# SINO BIOPHARMACEUTICAL LIMITED

# 中國生物製藥有限公司

*(Incorporated in the Cayman Islands with Limited Liability)*

(Stock Code: 1177)

# Contents

# Corporate Profile

Sino Biopharmaceutical Limited (the "Company"), together with its subsidiaries (the "Group"), is an integrated pharmaceutical enterprise. Applying advanced modernized Chinese medicinal technology, the Group researches, develops, manufactures and markets a vast array of health enhancing modernized Chinese medicines and chemical medicines. The Group has also strategically entered into the related healthcare and hospital business through the acquisition of Chia Tai Shaoyang Orthopedic Hospital located in Hunan Province of the People's Republic of China (the "PRC") and the manufacture and sales of health food business through Tianjin Chia Tai Zhenwutang Food Co., Ltd..

The Group's products can be grouped under the two major therapeutic categories of hepatitis and cardio-cerebral diseases. It also actively develops medicines for treating tumors, pain, diabetes, respiratory system diseases and other diseases to meet the increasing demands of the market, medical practitioners and patients.

**Principal products:**

| | |
|---|---|
| Hepatitis medicines: | Runzhong (Entecavir) dispersible tablets,<br>Tianqingganmei (Magnesium Isoglycyrrhizinate) injections,<br>Mingzheng (Adefovir Dipivoxil) capsules,<br>Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules,<br>Ganlixin (Diammonium Glycyrrhizinate) injections and capsules |
| Cardio-cerebral medicines: | Yilunping (Irbesartan/Hydrochlorothiazide) tablets, Tuotuo (Rosuvastatin Calcium) tablets,<br>Tianqingning (Hydroxyethylstarch 130) injections |
| Oncology medicines: | Zhiruo (Palonosetron Hydrochloride) injections, Saiweijian (Raltitrexed) injections,<br>Tianqingyitai (Zolebronate Acid) injections |
| Orthopedic medicines: | New Ossified Triol capsules, Jiuli (Glucosamine Hydrochloride) tablets |
| Parenteral nutritious medicines: | Xinhaineng (Carbohydrate and Electrolyte) injections, Fenghaineng fructose injections |
| Anti-infectious medicines: | Tiance (Biapenem) injections |
| Respiratory system medicines: | Tianqingsule (Tiotropium Bromide) inhalation powder,<br>Chia Tai Suke (Cefaclor and Bromhexine Hydiochloride) tablets |
| Anorectal medicines: | Getai (Diosmin) tablets |

**Products with great potential:**

| | |
|---|---|
| Cardio-cerebral medicines: | Tianqingganan (Glycerin and Fructose) injections |
| Oncology medicines: | Renyi (Pamidronate Disodium) injections, Qingweike (Decitabine for injections),<br>Gelike (Dassatinib) capsules, Shoufu (Capecitabihe) tablets |
| Respiratory system medicines: | Zhongchang (Fudosteine) tablets |
| Diabetic medicines: | Taibai (Metformin Hydrochloride) sustained release tablets |


"Award for Outstanding Chinese Patented Invention" jointly granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC


Forbes Award

The medicines which have received Good Manufacturing Practice ("GMP") certifications issued by the State Food and Drug Administration of the PRC are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP certification for health food in capsules from the Department of Health of Jiangsu Province.

Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide"), an associate of the Group, has obtained the GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in December, 2012. Thus, the Japanese pharmaceutical enterprises can assign the manufacturing of aseptic pharmaceutical products (products that are under research and products already launched to the domestic market within Japan) to Beijing Tide for export to Japan.

The Group's several principal subsidiaries: Chia Tai – Tianqing Pharmaceutical Holdings Co. Ltd. ("CT Tianqing"), Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), Beijing Chia Tai Green Continent Pharmaceutical Co. Ltd. ("CTGP"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang"), Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. ("Qingdao Haier"), Shanghai Tongyong Pharmaceutical Co., Ltd. ("Shanghai Tongyong") and Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong") have been designated "High and New Technology Enterprises". CT Tianqing was designated "2011 Most Valuable Investment Enterprise of the PRC Pharmaceutical Enterprises" from the PRC Pharmaceutical Industry Information Centre. In addition, NJCTT, Jiangsu Qingjiang and Jiangsu Fenghai have been designated "Engineering Technological Research Centre for treating tumors and cardio-cerebral phytochemistry injections of Jiangsu Province", "Orthopedic Medicines Preparation Research Centre" and "Engineering Technology Research Centre for Anorectal Nutritious Medicines" by The Science and Technology Committee of Jiangsu Province, respectively.

Named by the Ministry of Personnel of the PRC as a "Postdoctoral Research and Development Institute", the research center of CT Tianqing is also the only "New Hepatitis Medicine Research Center" in the country.

In September, 2011, CT Tianqing has received the first certificate of new edition GMP (Certificate No. CN20110001) issued by the State Food and Drug Administration of the PRC for its small volume parenteral solution (injection) dosage.

The Company has been selected as a constituent of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite SmallCap Index with effect from 8 March, 2010.

The Company became a constituent of the MSCI Global Standard Indices' MSCI China Index with effect from the close of trading on 31 May, 2013.

The Group's website: http://www.sinobiopharm.com


Postdoctoral Scientific Research Workshop


GMP certificate for tablets, hard capsules and dry powder inhalers


GMP certificate for small volume parenteral solutions

# Corporate Profile

## GROUP STRUCTURE OF PRINCIPAL SUBSIDIARIES

Fig.1.1

**Sino Biopharmaceutical Limited**
(Cayman Islands)

| Subsidiary | Place | Principal activity | Interest |
|---|---|---|---|
| **Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd.** | (PRC) | **Investment** | 100% |
| **Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.** | (PRC) | **R&D** | 75% |
| **Jiangsu Runji Investment Co., Ltd.** | (PRC) | **Investment** | 60% |
| **Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd.** | (PRC) | **R&D, Manufacture & Sale** | 55.588% |
| **Jiangsu Chia Tai Qingjiang Medicines Co., Ltd.** | (PRC) | **Sale & Distribution** | 55.588% |
| **China Biotech & Drug Development Limited** | (Hong Kong) | **R&D** | 51% |
| **Qingdao Chia Tai Haier Pharmaceutical Co., Ltd.** | (PRC) | **R&D, Manufacture & Sale** | 51% |
| **Qingdao Heng Seng Tang Pharmacy Co., Ltd.** | (PRC) | **Retail** | 51% |
| **Qingdao Chia Tai Haier Medicines Co., Ltd.** | (PRC) | **Sale & Distribution** | 51% |
| **Tianjin Zhenwutang Food Co., Ltd.** | (PRC) | **Manufacture & Sale** | 51% |
| **Tianjin Zhenwutang Trading Co., Ltd.** | (PRC) | **Sale & Distribution** | 51% |
| **Chia Tai Shaoyang Orthopedic Hospital** | (PRC) | **Outpatient & Hospitalization** | 46.7% |
| **Zhejiang Tianqing Zhongwei Medicines Co., Ltd.** | (PRC) | **Sale & Distribution** | 33% |
| **Shanghai Tongyong Pharmaceutical Co., Ltd.** | (PRC) | **R&D, Manufacture & Sale** | 63.64% |
| **Shanghai Tongzheng Import Export Co., Ltd.** | (PRC) | **Sale & Distribution** | 63.64% |
| **Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd.** | (PRC) | **R&D, Manufacture & Sale** | 60.898% |
| **Jiangsu Chia Tai Fenghai Medicines Co., Ltd.** | (PRC) | **Sale & Distribution** | 60.898% |
| **Nanjing Chia Tai Fenghai Medicines Technology Co., Ltd.** | (PRC) | **Sale & Distribution** | 60.898% |
| **Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd.** | (PRC) | **R&D, Manufacture & Sale** | 60% |
| **Lianyungang Chia Tai Tianqing Medicines Co., Ltd.** | (PRC) | **Sale & Distribution** | 60% |
| **Lianyungang Tianrun Pharmacy Ltd.** | (PRC) | **Retail** | 60% |
| **Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd.** | (PRC) | **Manufacture & Sale** | 60% |
| **Lianyungang Runzhong Pharmaceutical Co., Ltd.** | (PRC) | **Manufacture & Sale** | 60% |
| **Nanjing Juxin Pharmaceutical Co., Ltd.** | (PRC) | **Manufacture & Sale** | 60% |
| **Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.** | (PRC) | **R&D, Manufacture & Sale** | 55.6% |
| **Suzhou Tianqing Xingwei Medicines Co., Ltd.** | (PRC) | **Sale & Distribution** | 33% |

# Financial Summary

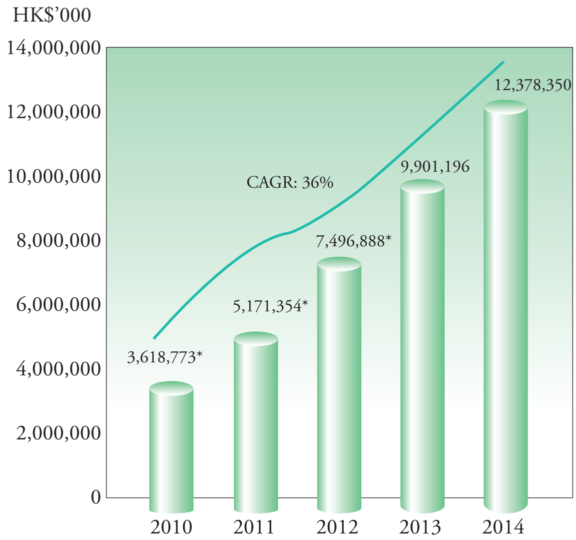
A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

| | 2014<br>HK$'000 | 2013<br>HK$'000 | 2012<br>HK$'000<br>*(Restated)* | 2011<br>HK$'000<br>*(Restated)* | 2010<br>HK$'000<br>*(Restated)* |
|---|---|---|---|---|---|
| TURNOVER | **12,378,350** | 9,901,196 | 7,496,888 | 5,171,354 | 3,618,773 |
| Cost of sales | **(2,920,531)** | (2,228,351) | (1,610,587) | (1,170,199) | (737,649) |
| Gross profit | **9,457,819** | 7,672,845 | 5,886,301 | 4,001,155 | 2,881,124 |
| Other income and gains | **293,182** | 188,782 | 139,253 | 100,174 | 233,914 |
| Selling and distribution costs | **(5,342,527)** | (4,413,986) | (3,322,544) | (2,267,047) | (1,529,007) |
| Administrative expenses | **(824,966)** | (638,312) | (669,960) | (494,042) | (459,129) |
| Other operating expenses | **(1,075,997)** | (908,321) | (540,972) | (577,592) | (214,440) |
| Finance costs | **(43,096)** | (2,500) | (9,650) | (11,418) | (5,804) |
| Share of profits and losses of associates | **336,792** | 238,002 | 240,179 | 199,576 | 144,543 |
| PROFIT BEFORE TAX | **2,801,207** | 2,136,510 | 1,722,607 | 950,806 | 1,051,201 |
| Income tax expenses | **(440,153)** | (354,551) | (305,135) | (121,567) | (191,832) |
| PROFIT FOR THE YEAR | **2,361,054** | 1,781,959 | 1,417,472 | 829,239 | 859,369 |
| Attributable to: | | | | | |
| Owners of the parent | **1,513,205** | 1,036,764 | 890,758 | 462,801 | 566,897 |
| Non-controlling interests | **847,849** | 745,195 | 526,714 | 366,438 | 292,472 |
| | **2,361,054** | 1,781,959 | 1,417,472 | 829,239 | 859,369 |
| TOTAL ASSETS | **14,163,941** | 9,968,867 | 7,701,178 | 6,208,864 | 5,574,183 |
| TOTAL LIABILITIES | **(5,345,645)** | (2,743,904) | (1,916,482) | (1,432,499) | (1,272,635) |
| NET ASSETS | **8,818,296** | 7,224,963 | 5,784,696 | 4,776,365 | 4,301,548 |
| NON-CONTROLLING INTERESTS | **(2,207,654)** | (1,737,947) | (1,202,720) | (940,360) | (653,863) |

