group and the employee jointly at the proportions stipulated by the local Municipal Government, are paid to the social insurance institutions monthly. When the employee retires, he receives his retirement funds from the insurance company directly and is also entitled to enjoy medical benefits after retirement provided by the insurance company. Other than the contributions, the Group has no forfeited contributions nor obligation for any related retirement benefits.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, with maximum of HK$1,500 (HK$1,250 before 1 June 2014) per employee per month, to the Scheme, which contribution is matched by employees.

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income of RMB40,315,000 (2013: RMB49,983,000) represents contributions payable to this plan by the Group at rates specified in the rules of the plan.

33. CAPITAL COMMITMENTS

	2014 RMB'000	2013 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of acquisition of property, plant and equipment	**361,726**	390,988
– in respect of acquisition of intangible assets	**90,000**	–

34. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	2014 RMB'000	2013 RMB'000
Rental expense to Shineway Medical	**3,473**	3,473
Rental expense to Shineway Lang Fang	**931**	931
Service fee to Shineway Medical	**7,971**	7,380
Service fee to Shineway Lang Fang	**2,297**	2,127
Research and development fee to Shineway Medical	**3,000**	–

Compensation of key management personnel

Key management personnel are deemed to be the members of the Board of Directors of the Company which has responsibility for planning, directing and controlling the activities of the Group. Remuneration paid for key management personnel is disclosed in note 10.

35. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2014 and 2013 are as follows:

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2014	2013	Principal activities
Yuan Da Investment Limited	Hong Kong 10 November 2009	Ordinary share – HK$1	**100%**	100%	Investment holding
Yuan Da International Limited 遠大國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Shineway Pharmaceutical Sales Company Limited 神威藥業營銷有限公司 (Note a)	PRC 3 March 2003 for a term of 30 years	Registered capital – RMB98,533,542	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical Company Limited 神威藥業有限公司 (Note b)	PRC 30 December 2003 for a term of 30 years	Registered capital – US$25,000,000	**100%**	100%	Research and development, manufacture and trading of Chinese pharmaceutical products
Hebei Shineway Pharmaceutical Company Limited 河北神威藥業有限公司 (Note b)	PRC 30 December 2003 for a term of 30 years	Registered capital – US$12,000,000	**100%**	100%	Manufacture and trading of Chinese pharmaceutical products
China Shineway Pharmaceutical (Hong Kong) Limited 中國神威藥業(香港)有限公司	Hong Kong 21 April 2004	Ordinary share – HK$1	**100%**	100%	Trading of Chinese pharmaceutical products
Xizang Shineway Pharmaceutical Company Limited 西藏神威藥業有限公司 (Note b)	PRC 7 November 2006 for a term of 10 years	Registered capital – US$1,250,000	**100%**	100%	Trading of Chinese pharmaceutical products

35. PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2014	2013	Principal activities
Shineway Pharmaceutical (Hainan) Company Limited 神威藥業(海南)有限公司 (Note b)	PRC 21 May 2007 for a term of 10 years	Registered capital – US$3,900,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Chengdu) Company Limited (Note c) 神威藥業(成都)有限公司	PRC 25 December 2009	Registered capital – RMB5,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Zhangjiakou) Company Limited (Note c) 神威藥業(張家口)有限公司	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	100%	Manufacture and trading of Chinese products
Shineway Pharmaceutical (Sichuan) Limited) (Note c) 神威藥業(四川)有限公司	PRC 15 September 2003	Registered capital – RMB15,000,000	**100%**	100%	Manufacture and trading of Chinese pharmaceutical products
Chengdu Kalituo Technology Company Limited (Note d) 成都康利托科技有限公司	PRC 4 December 2009	Registered capital – RMB20,000,000	**–**	100%	Trading of Chinese pharmaceutical products
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited (Note c) 神威藥業(石家莊)中藥飲片有很公司	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Minle) Modern Agricultural Limited (Note c) 神威藥業(民樂)現代農業有很公司	PRC 17 June 2012	Registered capital – RMB2,000,000	**70%**	70%	Trading of Chinese pharmaceutical products
Beijing Shineway Song Biotechnology Company Limited (Note c) 北京神威頌生物科技有限公司	PRC 12 January 2013	Registered capital – RMB10,000,000	**100%**	100%	Manufacture and trading of Chinese pharmaceutical products

35. PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2014	2013	Principal activities
Hebei Tongshun Bioenergy Technology Limited (Note c) 河北通順生物質能源科技有限公司	PRC 20 September 2013	Registered capital – RMB10,000,000	**100%**	100%	Manufacture and trading of Chinese pharmaceutical products
Australia Shineway Technology Pty Ltd.	Australia 29 August 2012	Registered capital – Australian dollar 1,000	**100%**	100%	Research and development
Shineway Pharmaceutical Group (Shandong) Company Limited (Note c) 神威藥業集團(山東)有很公司	PRC 27 April 1993	Registered capital – RMB3,000,000	**100%**	–	Manufacture and trading of Chinese pharmaceutical products

Notes:

(a) Become a foreign wholly-owned enterprise after the equity interest transfer with effect from 30 March 2005.

(b) Being foreign wholly-owned enterprises.

(c) Being PRC domestic enterprises.

(d) The entity was merged with Shineway Pharmaceutical (Sichuan) Limited during the year.

Except for Yuan Da Investment Limited, Yuan Da International Limited and Hong Zhan International Limited, all other subsidiaries are indirectly held by the Company.

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

Financial Information of the Company

The financial information of the Company as at 31 December 2014 and 2013 is as follows:

	2014	2013
	RMB'000	RMB'000
Assets		
Investment in subsidiaries	**63,599**	63,599
Prepayments	**20**	–
Amount due from subsidiaries	**925,623**	752,687
Bank balances and cash	**191**	1,202
	989,433	817,488
Liabilities		
Other payables	**31,760**	30,536
Amount due to subsidiaries	**144,901**	10,862
	176,661	41,398
	812,772	776,090
Capital and reserves		
Share capital	**87,662**	87,662
Reserves	**725,110**	688,428
	812,772	776,090

Financial Information of the Company

	Share capital RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2013	87,662	866,435	954,097
Total comprehensive income for the year	–	86,633	86,633
Dividends paid	–	(264,640)	(264,640)
At 31 December 2013	87,662	688,428	776,090
Total comprehensive income for the year	–	309,592	309,592
Dividends paid	–	(272,910)	(272,910)
At 31 December 2014	87,662	725,110	812,772