# Financial Summary

## SALES GROWTH

Fig.1.2



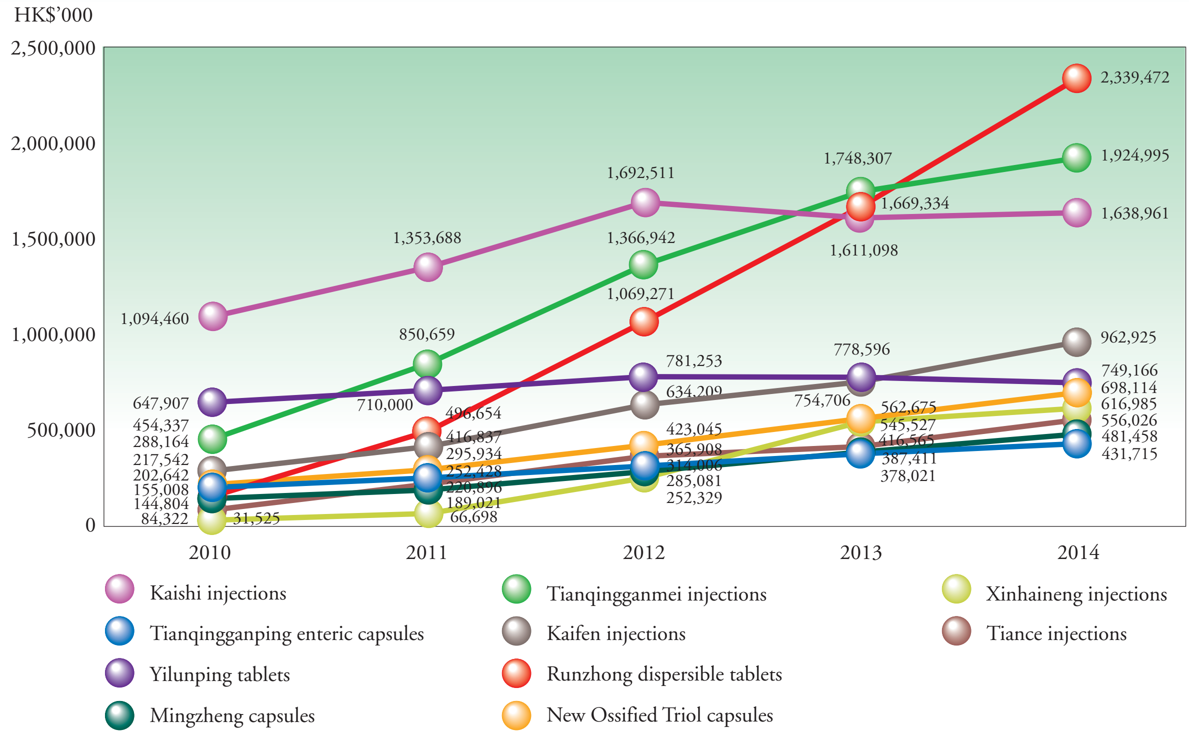

## GROWTH OF PROFIT

Fig.1.3


* Figures have been restated

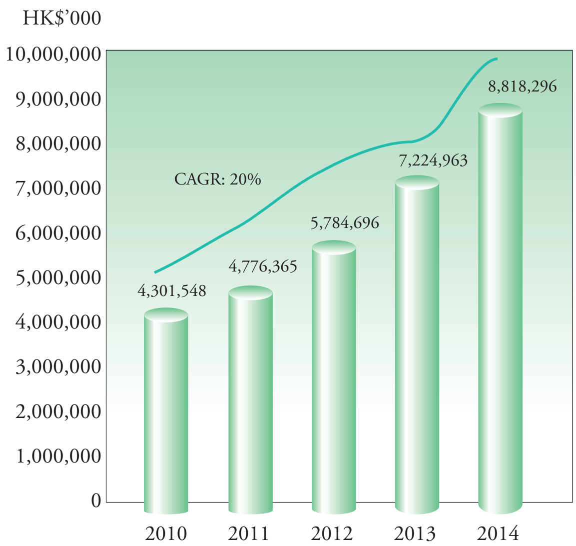
## SALES GROWTH OF BLOCKBUSTER PRODUCTS

Fig.1.4



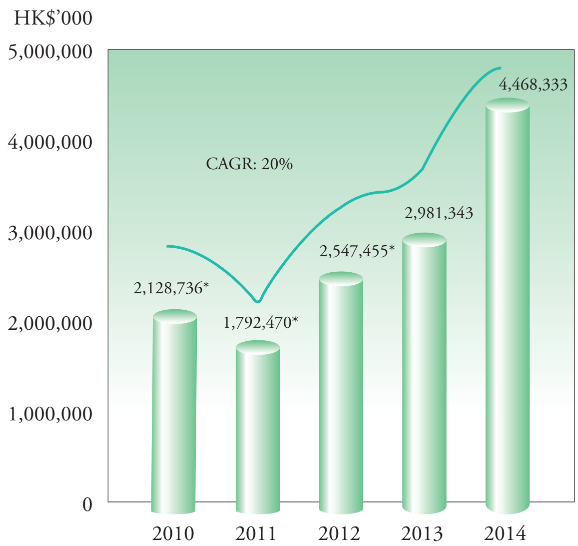

## NET ASSET VALUE

Fig.1.5




## CASH AND BANK BALANCES

Fig.1.6

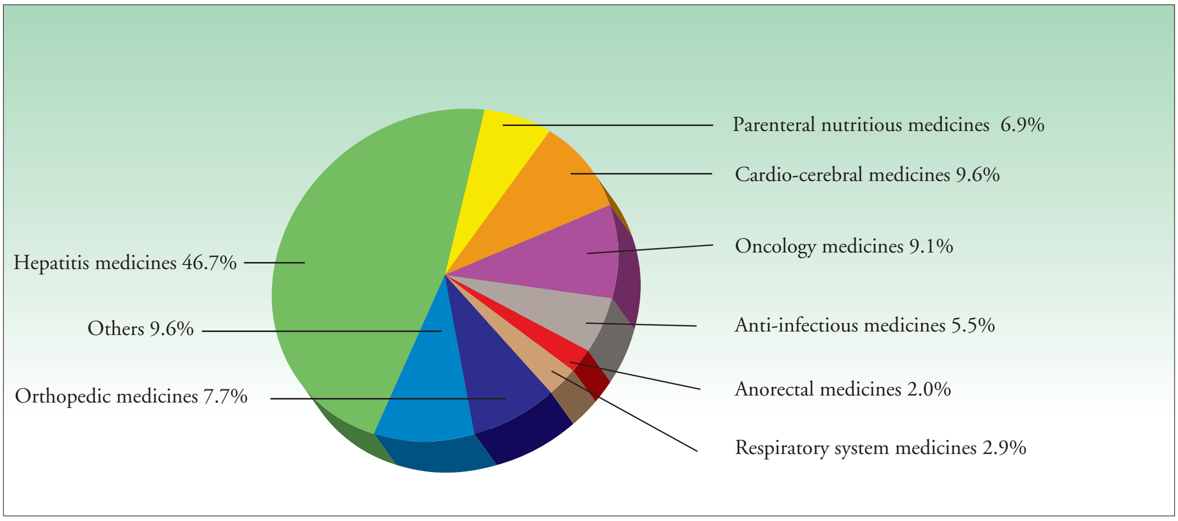



* Figures have been restated

# Financial Summary

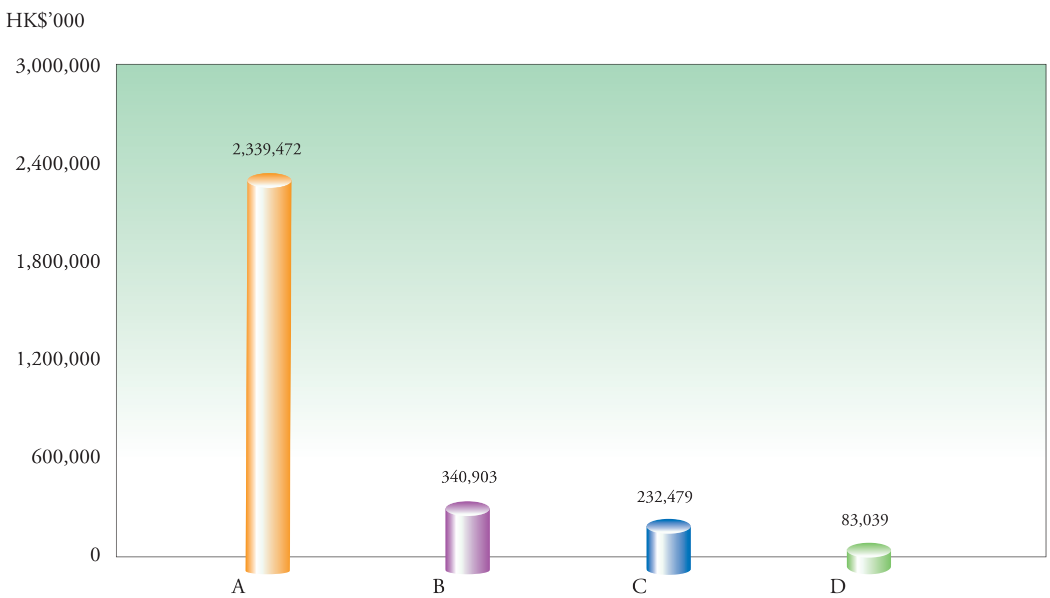
## TURNOVER BY THERAPEUTIC CATEGORIES (2014)

Fig.1.7




## TURNOVER BY NEW PRODUCTS (2014)

Fig.1.8




A Runzhong dispersible tablets (launched in March, 2010), manufactured by CT Tianqing
B Tuotuo tablets (launched in 2011), manufactured by NJCTT
C Saiweijian injections (launched in 2010), manufactured by NJCTT
D Qingweike (Decitabine for injections) (launched in January, 2013), manufactured by CT Tianqing

# Awards

## Corporate Awards

- The Company was selected as a constituent of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite Small Cap Index both with effect from 8 March, 2010
- The Company was awarded "Chinese Outstanding Enterprise Achievement Prize" by the Capital Magazine in May, 2006
- The Company was awarded "Best under a 1 US Billion within the Asia Pacific region in 2005" by Forbes Asia
- The Company was awarded "Hong Kong Outstanding Enterprises 2005" by Economic Digest
- The Company was awarded "Red Herring Small Cap 100" by Red Herring Magazine
- CT Tianqing was designated "2014 Best Industrial Enterprise in the R&D of the Pharmaceutical Product Line in the PRC" by the PRC's Pharmaceutical Industrial Information Centre
- CT Tianqing was designated "State Recognized Enterprise Technological Centre" by State Development Reform Committee, Ministry of Science, Ministry of Finance, Customs Head Office and State Tax Bureau
- CT Tianqing was placed 25th of "2013 Top 100 Pharmaceutical Industrial Enterprises in the PRC" by the Bureau of Medical Statistics of the PRC
- CT Tianqing was awarded "2012 Science and Technology Honor Award in Jiangsu Province" by the Government of People of Jiangsu Province
- NJCTT was designated "Engineering Technological Research Centre for treating tumors and cardio-cerebral phytochemistry injections of Jiangsu Province" by the Science and Technology Committee of Jiangsu Province and Bureau of Finance of Jiangsu Province
- NJCTT was awarded "2014 China Chemical Pharmaceutical Industry Top 100 Industrial Enterprises in respect of comprehensive strength" in Chempharm Annual Summit 2014
- Jiangsu Fenghai was designated "Engineering Technology Centre of Parenteral Nutritious Medicines in Jiangsu Province" by Bureau of Science and Technology of Jiangsu Province and Bureau of Finance of Jiangsu Province
- Jiangsu Qingjiang was designated "Recognized Enterprise Technology Centre in Jiangsu Province" by the Economic and Information Committee of Jiangsu Province, the Development and Reform Committee of Jiangsu Province, Bureau of Science and Technology of Jiangsu Province, Bureau of Finance of Jiangsu Province, State Tax Bureau of Jiangsu Province, Local Tax Bureau of Jiangsu Province and the PRC's Customs of Nanjing
- Qingdao Haier was designated "Qingdao Chemical and Pharmaceutical Engineering Research Centre" by Bureau of Science and Technology of Qingdao City
- Beijing Tide and CTGP were designated "High and New Technology Enterprise" by Beijing Municipal Science and Technology Committee
- Beijing Tide was designated "Pharmaceutical Industry Enterprise (non-listed) with most investment value in the PRC" by the PRC's Pharmaceutical Industry Information Centre
- Beijing Tide was awarded "Drug Delivery System Preparation Technology and R&D Centre of Beijing City" by the Science and Technology Committee of Beijing City
- Beijing Tide was awarded "The Potential Enterprises in the PRC in 2009" by Forbes Asia

## Product Awards

- "Tianqingganmei and its production method" received the "The Tenth Chinese Patent Gold medal" jointly granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC
- "Tianqingganmei injections" won the gold medal in "The Third Chinese International Patented and Famous Brands Exhibition" organized by State Intellectual Property Office of the PRC
- "Ganlixin injections and capsules" was commended "People's Safe Medicine Branding" in "Safe Medicine for Everyone", an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People's Health magazine
- "Tianqingganmei injections" received "Scientific and Technological Progress Second Honor Award" from Jiangsu Provincial Government
- "Tianqingganping enteric capsules" was awarded "National Torch Programme Project Certificate" from the PRC's Ministry of Science and Technology
- "Kaishi injections" received "National New Key Product Certificate" jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine and the State Environmental Protection Administration of the PRC
- "Kaishi injections" received "Beijing Science and Technology Second Honor Award" from the Beijing Municipal People's Government
- "Entecavir", "Biapenem", "Getai", "Renyi", "Tianqingning" and "Yitong" were granted "High and New Technology Product Confirmation Certificate" by the Bureau of Technology of Jiangsu Province
- "Kaifen injections" received "National New Key Product Certificate" jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine and the State Environmental Protection Administration of the PRC
- "Biapenem Raw Material and Powder" received "State Torch Programme Project Certificate" from Torch High and New Technology Industry Development Centre of Ministry of Science and Technology
- "Entecavir Raw Material and Powder" received "State Focus New Product Certificate" from PRC's Ministry of Science and Technology, PRC's Ministry of Environmental Protection, PRC's Ministry of Commerce and State Quality Control and Inspection Bureau

# Chairman's Statement

## Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report the results of the Group for the year ended 31 December, 2014.

### INDUSTRY REVIEW

In 2014, as the global economic growth remained weak, China continued to transform its economic structure and optimise quality of its products and businesses. Against this backdrop, the PRC macro-economy has begun a "New Norm" and recorded a slower growth with Gross Domestic Product growth rate of 7.4% in 2014. Meanwhile, the growth of the pharmaceutical industry has also started to slow down after several years of rapid expansion. Affected by the above factors, the export of pharmaceutical products was weak. At the same time, the Chinese government has tapered the financial subsidies to the pharmaceutical industry, more strictly regulated price of medicines, medical insurance premiums and launched an anti-corruption campaign, while the hospitals, the important end-customers of the Group's pharmaceuticals, experienced slower growth momentum. The recent GMP/Good Supply Practice reform has also presented added challenges to cost controls of the pharmaceutical industry. The saturated retail pharmaceutical landscape and the keen competition also led to lower growth and in year 2014, both income and profit growth of the PRC pharmaceutical industry were about 13%.

CT Tianqing's factory


NJCTT's factory

Beijing Tide's factory

CT Tianqing's R&D Centre

## BUSINESS REVIEW

During the year under review, the constant introduction of policies on strengthening medical reform and the more stringent medical insurance premium requirements have presented significant challenges to pharmaceutical operations. Nevertheless, the Group has managed to maintain higher growth in business performance through careful analysis of, and proactively responding to, new policies, enhancing operating efficiency and allocating more resources to new product development. In the hepatitis and cardio-cerebral medicines categories where the Group has a strong competitive edge, the new products such as Maleicacid Entecavir capsules and Rosuvastatin Calcium tablets have registered solid growth and become new growth drivers. At the same time, the Group has continued to increase its competitive advantage in analgesics and orthopedic medicines such as Flurbiprofen Axetil injection, Flurbiprofen Cataplasms, ossified triol capsules and Glucosamine Hydrochloride tablets. In the oncology category, the Group has provided a more comprehensive product range adding a number of products. The sales of new products such as Imatinib Mesylate capsules, Dasatinib tablets and Decitabine for injections have rapidly increased after their debut. As for respiratory products, the Group's share in the market for Tiotropium Bromide inhalation powder has continued to rise. To expand its industry leading edge, the Group has placed a top priority on investment in research and development ("R&D") and its R&D has achieved solid progress in creating new pharmaceuticals. During the year under review, the Group has obtained production approvals on oncology products such as Capecitabine tablets and Oxaliplatin for injections and cardio-cerebral medicines such as Olmesartan Medoxomil tablets and Milrinone and Glucose injections.

Apart from focus on the existing pharmaceutical business, the Group will closely pay attention to the governmental and regional policies over the encouragement of the establishment of pharmaceutical enterprises and the provision of medical services through internet. We will also actively seek for valuable investment opportunities.

The Group recorded turnover of approximately HK$12,378.35 million during the year under review, an increase of approximately 25% against the same period last year. Before and after accounted for unrealized fair value (gains)/losses of equity investments at fair value through profit or loss, profit attributable to the Group was approximately HK$1,477.53 million and approximately HK$1,513.21 million, respectively, approximately 38.7% and approximately 46% higher than in the same period last year, respectively. Based on the profit attributable to the Group before and after accounted for unrealized fair value (gains)/losses of equity investments at fair value through profit or loss, the basic earnings per share were approximately HK29.90 cents and approximately HK30.62 cents, respectively, approximately 38.7% and approximately 45.9% higher than in the same period last year, respectively. Cash and bank balances totaled approximately HK$4,468.33 million.

The Group continued to focus on developing specialized medicines where its strengths lie so as to build up its brand as a specialty medicine enterprise. Leveraging on its existing medicine series for treating hepatitis and cardio-cerebral diseases, the Group also actively developed oncology medicines, analgesic medicines, orthopedic medicines, parenteral nutritious medicines, anti-infectious medicines, respiratory system medicines, anorectal medicines and diabetic medicines, etc.

Qingdao Haier's factory


Jiangsu Qingjiang's factory


Jiangsu Fenghai's factory


Shanghai Tongyong's factory


Shaoyang Hospital

# Chairman's Statement

## PROSPECTS

The year 2015 is a critical year for the PRC to further implement its economic reforms. The domestic conditions and overseas environment faced by the PRC economy remain difficult, thus stable growth and structural adjustments will continue to be the key features of the macro-economy. Besides, year 2015 will be a year when open tenders become increasingly prevalent. Pharmaceutical enterprises will therefore inevitably face the risk of price cuts. The gap in medical insurance funding will also become a key issue to be faced by the medical reform and pharmaceutical industry in the PRC. Furthermore, the pharmaceutical industry may continue to experience a slowdown in growth as competition intensifies and the industry itself consolidates. On the other hand, with the continuous progress of medical reform and the promotion of major health industry policies, the current issues faced by the less established PRC healthcare protection system and resource deficiencies in the healthcare services will also gradually improve. These changes will also result in the emergence of various sub-segments and related investment opportunities in the healthcare services and mobile medical services. The government's supportive policies regarding liberalisation of the pricing of medicines and encouragement to e-commerce operators of pharmaceuticals, have also presented new development opportunities to forward-looking pharmaceutical enterprises. The simplified policies and empowerment of end-customers such as healthcare services providers and consumers has provided more room for development for those enterprises with sound business fundamentals and innovative products.

The Group believes that 2015 will remain a year of adjustments but will also present new development opportunities for the PRC pharmaceutical industry.

## 2015 ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Tuesday, 2 June 2015 ("2015 AGM"), a notice of which will be published and despatched to the shareholders of the Company in due course in accordance with the memorandum and articles of association of the Company and the Listing Rules.

## APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders for their trust, support and understanding, as well as to all staff for their dedication and diligence.

NJCTT's production plant for PVC-free large volume injections

CT Tianqing's capsules production line

Beijing Tide's small volume injections production line

Jiangsu Fenghai's R&D Centre

Qingdao Haier's production line

## HEPATITIS MEDICINES

For the year ended 31 December, 2014, the sales of hepatitis medicines amounted to approximately HK$5,778.22 million, representing approximately 46.7% of the Group's turnover.

CT Tianqing mainly produces two categories of hepatitis medicines that can protect the liver while lowering enzyme levels and combating hepatitis virus. Ganlixin injections and capsules made with ingredients extracted from Licorice are the number 1 hepatitis medicine brand in the PRC. For the year ended 31 December, 2014, its sales amounted to approximately HK$159.81 million. After the protection period of the product expired, many replicas have emerged into the market, resulting in intensified competition. The Group thus developed Tianqingganping enteric capsules with better therapeutic effect than Ganlixin capsules and its intellectual property right being protected. Sales of the medicine continued to increase to approximately HK$431.71 million in the year, representing a growth of approximately 14.2% when compared with the same period last year. In 2005, CT Tianqing launched the patented medicine Tianqingganmei injections, which was made with Isoglycyrrhizinate separated from Licorice. During the year under review, the product has bright prospects and recorded the sales of approximately HK$1,924.99 million, an increase of approximately 10.1% against the same period last year. The Group believes that medicine series made with ingredients extracted from Licorice will help to maintain CT Tianqing's leadership in the market for medicines protecting the liver and lowering enzyme levels.

The Group launched a patented hepatitis medicine called Mingzheng capsules in 2006. As a first-tier synthetic drug for combating hepatitis virus in the international market, the product has been well received by the market since launched with sales increasing rapidly. Mingzheng capsules have become another blockbuster product for combating hepatitis virus. For the year ended 31 December, 2014, its sales amounted to approximately HK$749.17 million.

CT Tianqing's self-developed new medicine for hepatitis B, Runzhong (Entecavir) dispersible tablet, has obtained the new product approval certificate and production approval in February 2010, making CT Tianqing the first pharmaceutical manufacturer to gain the approval for this product in the PRC. The product was launched to the market since March 2010. For the year ended 31 December, 2014, the sales amounted to approximately HK$2,339.47 million, an increase of approximately 40.1% against the same period last year. Runzhong dispersible tablet is the latest generation of guanine nucleoside analogue oral medicine used mainly for the treatment of hepatitis B. It inhibits viral replication and has lower risk of triggering the emergence of medicine-resistant virus. After Entecavir was launched in 2005, the medicine recorded strong sales growth around the world as one of the most efficacious hepatitis B medicines.

## CARDIO-CEREBRAL MEDICINES

For the year ended 31 December, 2014, after accounted for certain pharmaceutical products not being consolidated but under the management of the Group, the sales of cardio-cerebral medicines amounted to approximately HK$3,035.35 million, representing approximately 19.8% of the non-General Acceptable Accounting Practice ("GAAP") adjusted enlarged turnover of the Group. The consolidated sales of cardio-cerebral medicines of the Group amounted to approximately HK$1,193.12 million, representing approximately 9.6% of the Group's turnover.

Dasatinib tablets | Kaishi injections | Spring PVC-free soft bags for intravenous injections | Spring injections | Tianqinganan injections | Tianqingning injections | Tianding (Maleicacid Entecavir) capsules | Yishenjuanbi pills | Runzhong dispersible tablets | Zoledronic acid injections

# Management Discussion and Analysis

NJCTT's Tianqingning injections is a plasma-volume expander for patients with blood volume deficiencies. As this product can be used as plasma for all blood types, it has huge market potential. For the year ended 31 December, 2014, the product recorded the sales of approximately HK$197.48 million. The sales of another pharmaceutical product, Yilunping tablets, amounted to approximately HK$481.46 million for the year ended 31 December, 2014, an increase of approximately 24.3% when compared with the same period last year. For the year ended 31 December, 2014, the sales of Tuotuo calcium tablets amounted to approximately HK$340.90 million, a sharp increase of approximately 63.3% when compared with the same period last year.

Kaishi injections works on the Drug Delivery System (DDS) theory to improve cardio-cerebral micro-circulation blockage. It is the first micro-sphere target sustained release medicine in the PRC. The proprietary pharmaceutical technology used by the Group enhances the product to have more apparent effect than similar products in the market, which was awarded GMP medicine certification by the Public Welfare and Health Ministry of Japan in February 2008. For the year ended 31 December, 2014, the sales of Kaishi injections amounted to approximately HK$1,638.96 million, a slightly increase of 1.7% as compared with same period last year.

## ONCOLOGY MEDICINES

For the year ended 31 December, 2014, the sales of oncology medicines amounted to approximately HK$1,125.13 million, representing approximately 9.1% of the Group's turnover.

Tianqingyitai injections, Tianqingrian injections, Zhiruo injections and Renyi injections are mainly developed and manufactured by CT Tianqing and NJCTT. For the year ended 31 December, 2014, sales of oncology medicines amounted to approximately HK$1,125.13 million, an increase of approximately 38.8% as compared with the same period last year. For the year ended 31 December, 2014, the sales of a new product, Qingweike injections, amounted to approximately HK$83.04 million, a significant increase of 69.3% as compared with the same period last year. Shoufu tablets was launched in February 2014. For the year ended 31 December, 2014, its sales amounted to approximately HK$45.19 million.

## ANALGESIC MEDICINES

For the year ended 31 December, 2014, after accounted for certain pharmaceutical products not being consolidated but under the management of the Group, the sales of analgesic medicines amounted to approximately HK$1,094.94 million, representing approximately 7.1% of the non-GAAP adjusted enlarged turnover of the Group.

Launched in 2005, the analgesic medicine Kaifen injections is a Flurbiprofen Axetil microsphere target sustained release analgesic injection produced based on the DDS theory and enabled by advanced target technology. The product is famous for strong pain relieving effect with minimal side effects and has been well received by medical practitioners and patients since launched. The sales of the product for the year ended 31 December, 2014 amounted to approximately HK$962.92 million, approximately 27.6% higher than that as compared with the same period last year.

## ORTHOPEDIC MEDICINES

For the year ended 31 December, 2014, the sales of orthopedic medicines amounted to approximately HK$949.03 million, representing approximately 7.7% of the Group's turnover.

Tianqingyitai injections | Renyi injections | Imatinib Mesylate capsules | Taibai sustained release tablets | Yifei injections | Beijia tablets | Tianqingzhengshu tablets | Qingweike (Decitabine for injections) | Ossified Oestriol capsules | Fenghaineng fructose injections

The main product of orthopedic medicines is namely the new ossified triol capsules. For the year ended 31 December, 2014, the sales amounted to approximately HK$698.11 million, rose by approximately 24.1% as compared with same period last year. For the year ended 31 December, 2014, the sales of another product, Jiuli tablets, amounted to approximately HK$185.92 million, a remarkable increase of approximately 84.1% as compared with the same period last year.

## PARENTERAL NUTRITIOUS MEDICINES

For the year ended 31 December, 2014, the sales of parenteral medicines amounted to approximately HK$858.36 million, representing approximately 6.9% of the Group's turnover.

The main product of parenteral nutritious medicines is Xinhaineng injections. For the year ended 31 December, 2014, the sales amounted to approximately HK$616.98 million, an increase by approximately 13.1% as compared with the same period last year. For the year ended 31 December, 2014, the sales of Fenghaineng fructose injections amounted to approximately HK$232.41 million.

## ANTI-INFECTIOUS MEDICINES

For the year ended 31 December, 2014, the sales of anti-infectious medicines amounted to approximately HK$676.69 million, representing approximately 5.5% of the Group's turnover.

The main product of anti-infectious medicines is Tiance injections. For the year ended 31 December, 2014, the sales amounted to approximately HK$556.03 million, approximately 33.5% higher than that as compared with the same period last year.

## RESPIRATORY SYSTEM MEDICINES

For the year ended 31 December, 2014, the sales of respiratory medicines amounted to approximately HK$363.78 million, representing approximately 2.9% of the Group's turnover.

The main product of respiratory system medicines is Tianqingsule inhalation powder. For the year ended 31 December, 2014, the sales amounted to approximately HK$195.37 million, a sharp increase by approximately 64.9% as compared with the same period last year. For the year ended 31 December, 2014, the sales of another pharmaceutical product, Chia Tai Suke tablets, was very outstanding and amounted to approximately HK$116.97 million, an increase of approximately 7.2% as compared with the same period last year.

## ANORECTAL MEDICINES

For the year ended 31 December, 2014, the sales of anorectal medicines amounted to approximately HK$246.40 million, representing approximately 2% of the Group's turnover.

The main product of anorectal medicines is Getai tablets. For the year ended 31 December, 2014, the sales amounted to approximately HK$192.91 million, an increase by approximately 11.4% as compared with the same period last year.

## DIABETIC MEDICINES

For the year ended 31 December, 2014, the sales of diabetic medicines amounted to approximately HK$71.64 million, representing approximately 0.6% of the Group's turnover.

Compound Diphenhydramine Liniment | Ganlixin capsules | Ganlixin injections | Tianqingfuxin capsules | Tianqingfuxin injections | Tianqingganping enteric capsules | Tianqingganmei injections | Mingzheng capsules | Saiweijian injections | Flurbiprofen cataplasms

The main diabetic medicine of the Group, Taibai sustained release tablets, which is used for lowering blood sugar level, was developed and manufactured by CT Tianqing. There are more than 90 million diabetics in the PRC and the Metformin Hydrochloride has been identified as a first-tier medicine for lowering blood sugar level. As Taibai sustained release tablets has sustained release capability, it can stabilize a patient's blood sugar level. For the year ended 31 December, 2014, the sales of the product have amounted to approximately HK$57.19 million, an increase by approximately 13% as compared with the same period last year.

## R&D

The Group has continued to focus its R&D efforts on new cardio-cerebral, hepatitis, oncology, analgesia and respiratory system medicines. During the year under review, the Group obtained 8 production approvals, 11 clinical applications, 12 product new applications, 6 production applications after clinical completion, 57 new clinical applications and 64 filed productions. Moreover, a total of 238 pharmaceutical products had completed clinical research, or were under clinical trial or applying for production approval. Out of these, 36 were for cardio-cerebral medicines, 13 for hepatitis medicines, 96 for oncology medicines, 16 for respiratory system medicines, 17 for diabetic medicines and 60 for other medicines.

Over the years, the Group has been placing high importance on the development of proprietary innovative medicines and generic drugs by itself, as well as through collaboration and imitation, to both raise R&D standards and efficiency. In light of the fact that R&D continues to be the lifeblood of its development, the Group continues to devote into more resources. For the year ended 31 December, 2014, it invested approximately HK$1,101.04 million in R&D, which accounted for approximately 8.9% of turnover.

The Group also places major emphasis on the protection of intellectual property rights. It encourages its enterprises to apply for patent applications as a means to enhance the Group's core competitiveness. During the year under review, the Group has received 97 new patent applications (in which 95 were invention patents and 2 was apparel design patents), received 62 patent license notices (in which 54 were invention patents, 1 was utility model and 7 were apparel design patents). Altogether, the Group has obtained 394 invention patents, 4 utility model patents and 50 apparel design patents.

## INVESTOR RELATIONS

The Group is dedicated to maintaining high standards of corporate governance to ensure its sustainable long-term development. During the year under review, the Group has maintained effective communications with investors via various channels. These communications have facilitated local and overseas investors' understanding of the Group's business and its latest business developments. The Group also understands the importance of good investor relations to corporate management, hence, efforts have also been undertaken to solicit opinions and to obtain pertinent information through regular investor meetings in order to further upgrade its corporate governance standards.

During the year under review, the Group has proactively embarked on a number of initiatives to communicate the latest business information to investors in a timely fashion. It has participated in 24 major investor conferences and roadshows across Europe, the US and Asia. Major events included the "Goldman Sachs Greater China CEO Summit 2014","Morgan Stanley Global Healthcare Conference 2014", "32nd Annual J.P. Morgan Healthcare Conference", "17th Credit Suisse Asian Investment Conference" and "Deutsche Bank 2014 Global Emerging Markets Conference". In addition, the Group has also arranged for a number of factory site visits, teleconferences and one-on-one meetings with international and domestic institutional investors. Altogether, these events have served to increase the knowledge of more than 700 potential major investors about the Group's operations and the latest developments in its business, thus solidifying the confidence of shareholders, investors and customers in the Group's performance and prospects.

Reflecting the success of its efforts in cultivating closer ties with the investment community, the Group has featured prominently in Institutional Investor Magazine's "2014 All Asian Executive Team" rankings, selected first overall within the "Best IR Company in the Healthcare and Pharmaceuticals sector" category, as chosen by a poll of buy-side analysts. The Group is also placed 15th in the "Most Honored Company" roster. These accolades highlight the positive opinions of more than 860 buy-side analysts and money managers and more than 650 sell-side analysts. The Group's leading ranking in these prestigious lists clearly demonstrates the high recognition of the Group among the investment community.

In addition, the Group posts its annual and interim reports, and issues quarterly, interim and annual results announcements, disclosures and circulars on its corporate website as well as on the website of Hong Kong Exchanges and Clearing Limited. The Group also issues corporate announcements in a timely manner to inform shareholders and investors about its latest developments, further facilitating a high degree of transparency.

## CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company had complied with all the Code Provisions set out in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December, 2014 except for Code Provision A.6.7 in relation to the attendance of general meetings by independent non-executive directors ("INEDs") and other non-executive directors. Out of four INEDs of the Company, two INEDs attended the annual general meeting of the Company held on 27 May, 2014 (the "2014 AGM") but two INEDs were unable to attend the 2014 AGM due to other business engagement.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, it was confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year under review, the Group's primary source of funds was cash derived from operating activities, top-up placings of existing shares in January and June 2010, respectively, and fully drawdown of a syndicated loan pursuant to the facility agreement entered in December, 2013. As at 31 December, 2014, the Group's cash and bank balances was approximately HK$4,468.33 million (31 December, 2013: approximately HK$2,981.34 million).

## CAPITAL STRUCTURE

As at 31 December, 2014, the Group had short term loans of approximately HK$435.19 million (31 December, 2013: approximately HK$74.15 million) and had long term loans of approximately HK$1,288.60 million (31 December, 2013: Nil).

## CHARGE ON ASSETS

As at 31 December, 2014, the Group had the charge on assets of approximately HK$52.08 million (31 December, 2013: Nil).

## CONTINGENT LIABILITIES

As at 31 December, 2014, the Group and the Company had no material contingent liabilities (31 December, 2013: Nil).

## ASSETS AND GEARING RATIO

As at 31 December, 2014, the total assets of the Group amounted to approximately HK$14,163.94 million (31 December, 2013: approximately HK$9,968.87 million) whereas the total liabilities amounted to approximately HK$5,345.65 million (31 December, 2013: approximately HK$2,743.90 million). The gearing ratio (total liabilities over total assets) was approximately 37.7% (31 December, 2013: approximately 27.5%).

## EMPLOYEE AND REMUNERATION POLICIES

The Group remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme. Total staff cost (including Directors' remuneration) for the year was approximately HK$1,066,406,000 (2013: approximately HK$972,590,000).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate of HK dollars and US dollars is pegged under the fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

## INDEPENDENT NON-EXECUTIVE DIRECTORS, AUDIT COMMITTEE AND REVIEW OF RESULTS

The Group has complied with Rules 3.10 and 3.10(A) of the Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed four INEDs including two with financial management expertise, details of their biographies have been set out in the 2014 Annual Report of the Company.

The Audit Committee is comprised of three INEDs. It has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the consolidated financial statements of the Company for the year ended 31 December, 2014.

## DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 20 December, 2013, the Company has entered into a facility agreement (the "Facility Agreement") with a consortium of various banks jointly led by Société Générale Asia Limited, Industrial and Commercial Bank of China (Asia) Limited and Mega International Commercial Bank Co., Ltd., Offshore Banking Branch for a three-year unsecured loan in the principal sum of USD165,000,000. Pursuant to the terms of the Facility Agreement, there are covenants regarding the shareholding of the Company to be retained by Mr. Tse Ping ("Mr. Tse") and that Mr. Tse has to remain as chairman of the Group.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year from 1 January, 2014 to 31 December, 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Sino Biopharmaceutical Limited (the "Company") is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability.

For the year ended 31 December, 2014, the Company has applied the principles and complied with all the Code Provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for Code Provision A.6.7 in relation to the attendance of general meetings by independent non-executive directors ("INEDs") and other non-executive directors. Out of four INEDs of the Company, two INEDs attended the 2014 annual general meeting (the "2014 AGM") of the Company held on 27 May, 2014 but two INED were unable to attend the 2014 AGM due to other business engagement.

Despite the removal of the requirement for a qualified accountant on 1 January, 2009, the Company continues to engage a qualified accountant to oversee its finance, accounting and financial reporting function.

The board of directors of the Company (the "Board") regularly reviews the CG Code issued by the Stock Exchange and its impact to the Company and shall comply accordingly, where applicable. It was noted that with effect from 1 September, 2013, the Listing Rules has introduced a Code Provision that requires every listed company on a "comply or explain" basis to have a policy concerning diversity in the board, and to disclose that policy in the corporate governance report. In this connection, on 30 August, 2013, the Board of the Company has adopted a board diversity policy and a summary of the policy will be disclosed in this report.

This report describes our corporate governance code and explains the applications of the principles of the CG Code and deviation (if any).

## A. BOARD OF DIRECTORS

### BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget should be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management then reports back to the Board and obtains prior approval before making decisions for key matters or entering into any commitments on behalf of the Company. The Board has conducted regularly review on the contribution by a director to performing his responsibilities to the Company, and whether he/she is spending sufficient time performing them.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an Executive Board Committee (the "EBC"), the Audit Committee (the "AC"), the Remuneration Committee (the "RC") and the Nomination Committee (the "NC") with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees' structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, where appropriate and necessary, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committees meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Directors are encouraged to participate actively either in person or through electronic means of communications. Ad-hoc meetings are convened when it considers necessary. During the year ended 31 December, 2014, the Board has held four regular meetings for discussion of the Company's financial results. Notices of regular Board/committees meetings have been given at least 14 days before the date of meeting. For all other Board/committees meetings, reasonable notices have been given.

Minutes of the Board/committees meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or Secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a physical Board meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. INED who, and whose associates, have no interest in the transaction, should be present at that board meeting.

## BOARD COMPOSITION

During the year ended 31 December, 2014, the Board consisted of a total of eleven directors, which has included a Chairman, a Vice Chairman, a Chief Executive Officer ("CEO"), four Executive Directors and four INEDs.

| Position | | Name |
|---|---|---|
| Chairman | : | Mr. Tse Ping |
| Executive Directors | : | Mr. Zhang Baowen (Vice Chairman) |
| | : | Mr. Xu Xiaoyang (CEO) |
| | : | Ms. Cheng Cheung Ling |
| | : | Mr. Tse Hsin |
| | : | Mr. Tao Huiqi |
| | : | Mr. He Huiyu |
| INEDs | : | Mr. Lu Zhengfei ("Mr. Lu") |
| | : | Mr. Li Dakui ("Mr. Li") |
| | : | Ms. Li Jun ("Ms. Li") |
| | : | Mr. Mei Xingbao ("Mr. Mei") |

Subsequent to the year-end date on 20 April, 2015, the following changes in the Board composition and Board committees have taken place:-

1. Ms. Cheng Cheung Ling, who is an Executive Director of the Company, continues to be an Executive Director and be appointed as a member of the EBC of the Company;

2. Mr. Wang Shanchun, Mr. Tian Zhoushan and Ms. Li Mingqin be appointed as Executive Directors of the Company;

3. Ms. Lu Hong be appointed as an INED and a member each of the AC, RC and NC of the Company;

4. Mr. Zhang Lu Fu be appointed as an INED, the chairman of the RC and a member of the NC of the Company;

5. Mr. Zhang Baowen has resigned as Vice Chairman, an Executive Director and a member of the EBC of the Company;

6. Mr. Tao Huiqi and Mr. He Huiyu have resigned as Executive Directors of the Company;

7. Ms. Li Jun has resigned as an INED and a member each of the AC, RC and NC of the Company; and

8. Mr. Mei Xingbao has resigned as an INED, the chairman of the RC and a member of the NC of the Company.

The list of Directors after the above changes is as follows:-

| Position | | Name |
|---|---|---|
| Chairman | : | Mr. Tse Ping |
| Executive Directors | : | Mr. Xu Xiaoyang (CEO) |
| | : | Ms. Cheng Cheung Ling |
| | : | Mr. Tse Hsin |
| | : | Mr. Wang Shanchun |
| | : | Mr. Tian Zhoushan |
| | : | Mr. Li Mingqin |
| INEDs | : | Mr. Lu Zhengfei |
| | : | Mr. Li Dakui |
| | : | Ms. Lu Hong |
| | : | Mr. Zhang Lu Fu |

The attributes, skills and expertise among the existing directors have a balance and mix of core competencies in areas such as pharmaceutical, accounting and finance, legal, business and management and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and active participating on committees, if invited;
- attending general meetings of the Company, where appropriate, and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

## CORPORATE GOVERNANCE FUNCTIONS

The Board shall be responsible to the following functions:-

(1) develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(2) review and monitor the training and continuous professional development of directors and senior management;

(3) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

(5) review the Company's compliance with the code and disclosure in the Corporate Governance Report;

(6) do any such things to enable the Board to discharge its powers and functions conferred on it in relation to the corporate governance duties;

(7) conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation; and

(8) consider and make recommendations on any other corporate governance issues.

## CHAIRMAN AND CHIEF EXECUTIVE

The CG Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Tse Ping acted as the Chairman and Mr. Xu Xiaoyang acted as CEO of the Company.

The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Mr. Tse Hsin, an Executive Director, is the first cousin of Mr. Tse Ping. Save as disclosed above, there are no family relationships among members of the Board and between the Chairman and the CEO.

Mr. Xu Xiaoyang is responsible for managing the Group's business and operations. He has no financial, business, family or other material/relevant relationship with other members of the Board and the Chairman.

## APPOINTMENT, RE-ELECTION AND REMOVAL

The Company has a formal and proper procedure for consideration of the appointment of new directors to the board and for the resignation of any director.

The Articles of Association of the Company provides that (1) one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (2) the directors to retire by rotation shall include any director who wishes to retire and not to offer himself for re-election. The retiring directors shall be those who have longest in office since their last re-election or appointment. All retiring directors are eligible for re-election.

Each of the Executive Directors are appointed for a term of three years. Each of the INEDs are appointed for a term of two years. All the Directors are subject to retirement by rotation and re-election at the Annual General Meeting (the "AGM") of the Company, in accordance with the Articles of Association of the Company.

The names and biographical details of the directors who will offer themselves for election or re-election at the AGM are set out in a circular accompanying the notice of meeting, which will be despatched together with the annual report, to assist shareholders in making an informed decision on their elections.

Every director shall ensure that he/she can contribute sufficient time and effort to the corporate affairs of the Company once he/she accepts the appointment.

## TRAINING FOR DIRECTORS

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

## CONTINUOUS PROFESSIONAL DEVELOPMENT

### Directors

With effect from 1 April, 2012, A.6.5 of the CG Code provides that all Directors of the Company to participate in continuous professional development. All Directors of the Company had complied with A.6.5 of the CG Code for the year 2014. During the year, the Company has provided to every Director with various written materials to enrich their knowledge and to assist them to better discharge their duties as Directors of a listed company. These written materials include updates on laws and regulations, corporate disclosure policy and diversity in the board.

Apart from the training arranged by the Company, Mr. Mei has attended a one-day seminar conducted by China Banking Regulatory Commission regarding anti-money laundering.

### Company Secretary

Ms. Leung Sau Fung, Fanny ("Ms. Leung"), the Company Secretary of the Company, has confirmed that for the year ended 31 December, 2014, she has complied with Rule 3.29 of the Listing Rules. Ms. Leung has taken no less than 15 hours of relevant professional training. The biography of Ms. Leung is set out on page 51 of this annual report. Ms. Leung is a staff of the Group.

## COMMITTEES

The Board has established the AC on 19 September, 2000. The EBC and the RC were established in October 2005. All the said committees have established their respective written terms of reference to enable such committees to discharge their functions properly. In order to comply with the CG Code requirements, the NC was set up on 30 March, 2012 and its written terms of reference have been established so that the committee could perform its obligations.

### Executive Board Committee

During the year ended 31 December, 2014, the EBC consisted of Mr. Tse Ping (Chairman), Mr. Zhang Baowen, Mr. Xu Xiaoyang and Mr. Tse Hsin. On 20 April, 2015, Mr. Zhang Baowen has resigned as a member and Ms. Cheng Cheung Ling be appointed as a member of the EBC.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restriction.

### Remuneration Committee

During the year ended 31 December, 2014, the RC consisted of Mr. Mei (Chairman), Mr. Lu (INED) and Ms. Li (INED). On 20 April, 2015, Mr. Mei has resigned as the Chairman and Ms. Li has resigned as a member of the RC. Mr. Zhang Lu Fu be appointed as the chairman and Ms. Lu Hong be appointed as a member of the RC.

The principal functions of the RC include:

- recommending to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- recommending the basis of the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing the compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his associates is involved in deciding his own remuneration.

The RC has held a meeting during the year to discuss and review the basis for remuneration policy and package for the Group. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The RC has made recommendations to the Board on the remuneration packages of executive directors and senior management. The old share option scheme adopted and passed by shareholders of the Company on 24 November, 2003 had expired in 2013. The Company has adopted a new share option scheme (the "2013 Scheme") at the extraordinary general meeting held on 28 May, 2013. The 2013 Scheme remains in force for 10 years. The share option scheme serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration.

The RC consults the Chairman and the CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

Minutes of the RC are kept by the Secretary. Draft and final versions of minutes have been sent to all members of the RC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the RC had been approved by the Board on 6 October, 2005 and modified on 30 March, 2012 in alignment with the CG Code requirements. The written terms of reference are posted on the websites of the Company and the Stock Exchange and are available upon request.

**Audit Committee**

During the year ended 31 December, 2014. The AC consisted of three INEDs, Mr. Lu, Mr. Li and Ms. Li, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 27 June, 2005 and 27 March, 2009 in terms substantially the same as the provisions set out in the CG Code and in compliance with the Listing Rules from time to time. On 20 April, 2015, Ms. Li has resigned as a member and Ms. Lu Hong be appointed as a member of the AC.

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which includes:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors, any questions of resignation or dismissal of that auditors;
- discussing with external auditors' independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the quarterly, interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- reviewing the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised; and
- discussing with the management ensuring that the management has reviewed that there is adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The AC has performed the following work during the year ended 31 December, 2014:

- reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31 December, 2014 and management letter;
- reviewed with management the unaudited quarterly financial statements for the three months ended 31 March, 2014, unaudited interim financial statements for the six months ended 30 June, 2014 and the unaudited quarterly financial statements for the nine months ended 30 September, 2014;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of Group;
- reviewed the effectiveness of internal control system;
- reviewed the external auditors' statutory audit plan and engagement letter;
- recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors; and
- discussed with the management and ensured that the Board has conducted an annual review such that there is adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Minutes of the AC are kept by the Secretary. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

In order to align with the CG Code requirements, the terms of reference of the AC of the Company were modified and approved by the Board on 30 March, 2012. The written terms of reference were posted on the websites of the Company and the Stock Exchange and are available upon request.

**Nomination Committee**

The terms of reference of the NC were adopted on 30 March, 2012. On 30 August, 2013, the Board adopted the board diversity policy (the "Board Diversity Policy") in order to comply with a new Code Provision of the CG Code on board diversity which became effective on 1 September, 2013. Hence, the terms of reference were revised by the Board on 30 August, 2013 to address Board Diversity Policy.

The NC has set out its written terms of reference as follows:

- formulate a formal and transparent procedure for developing nomination policies of the Company for approval by the Board, which shall take into consideration factors such as skills, knowledge, experiences, length of service, description of the role and capabilities required for a particular appointment. Performance shall be measured against corporate goals and objectives resolved by the Board from time to time;

- review the structure, size and composition (including the mix of skills, knowledge, experience and length of service and diversity needed ) of the Board at least annually; and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- execute the Board Diversity Policy and establish measurable objectives and make necessary adjustments, where necessary. Make recommendation to the Board and review the Board Diversity Policy from time to time to ensure its continuous effectiveness;

- establish guidelines for the recruitment of the chief executive and senior management staff and identify leadership needs of and succession planning for the Company in relation to both Directors and other senior executives;

- assess the independence of the INED and review the INEDs' annual confirmations on their independence;

- make recommendations to the Board on the re-appointment of any INED at the conclusion of his specified term of office;

- make recommendations to the Board on the matters relating to any actual or potential conflict of interests of Directors (including prohibition of vote of the interested Director);

- be provided with sufficient resources, including but not limited to engagement of external professional advisors to assist and/or advise the committee on issues as it considers necessary at the Company's expenses;

- assign the chairman of the committee or in his/her absence, an alternative member or failing this, his/her duly appointed delegate, to attend the annual general meetings/general meetings of the Company and be prepared to answer questions concerning the nomination policy of the Company;

- do any such things to enable the committee to discharge its powers and functions conferred on it by the Board;

- conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation; and

- consider and make recommendations on any other issues as requested by the Board.

During the year ended 31 December, 2014, the NC has held a meeting to review the current policy for the nomination of directors. It has also reviewed the composition of the current Board members at various diversity perspectives including but not limited to gender, age, cultural and educational background, professional experience, skill and knowledge etc. They have noted that the current Board composition has a mix of professionals from various fields of finance, legal, pharmaceutical and management which is crucial and relevant to the development and growth of the Company. On 20 April, 2015. Ms. Li and Mr. Mei have resigned as members and Ms. Lu Hong and Mr. Zhang Lu Fu be appointed as members of the NC.

## BOARD DIVERSITY POLICY

This Board Diversity Policy sets out the approach for achieving diversity on the Board of the Company, including but not limited to the appropriate balance of skills, experience and diversity of perspectives that are required to support the attainment of the Company's strategic objectives and its sustainable development. It has been established in light of the fact that increasing emphasis on diversity has been viewed as a component for wider and more comprehensive corporate governance framework.

The Company recognizes and embraces the importance and benefits of having a diverse Board, and sees the increasing diversity at the Board level as one of the crucial elements in supporting the attainment of the Company's overall strategic objectives and its expansion and development.

The NC of the Company may make recommendations to the Board for identifying the necessary criteria when considering appointment of new directors of the Company. Selection of appropriate candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the anticipated merit and contribution that the selected candidate will bring to the Board. The composition of the Board will be disclosed in the annual Corporate Governance Report and the interim report.

The NC of the Company shall monitor the Board Diversity Policy from time to time and make the necessary adjustments such that it best suits the needs of the Company. It will also monitor the implementation of the Board Diversity Policy to ensure its continuous effectiveness.

The NC will review this Board Diversity Policy from time to time and the necessary procedures from time to time according to the latest regulatory requirements, then for review and approval by the Board.

## BOARD PERFORMING CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties and the relevant terms of reference has been established.

## BOARD AND COMMITTEE ATTENDANCE

The Board has held four regular meetings in 2014. Details of the attendance of individual director at Board meetings, committee meetings and general meetings during the year 2014 are set out below:

| | No. of meetings attended/held | | | | |
|---|---|---|---|---|---|
| **Directors** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **2014 AGM** |
| **Executive Directors** | | | | | |
| Mr. Tse Ping | 4/4 | N/A | N/A | 1/1 | 1/1 |
| Mr. Zhang Baowen | 4/4 | N/A | N/A | N/A | 0/1 |
| Mr. Xu Xiaoyang | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Tse Hsin | 4/4 | N/A | N/A | N/A | 1/1 |
| Ms. Cheng Cheung Ling | 4/4 | N/A | N/A | N/A | 0/1 |
| Mr. Tao Huiqi | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. He Huiyu | 4/4 | N/A | N/A | N/A | 1/1 |
| **Independent Non-Executive Directors** | | | | | |
| Mr. Lu Zhengfei | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |
| Mr. Li Dakui | 4/4 | 4/4 | N/A | N/A | 0/1 |
| Ms. Li Jun | 3/4 | 3/4 | 1/1 | 1/1 | 1/1 |
| Mr. Mei Xingbao | 4/4 | N/A | 1/1 | 1/1 | 0/1 |
| **No. of meetings** | 4 | 4 | 1 | 1 | 1 |

## SECURITIES TRANSACTIONS BY DIRECTORS/OFFICERS

The Company has adopted a code of securities dealing for directors/senior management/employees (the “Code”) on terms no less exacting than the Model Code, as its own code of conduct regarding securities transactions.

Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees as defined in the Code deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit to deal in securities of the Company during the black-out period for compliance with the Code.

## INSURANCE COVER ON DIRECTORS’ LIABILITIES

The Company has provided appropriate insurance coverage for the Board in respect of their liabilities.

### REMUNERATION OF SENIOR MANAGEMENT

There were 23 employees being classified as Senior Management for the year ended 31 December, 2014. The details of the remuneration of Senior Management were disclosed as below:

| | Amount of remuneration during the year | | | | |
|---|---|---|---|---|---|
| | Below HK$500,000 | HK$500,000 – HK$1,000,000 | HK$1,000,001 – HK$1,500,000 | Above HK$1,500,000 | Total number |
| Number of Senior Management | 3 | 3 | 7 | 10 | 23 |

## B. ACCOUNTABILITY AND AUDIT

### FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensured the timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim results announcements and reports, quarterly results announcements, other announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

### INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted an annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance and risk management functions.

The Group maintains a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

The Board has also conducted a review of the adequacy of resources, qualifications and experience of staff of its accounting and financial reporting function, and their training programmes and budget. Besides, the Board has conducted a review of effectiveness of the internal control system of the Group.

**AUDITORS' REMUNERATION**

During the year under review, the remuneration paid to the Group's external auditors is set out as follows:

| | **Fee Paid/Payable 2014** (HK$'000) |
|---|---|
| Services rendered | |
| Audit Services | 4,841 |
| Non-Audit Services | 38 |

## C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, quarterly results announcements, other announcements and circulars made through the Company's and Stock Exchange's websites.

The Company has established a comprehensive communication policy with the shareholders and shall modify the same from time to time, to best safeguard the interest of the shareholders.

The AGM or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of the AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors. The Company should ensure that votes cast are properly counted and recorded.

Pursuant to the requirement of the Listing Rules, the Company should arrange for the notice to shareholders to be sent in the case of AGM at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings. During the year ended 31 December, 2014, the Company has complied with the CG Code.

During the year under review, at the 2014 AGM, Mr. Tse Ping, Chairman, Mr. Lu Zhengfei, Chairman of the AC, Mr. Xu Xiaoyang, Mr. Tse Hsin, Mr. Tao Huiqi, Mr. He Huiyu and Ms. Li, were present at the meeting and answered questions raised by the shareholders. A representative from the external auditors, Messrs. Ernst & Young, has attended the 2014 AGM and was available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditors' report.

Pursuant to the requirement of the Listing Rules, at any general meeting of shareholders, all voting must be made by poll. In January, 2013, the Listing Rules have been amended such that where the chairman, in good faith, may allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. At the 2014 AGM, all resolutions have been passed by way of poll. In addition, the Company has arranged for the notice to shareholders to be sent at least 20 clear business days before the AGM and to be sent at least 10 clear business days in the case of all other general meetings.

## SHAREHOLDERS' RIGHT

**Convening extraordinary general meeting and putting forward proposals at Shareholders' meetings**

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

## CHANGE IN CONSTITUTIONAL DOCUMENTS

For the year ended 31 December, 2014, there has been no significant change in the constitutional documents of the Company.

## ENQUIRIES TO THE BOARD

Enquiries may be put to the Board through the Company's address of the registered office at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The Company regularly releases latest corporate news of the Group's developments on its website at http://www.sinobiopharm.com. The public are welcome to give comments and make enquiries through the Company's website.

# Report of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2014.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December, 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 156.

The payment for the first quarter dividend of HK$0.015 per ordinary share, the interim dividend of HK$0.015 per ordinary share, and the third quarter dividend of HK$0.015 per ordinary share totaling HK$222,366,000 was paid during 2014.

The directors recommend the payment of a final dividend of HK1.5 cents per ordinary share in respect of the year ended 31 December, 2014 to shareholders on the register of members on Wednesday, 10 June, 2015. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the statement of financial position.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | *(Restated)* | *(Restated)* | *(Restated)* |
| TURNOVER | **12,378,350** | 9,901,196 | 7,496,888 | 5,171,354 | 3,618,773 |
| Cost of sales | **(2,920,531)** | (2,228,351) | (1,610,587) | (1,170,199) | (737,649) |
| Gross profit | **9,457,819** | 7,672,845 | 5,886,301 | 4,001,155 | 2,881,124 |
| Other income and gains | **293,182** | 188,782 | 139,253 | 100,174 | 233,914 |
| Selling and distribution costs | **(5,342,527)** | (4,413,986) | (3,322,544) | (2,267,047) | (1,529,007) |
| Administrative expenses | **(824,966)** | (638,312) | (669,960) | (494,042) | (459,129) |
| Other operating expenses | **(1,075,997)** | (908,321) | (540,972) | (577,592) | (214,440) |
| Finance costs | **(43,096)** | (2,500) | (9,650) | (11,418) | (5,804) |
| Share of profits and losses of associates | **336,792** | 238,002 | 240,179 | 199,576 | 144,543 |
| PROFIT BEFORE TAX | **2,801,207** | 2,136,510 | 1,722,607 | 950,806 | 1,051,201 |
| Income tax expenses | **(440,153)** | (354,551) | (305,135) | (121,567) | (191,832) |
| PROFIT FOR THE YEAR | **2,361,054** | 1,781,959 | 1,417,472 | 829,239 | 859,369 |
| Attributable to: | | | | | |
| Owners of the parent | **1,513,205** | 1,036,764 | 890,758 | 462,801 | 566,897 |
| Non-controlling interests | **847,849** | 745,195 | 526,714 | 366,438 | 292,472 |
| | **2,361,054** | 1,781,959 | 1,417,472 | 829,239 | 859,369 |
| TOTAL ASSETS | **14,163,941** | 9,968,867 | 7,701,178 | 6,208,864 | 5,574,183 |
| TOTAL LIABILITIES | **(5,345,645)** | (2,743,904) | (1,916,482) | (1,432,499) | (1,272,635) |
| NET ASSETS | **8,818,296** | 7,224,963 | 5,784,696 | 4,776,365 | 4,301,548 |
| NON-CONTROLLING INTERESTS | **(2,207,654)** | (1,737,947) | (1,202,720) | (940,360) | (653,863) |

## PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from 1 January, 2014 to 31 December, 2014.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December, 2014, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of approximately HK$74,122,000 (2013: approximately HK$98,829,000), amounted to approximately HK$2,182,507,000 (2013: approximately HK$1,995,377,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

# Report of Directors

## DIRECTORS

The directors of the Company during the year and up to the despatch date of this report were:

**Executive directors:**
Mr. Tse Ping
Mr. Zhang Baowen (resigned on 20 April, 2015)
Mr. Xu Xiaoyang
Ms. Cheng Cheung Ling
Mr. Tse Hsin
Mr. Tao Huiqi (resigned on 20 April, 2015)
Mr. He Huiyu (resigned on 20 April, 2015)
Mr. Wang Shanchun (appointed on 20 April, 2015)
Mr. Tian Zhoushan (appointed on 20 April, 2015)
Ms. Li Mingqin (appointed on 20 April, 2015)

**Independent non-executive directors:**
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Li Jun (resigned on 20 April, 2015)
Mr. Mei Xingbao (resigned on 20 April, 2015)
Ms. Lu Hong (appointed on 20 April, 2015)
Mr. Zhang Lu Fu (appointed on 20 April, 2015)

In accordance with article 86 of the Company's articles of association, Mr. Wang Shangchun, Mr. Tian Zhoushan, Ms. Li Mingqin, Ms. Lu Hong and Mr. Zhang Lu Fu will retire and, being eligible, offer themselves for re-election at the forthecoming annual general meeting.

In accordance with article 87 of the Company's articles of association, Mr. Tse Ping and Mr. Xu Xiaoyang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the Company's articles of association.

The Company has received from each of the independent non-executive director an annual confirmation of independence pursuant to the new independence guidelines under the Listing Rules and that the Company considers such directors to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 49 to 54 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2014, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long positions in ordinary shares of the Company

| | | Number of shares held, capacity and nature of interest | | | | |
|---|---|---|---|---|---|---|
| **Name of Director** | **Notes** | **Capacity/ Nature of interest** | **Directly beneficially owned** | **Through controlled corporations** | **Total** | **Approximate percentage of the Company's issued share capital** |
| Mr. Tse Ping | (1) | Beneficial owner | 90,000,000 | 720,417,815 | 810,417,815 | 16.40% |
| Ms. Cheng Cheung Ling | (2) | Beneficial owner | – | 1,200,000,000 | 1,200,000,000 | 24.28% |
| Mr. Tse Hsin | | Beneficial owner | 35,212,000 | – | 35,212,000 | 0.71% |
| Mr. Tao Huiqi | | Beneficial owner | 3,599,999 | – | 3,599,999 | 0.07% |

*Notes:*

(1) Mr. Tse Ping held 720,417,815 shares through Validated Profits Limited. The entire issued share capital of which is owned by Mr. Tse Ping.

(2) Ms. Cheng Cheung Ling held 700,000,000 shares and 500,000,000 shares through Chia Tai Bainian Holdings Limited and Remarkable Industries Limited, respectively. The entire issued share capital of each of the companies is owned by Ms. Cheng Cheung Ling.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

**Long position in shares of an associated corporation of the Company**

| Name of Director | Name of associated corporation | Notes | Capacity | Number of shares | Approximate percentage of shareholding |
|---|---|---|---|---|---|
| Mr. Tse Ping | Beijing Tide | (a) | Interest in controlled corporations | 288,000,000 | 57.6% |
| Ms. Cheng Cheung Ling | Beijing Tide | (b) | Interest in controlled corporations | 288,000,000 | 57.6% |
| Mr. Zhang Baowen | Jiangsu Fenghai | | Beneficial owner | 32,333 | 0.35% |
| | CT Tianqing | | Beneficial owner | 229,250 | 0.18% |
| | NJCTT | | Beneficial owner | 26,583 | 0.53% |
| | Jiangsu Qingjiang | | Beneficial owner | 151,335 | 0.31% |
| | Qingdao Haier | | Beneficial owner | 22,680 | 0.3% |
| Mr. Xu Xiaoyang | Qingdao Haier | | Beneficial owner | 7,560 | 0.1% |
| Mr. Tse Hsin | CT Tianqing | | Beneficial owner | 229,250 | 0.18% |
| | NJCTT | | Beneficial owner | 26,583 | 0.53% |

Notes:

(a) Mr. Tse Ping holds interests in France Investment (China 1) Group Limited and Sino Biopharmaceutical Limited, respectively, which indirectly holds interests in Beijing Tide.

(b) Ms. Cheng Cheung Ling holds interests in France Investment (China 1) Group Limited and Sino Biopharmaceutical Limited, respectively, which indirectly holds interests in Beijing Tide.

Saved as disclosed above, as at 31 December, 2014, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2014, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

**Long position in shares and/or underlying shares**

| Name | Notes | Capacity/Nature of Interest | Number of shares and/or underlying shares of the Company | Approximate percentage of issued share capital of the Company |
|---|---|---|---|---|
| Validated Profits Limited | (1) | Beneficial owner | 720,417,815 | 14.58% |
| Chia Tai Bainian Holdings Limited | (2) | Beneficial owner | 700,000,000 | 14.17% |
| Remarkable Industries Limited | (2) | Beneficial owner | 500,000,000 | 10.11% |
| JP Morgan Chase & Co. | | Interest of controlled corporations | 190,967,199 | 3.86% |
| JP Morgan Chase & Co. | | Custodian corporation/ approved lending agent – lending pool | 79,690,788 | 1.61% |
| BlackRock Inc. | | Interest of controlled corporations | 316,105,194 | 6.40% |

Notes:

(1) Validated Profits Limited is an investment holding company wholly-owned by Mr. Tse Ping who is its sole director and a Director.

(2) Each of Chia Tai Bainian Holdings Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Ms. Cheng Cheung Ling who is a director of each of these companies and a Director.

Save as disclosed above, as at 31 December, 2014, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors and Chief Executives' interests and short positions in share, underlying shares and debentures" above and in the "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## CONTINUING CONNECTED TRANSACTIONS

During the year, the Group have the following related party transactions, as further detailed in note 38 to the financial statements, which also constituted continuing connected transactions under the Listing Rules:-

On 4 December, 2013, CT Tianqing (a 60% indirectly-owned subsidiary of the Company), as service provider, has entered into the 2013 NJCTT Master Technical Services and Tenancy Agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company) for the provision of research and development services for improvement and application of cardio-cerebral medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB35,500,000 (approximately HK$44,900,000) each year. There are no transactions arising from the 2013 NJCTT Master Technical Services and Tenancy Agreement in 2014 (2013: Nil).

On 4 December, 2013, CT Tianqing (a 60% indirectly-owned subsidiary of the Company), as service provider, has entered into the 2013 JQ Master Technical Services Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company) for the provision of research and development services for improvement and application of orthopedic medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB20,000,000 (approximately HK$25,300,000), RMB30,000,000 (approximately HK$37,900,000) and RMB50,000,000 (approximately HK$63,200,000), respectively. There are no transactions arising from the 2013 JQ master Technical Services and Tenancy Agreement in 2014 (2013: Nil).

On 4 December, 2013, Lianyungang Chia Tai Tianqing Medicines Co., Ltd. ("LYG Tianqing") (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the 2013 NJCTT-LYG Tianqing Master Pharmaceuticals Supply Agreement with NJCTT (an associate of Jiangsu Agribusiness, a 33.5% equityholder of CT Tianqing and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, digestive system, oncology and anti-infectious medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB63,300,000 (approximately HK$80,000,000), RMB75,900,000 (approximately HK$95,900,000) and RMB90,900,000 (approximately HK$114,900,000), respectively. The transaction amounted to approximately HK$37,158,000 for the year ended 31 December, 2014 (2013: approximately HK$ 38,625,000) and has been eliminated on consolidation.

On 4 December, 2013, LYG Tianqing (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the 2013 LYG Tianqing-JF Master Pharmaceuticals Purchase Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of nutritious, anti-infectious, digestive system, antipsychotic, respiratory system, cardio-cerebral, gynaecology and internal medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB12,900,000 (approximately HK$16,300,000), RMB15,300,000 (approximately HK$19,300,000) and RMB18,400,000 (approximately HK$23,300,000), respectively. The transaction amounted to approximately HK$10,475,000 for the year ended 31 December, 2014 (2013: approximately HK$ 7,362,000) and has been eliminated on consolidation.

On 4 December, 2013, LYG Tianqing (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the 2013 LYG Tianqing-JFM Master Pharmaceuticals Purchase Agreement with Jiangsu Chia Tai Fenghai Medicines Co., Ltd. ("Jiangsu Fenghai Medicines") (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of oncology medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB1,500,000 (approximately HK$1,900,000), RMB2,000,000 (approximately HK$2,500,000) and RMB2,500,000 (approximately HK$3,200,000), respectively. The transaction amounted to approximately HK$975,000 (2013: approximately HK$ 202,000) and has been eliminated on consolidation.

## CONTINUING CONNECTED TRANSACTIONS (continued)

On 4 December, 2013, the Company, as the tenant, has entered into the 2013 Billion Source-Sino Tenancy Agreement with Billion Source Holdings Limited (owned as to 50% by each of Mr. Tse Ping and Ms. Cheng Cheung Ling, Directors of the Company and a connected person of the Company), as the landlord, regarding the letting of premises in Beijing for a term of three years from 1 January, 2014 to 31 December, 2016 for an annual rental not exceeding RMB3,600,000 (approximately HK$4,500,000), RMB3,840,000 (approximately HK$4,900,000) and RMB4,200,000 (approximately HK$5,300,000), respectively. The transaction amounted to approximately HK$4,500,000 for the year ended 31 December, 2014 (2013: approximately HK$3,784,000).

On 4 December, 2013, CT Tianqing (a 60% indirectly-owned subsidiary of the Company), as service provider, has entered into the CT Tianqing Master Entrusted Pharmaceutical Processing Agreement with NJCTT (an associate of Jiangsu Agribusiness, a 33.5% equity holder of CT Tianqing and a connected person of the Company) for the provision of processing of sub-contract production for lyophilized formulation for NJCTT for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB10,000,000 (approximately HK$12,600,000) each year. The transaction amounted to approximately HK$3,883,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, CT Tianqing (a 60% indirectly-owned subsidiary of the Company), as the landlord, has entered into the CT Tianqing-Jiangsu Fenghai Tenancy Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the tenant, regarding the leasing of premises and 4 car parking spaces at Nanjing for a term of three years from 1 January, 2014 to 31 December, 2016 for an annual rental not exceeding RMB900,000 (approximately HK$1,100,000) each year. The transaction amounted to approximately HK$429,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, CT Tianqing (a 60% indirectly-owned subsidiary of the Company), as the landlord, has entered into the Master Technical Services and Tenancy Agreement with NJCTT, as the tenant, regarding the leasing of premises at Nanjing for a term of three years from 1 January, 2014 to 31 December, 2016 for an annual rental not exceeding RMB4,500,000 (approximately HK$5,700,000) each year. The transaction amounted to approximately HK$3,477,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, LYG Runzhong (an indirect non-wholly-owned subsidiary of the Company), as the tenant, has entered into the LYG Hualing-LYG Runzhong Tenancy Agreement with Lianyungang Chia Tai Hualing Pharmaceutical Co., Ltd. ("LYG Hualing") (an associate of Jiangsu Agribusiness and a connected person of the Company), as the landlord, regarding the leasing of industrial complex, roads and facilities at Lianyungang for a term of three years from 1 January, 2014 to 31 December, 2016 for an annual rental not exceeding RMB14,200,000 (approximately HK$17,900,000), RMB15,800,000 (approximately HK$20,000,000) and RMB17,300,000 (approximately HK$21,900,000), respectively. The transaction amounted to approximately HK$9,894,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, Shanghai Tongyong (an indirect non-wholly owned subsidiary of the Company), as the supplier, has entered into the Jiangsu Fenghai Medicines-Shanghai Tongyong Master Pharmaceuticals Purchase Agreement with Jiangsu Fenghai Medicines (an associate of Jiangsu Agribusiness and a connected person of the Company), as the purchaser, regarding the purchase of dermatology medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB800,000 (approximately HK$1,000,000), RMB1,200,000 (approximately HK$1,500,000) and RMB1,600,000 (approximately HK$2,000,000), respectively. There are no transactions arising from the Jiangsu Fenghai Medicines – Shanghai Tongyong Master Pharmaceutical Purchase Agreement (2013: Nil).

## CONTINUING CONNECTED TRANSACTIONS (continued)

On 4 December, 2013, LYG Runzhong (an indirect non-wholly owned subsidiary of the Company), as the supplier, has entered into the Jiangsu Fenghai-LYG Runzhong Master Pharmaceuticals Purchase Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the purchaser, for the purchase of raw materials of medicines for treating diarrhea and respiratory system diseases for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB4,000,000 (approximately HK$5,100,000), RMB5,000,000 (approximately HK$6,300,000) and RMB6,000,000 (approximately HK$7,600,000), respectively. The transaction amounted to approximately HK$1,174,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, NJCTT (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the NJCTT-LYG Runzhong Master Pharmaceuticals Purchase Agreement with LYG Runzhong (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of medicines for treating cardio-cerebral diseases, oncology and anorectal diseases for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB40,000,000 (approximately HK$50,500,000), RMB56,000,000 (approximately HK$70,800,000) and RMB78,400,000 (approximately HK$99,100,000), respectively. The transaction amounted to approximately HK$22,501,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, NJCTT (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the NJCTT-Jiangsu Qingjiang Master Pharmaceuticals Purchase Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of raw materials of oncology medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB2,000,000 (approximately HK$2,500,000), RMB3,000,000 (approximately HK$3,800,000) and RMB4,000,000 (approximately HK$5,100,000), respectively. The transaction amounted to approximately HK$602,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, LYG Tianqing (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the LYG Tianqing-Jiangsu Qingjiang Master Pharmaceuticals Purchase Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, respiratory system and orthopedic medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB3,300,000 (approximately HK$4,200,000), RMB4,000,000 (approximately HK$5,100,000) and RMB4,800,000 (approximately HK$6,100,000), respectively. The transaction amounted to approximately HK$3,448,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, Suzhou Tianqing Xingwei Medicines Co., Ltd. ("Suzhou Xingwei") (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the Suzhou Xingwei-Jiangsu Fenghai Master Pharmaceuticals Purchase Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of infusion solution including mainly invert sugar for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB10,000,000 (approximately HK$12,600,000), RMB13,000,000 (approximately HK$16,400,000) and RMB16,900,000 (approximately HK$21,400,000), respectively. The transaction amounted to approximately HK$1,427,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, Suzhou Xingwei (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the Suzhou Xingwei-Jiangsu Qingjiang Master Pharmaceuticals Purchase Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of anti-infectious and endocrinal medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB10,000,000 (approximately HK$12,600,000), RMB13,000,000 (approximately HK$16,400,000) and RMB16,900,000 (approximately HK$21,400,000), respectively. There are no transactions arising from the Jiangsu Fenghai Medicines – Shanghai Tongyong Master Pharmaceutical Purchase Agreement (2013: Nil).

## CONTINUING CONNECTED TRANSACTIONS (continued)

On 4 December, 2013, Suzhou Xingwei (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the Suzhou Xingwei-LYG Tianqing Master Pharmaceuticals Purchase Agreement with LYG Tianqing (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of hepatitis, oncology, anti-infectious, diabetes, respiratory system and osteoporosis medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB156,000,000 (approximately HK$197,100,000), RMB202,800,000 (approximately HK$256,300,000) and RMB255,000,000 (approximately HK$322,200,000), respectively. The transaction amounted to approximately HK$153,941,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, Suzhou Xingwei (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the Suzhou Xingwei-NJCTT Master Pharmaceuticals Purchase Agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, anti-infectious, digestive system, oncology and anti-cardiac failure medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB20,000,000 (approximately HK$25,300,000), RMB26,000,000 (approximately HK$32,900,000) and RMB33,800,000 (approximately HK$42,700,000), respectively. The transaction amounted to approximately HK$11,523,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, NJCTT (an indirect non-wholly-owned subsidiary of the Company), as the supplier, has entered into the NJCTT-Jiangsu Fenghai Medicines Master Pharmaceuticals Supply Agreement with Jiangsu Fenghai Medicines (an associate of Jiangsu Agribusiness), as the purchaser, for the supply of cardio-cerebral, anti-infectious, digestive system, oncology and anti-cardiac failure medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB9,600,000 (approximately HK$12,100,000), RMB11,600,000 (approximately HK$14,700,000) and RMB15,000,000 (approximately HK$19,000,000), respectively. The transaction amounted to approximately HK$3,950,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, Chia Tai Shaoyang Orthopedic Hospital ("Shaoyang Hospital") (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the NJCTT-Shaoyang Hospital Master Pharmaceuticals Supply Agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the supply of cardio-cerebral, anti-infectious, digestive system, oncology and anti-cardiac failure medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB2,000,000 (approximately HK$2,500,000), RMB2,600,000 (approximately HK$3,300,000) and RMB3,500,000 (approximately HK$4,400,000), respectively. The transaction amounted to approximately HK$1,966,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

On 4 December, 2013, the Company, as the tenant, has entered into the Sino-Ledo Properties Tenancy Agreement with Ledo Properties Ltd. (held as to 99% by Ms. Cheng, a Director of the Company and a connected person of the Company), as the landlord, regarding the letting of the premises in Hong Kong for a term of three years from 1 January, 2014 to 31 December, 2016 for an annual rental not exceeding HK$1,200,000, HK$1,440,000 and HK$1,800,000, respectively. The transaction amounted to HK$1,200,000 for the year ended 31 December, 2014 (2013: HK$960,000).

On 4 December, 2013, LYG Runzhong (an indirect non-wholly owned subsidiary of the Company), as the purchaser, has entered into the LYG Hualing-LYG Runzhong Master Pharmaceuticals Supply Agreement with LYG Hualing (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the supply of raw materials of anti-infectious medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB32,300,000 (approximately HK$40,800,000), RMB36,500,000 (approximately HK$46,100,000) and RMB39,600,000 (approximately HK$50,000,000), respectively. The transaction amounted to approximately HK$22,009,000 for the year ended 31 December, 2014 (2013: Nil) and has been eliminated on consolidation.

## CONTINUING CONNECTED TRANSACTIONS (continued)

On 4 December, 2013, Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. ("CTP Investment") (a wholly-owned subsidiary of the Company), as service provider, has entered into the CTOCRD Master Consultancy Services Agreement with Chia Tai Oversea Chinese Realty Development Co., Ltd. ("CTOCRD") (an associate of the Chearavanont Shareholders and a connected person of the Company) for the provision of consultancy services in relation to corporate management, information technology, financial, internal control and human resources matters for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB6,000,000 (approximately HK$7,600,000) each year. The transaction amounted to approximately HK$7,124,000 for the year ended 31 December, 2014 (2013: approximately HK$7,349,000).

* The exchange rates used for the conversion of RMB into Hong Kong dollars represented the exchanged rates on the dates of the respective announcements.

The independent non-executive directors have reviewed the terms and transactions and conformed to the Board of Directors that, in their opinion, the transactions, and the arrangements governing those transactions, are entered into by the relevant members of the Group in the ordinary and usual course of business and on normal commercial terms, and were fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

Messrs Ernst & Young, the auditors of the Company have confirmed that the continuing connected transactions as stated above have received the approval of the board of Directors of the Company. They are in accordance with the pricing policies of the Company and have been entered into in accordance with the relevant agreements governing the transactions. The continuing connected transactions have not exceeded the respective caps as disclosed in the previous announcements.

## DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

Save as disclosed below, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December, 2014.

The Company has entered into a facility agreement (the "Facility Agreement") on 20 December, 2013 with a consortium of various banks jointly led by Société Générale Asia Limited, Industrial and Commercial Bank of China (Asia) Limited and Mega International Commercial Bank Co., Ltd., Offshore Banking Branch (also the "Agent") for a three-year unsecured loan in the principal sum of USD165,000,000 (the "Syndicated Loan"). As at 31 December, 2014, the outstanding principal owed by the Company under the Syndicated Loan was USD165,000,000 (31 December, 2013: Nil).

Pursuant to the terms of the Facility Agreement, if any of the following occurs which has, or could reasonably be expected to have, a material adverse effect:

(a) a change in the ownership of the Company such that Mr. Tse Ping ("Mr. Tse"), chairman of the Group, ceases to own (directly or indirectly):

    (i) at least 741,219,220 shares in the Company; or

    (ii) at least 15% of the issued share capital of the Company, save to the extent that a reduced shareholding percentage is a Permitted Reduction (as defined in the Facility Agreement); or

(b) Mr. Tse ceases to be the chairman of the Group,

## DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES (continued)

then,

1. the Company shall promptly notify the Agent upon becoming aware of that event; and

2. if the Majority Lenders (as defined in the Facility Agreement) so require, the Agent shall, by not less than 30 days' notice to the Company, cancel the facility under the Facility Agreement and declare all outstanding loans, together with accrued interest, and all other amounts accrued thereunder the Finance Documents (as defined in the Facility Agreement) immediately due and payable, whereupon the facility under the Facility Agreement will be cancelled and all such outstanding amounts will become immediately due and payable.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2014.

## UNDERTAKING

Mr. Tse has executed a deed of undertaking (the "Undertaking") in favour of the Company on 9 September, 2003 which has become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange.

Pursuant to the Undertaking, Mr. Tse has undertaken to the Company that, conditional upon the commencement of trading in the shares on the Main Board, for so long as (i) Mr. Tse, together with his associates, shall remain beneficially interests, directly or indirectly, in shares with at least 30 per cent. of the voting rights of the Company (from time to time), and (ii) the shares shall remain traded on the Main Board, neither Mr. Tse nor any of Mr. Tse's Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (saved through Mr. Tse's interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the Undertaking:-

"Mr. Tse's Company(ies)" refers to any of the companies or other entities of which more than 50 per cent. of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse is entitled to control the board of directors or management body of similar nature;

## UNDERTAKING (continued)

"Restricted Business" refers to:-

(i) the R&D, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernized Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and

(ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases.

"Territory" refers to the PRC (including Hong Kong).

The Undertaking does not apply to the following:-

(i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;

(ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse and/or his associates do not amount to more than 20 per cent. of the issued shares or other securities of the company in question; and

(iii) the investment by Mr. Tse and/or Mr. Tse's Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse or Mr. Tse's company, in either case in accordance with paragraph below.

In the event that Mr. Tse or any Mr. Tse's Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which Xian C.P. Pharmaceutical Co., Ltd. ("Xian CP") and/or Hainan Tigerlily Pharmaceutical Co., Ltd is/are engaged as at the date of the Undertaking) (the "Proposed Business"), Mr. Tse will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse and/or any Mr. Tse's Company shall be provided to the Company. The independent non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:-

(i) reject the said opportunity in its entirety; or

(ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or

(iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse (including through a Mr. Tse's Company) takes up the balance of the investment upon terms approved by the independent non-executive Directors.

## EMOLUMENT POLICY

Including the Directors, the Group had around 13,880 employees as at 31 December, 2014. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as share option scheme.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company has taken into consideration of their expertise and job specifications.

## CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company had complied with all the Code Provisions set out in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the year ended 31 December, 2014 except for Code Provision A.6.7 in relation to the attendance of general meetings by independent non-executive directors ("INEDs") and other non-executive directors. Out of four INEDs of the Company, two INEDs attended the annual general meeting of the Company both held on 27 May, 2014 (the "2014 AGM") but two INED was unable to attend the 2014 AGM due to other business engagement.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, it was confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Group has complied with Rules 3.10 and 3.10(A) of the Listing Rules relating to appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed four INEDs including two with financial management expertise, details of the biographies of the four INEDs have been set out in the 2014 annual report.

## AUDIT COMMITTEE

The AC is comprised of three INEDs, namely Mr. Lu Zhengfei as the chairman, Mr. Li Dakui and Ms. Lu Hong as the members. It has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the consolidated financial statements of the Company for the year ended 31 December, 2014.

## REMUNERATION COMMITTEE

The Company has established the RC with written terms of reference in accordance with requirement of the Corporate Governance Code. Its primary duty is to make recommendations to the Board in formulating policies on remuneration packages of directors and senior management. The RC has three members comprising Mr. Zhang Lu Fu as the chairman and Mr. Lu Zhengfei and Ms. Lu Hong as the members.

## NOMINATION COMMITTEE

In order to comply with Code Provision A.5 as set out in Appendix 14 of the Listing Rules regarding the establishment of a NC, the Company has established the NC on 30 March, 2012 comprising Mr. Tse Ping as the chairman and Mr. Lu Zhengfei, Ms. Lu Hong and Mr. Zhang Lu Fu as members of the NC with written terms of reference in accordance with the requirement of the Corporate Governance Code. Its primary duty is to formulate nomination polices for board and recruitment polices of senior management.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Tse Ping**
*Chairman*

PRC
25 March, 2015

## DIRECTORS

### Executive Directors

**Mr. Tse Ping**（謝炳先生）, aged 63, is the Founder and Chairman of the Company. He is responsible for the overall operations of the Group. With more than 22 years of pharmaceutical related investment and management experience, he is currently a director of CT Tianqing, NJCTT, Jiangsu Fenghai, Jiangsu Qingjiang, Qingdao Haier, Qingdao Chia Tai Haier Medicines Co., Ltd., Qingdao Heng Seng Tang Pharmacy Co., Ltd., Beijing Tide and CT Green Continent. He is also a director of Shanghai Fortune World Development Co., Ltd., Tianjin Chiatai Feed Tech Co., Ltd., SYN Energy Technology Co., Ltd. and Chia Tai Oversea Chinese Realty Development Co., Ltd. He is also a non-executive director of Tianjin Binhai Teda Logistics (Group) Corporation Limited, the shares of which are listed on GEM Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Tse was formerly the vice chairman of C.P. Lotus Corporation, the shares of which are listed on the main board of the Stock Exchange. Mr. Tse was also formerly the vice chairman of Shenzhen 999 Pharmaceutical Co., Ltd.（深圳三九藥業有限公司）, and was involved in the management of Hainan Haiyao Co., Ltd.（海南海藥股份有限公司）(formerly known as Hainan Pharmaceutical Industrial Joint-Stock Company Limited（海南海藥實業股份有限公司）), which is now listed on the Shenzhen Stock Exchange in the PRC. Mr. Tse was also formerly the chairman of Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("CTQ") which is now a subsidiary of Shanghai Industrial Investment (Holdings) Co., Ltd., the chairman of Xian CP and the executive chairman of TM International Bank Co., Ltd, based in Shanghai. Mr. Tse is still a director of CTQ, a committee member of the Association of Pharmaceutical Biotechnology of China and an honoral professor of Shenyang University of Pharmacy.

Within the contemporary pharmaceutical industry, with the leadership by Mr. Tse Ping, Sino Biopharmaceutical Limited's market in hepatitis medicines and the therapeutic segment of micro-sphere target sustained medicine demonstrate a leading position. CT Tianqing, Beijing Tide and CTQ were ranked the top 100 profit-making enterprises under the National Pharmaceutical Industrial Statistics Annual Report. In November, 2005, the Company was awarded "Best under 1 US Billion enterprise within the Asian Pacific Region" by Forbes Asia. At the first "Capital – Chinese Outstanding Enterprise Achievement Prize" campaign launched by the Capital Magazine, the Company was awarded "Capital – Chinese Outstanding Pharmaceutical Group Prize" in May, 2006. In January, 2008, Mr. Tse was awarded in Hong Kong with "the World Outstanding Chinese" and a honorable Doctor Degree by the University of West Alabama, United States of America. In December, 2008, he was awarded "2007/2008 Asian Knowledge Management Association academician" by the Asian Knowledge Management Association. In June, 2010, Mr. Tse was awarded "The Top Ten Most Leading Innovative Persons of the PRC Enterprises in 2010" by the PRC Productivity Society and the PRC Corporation Press.

Mr. Tse was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference. He is currently the vice chairman of Association of Chinese Natives Chamber of Commerce in the PRC. Mr. Tse is also the vice chairman of Association of Chinese Multinational Corporation.

**Mr. Xu Xiaoyang**（徐曉陽先生）, aged 52, joined the Group in September, 2007. He is the Chief Executive Officer of the Company and the chairman of Shanghai Tongyong. He also served as President, senior engineer and practicing pharmacist of the Group. He is responsible for affairs with government authorities, management of various subsidiaries and certain investment projects of the Group. He obtained a Bachelor Degree in Industrial Science from Chinese Medicine Department of the Business Faculty of Harbin University of Commerce (previously known as "Heilongjiang Institute of Commerce"). Before joining the Group, he had worked as chief engineer and general manager in Tianjin Darentang Pharmaceutical Factory. In 1992, Mr. Xu was selected by the Sino-Japan Association for International Exchange of Talents for the Japan Association for Overseas Technical Scholarship (AOTS) program and studied research and development and management for one year with Matsuura Yakugyo, Japan and obtained an education proof. He has also studied a Master Degree of Business Administration in Tianjin University of Finance and Economics during 1997 and 1998. In 1999, he also studied Business Administration in Technische Fachhochschule Berlin. Mr. Xu is the leader in natural science technology segment in Tianjin, an expert in pricing strategy of the pharmaceutical products assessment centre of the The National Development and Reform Commission, technical consultant of the China Chamber of Commerce for Import and Export of Medicines and Health Products, an expert in China Association of Traditional Chinese Medicines and a member of the Eighth editorial committee of "Chinese Herbs Magazine" and a member of the Tianjin Euro-American Students Association. Mr. Xu has several patents and released various thesis.

# Directors and Senior Management Profile

**Ms. Cheng Cheung Ling** (鄭翔玲女士), aged 51, graduated from the Guanghua School of Management of Peking University and obtained a Master Degree in Business Administration. She is a practician. She joined the Pharmaceutical Group in 1992 and has been an executive director of the Company since January, 2005 and has appointed as Vice Chairman of the Company in April 2015. She is also the chairman of Beijing Tide and Chia Tai Bainian Holdings Limited. She is currently a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference, a member of Standing Committee of All-China Federation of Industry, a member of the Eleventh Standing Committee of the Chinese People's Political Consultative Conference Shaanxi Provincial Committee, an Executive Committee Member of the Standing Committee of China Overseas Friendship Association, Honorary chairlady of Qin Merchant Federation of Shaanxi Province, the vice chairlady of Friendship Association of the Political Consultative Conference of the Hong Kong Provincial Committee and the vice chairlady of the Friendship Association Fund Company of the Political Consultative Conference of the Hong Kong Provincial Committee.

During the period Ms. Cheng served as Chairman of Beijing Tide, she introduced valuable management experience into the Company in the virtue of continuing innovation, adaptation to new trends in health care reform and getting accurate and timely information or opportunities for key aspects of industry development with emphasis on technological innovation and market applications. "Kaishi injections" which work on the DDS theory to improve cardio-cerebral micro-circulation blockage and "Kaifen injections" are two core products of the Group, both have outstanding contributions with large variety and are included in Beijing Municipality Bio-pharmaceutical Industry Leapfrog Development Program ("G20 Program").

At present, Beijing Tide has become a leading expert in biomedical manufacturing industry in Beijing. Since 2010, Beijing Tide has paid an aggregate tax of RMB1.8 billion which made it earn the honors of The Best Contributor to G20 Program. According to the publication of The Annual Statistics on Chinese Pharmaceutical Industry for 2012 and 2013 by The Ministry of Industry and Information Technology, Beijing Tide was rated in the top 100 best pharmaceutical companies in China that generate revenues from the principal business.

**Mr. Tse Hsin** (謝炘先生), aged 45, is an Executive Director and a Vice President of the Company. He is mainly responsible for the acquisition and merger activities of the Group. He is also the Group's spokesman. Mr. Tse graduated from the University of Hong Kong with a Bachelor's Degree (Honors) in Industrial Engineering. He joined the Group in August, 1995 as an assistant to the President of the Company and served as the general manager of Xian CP. Mr. Tse is a council member of the first council and the executive council member of the second council of Chaozhou Natives Chamber of Commerce Beijing. He is also an executive member of the Right Protection Association for the Medical Treatment Equipment Enterprises of the Shaanxi Province, the vice chairman of the fourth council of the Foreign Invested Enterprises Association of the Shaanxi Province, the executive member of the third committee of the Shaanxi Cancer Fighting Association and the vice chairman of the World Chinese Medicine and Pharmaceutical Professional Joint Committee. He was also awarded the "Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province" and "Outstanding Entrepreneur who cares about his staff" by the Shaanxi Provincial Government. He was an executive director of Beijing Tide. He is currently a director of CT Tianqing. He is a first cousin of Mr. Tse Ping, the Founder, Chairman and Executive Director of the Company. He is the brother of Ms. Tse Wun, a member of the senior management of the Company. He is also a first cousin of Ms. Chia Fai and Mr. Tse Hsuan, Johnny, members of the senior management of the Company.

**Mr. Wang Shanchun** (王善春先生), aged 47, is the president of CT Tianqing. He graduated from Nanjing University of Chemistry in July, 1990 and joined CT Tianqing in the same year. Mr. Wang studied a Master Degree in pharmaceutical engineering with Tianjin University from 1999 to 2002. He was a vice officer and an officer of the production plant, the deputy manager and the manager of engineering department, chief of GMP office, the vice general engineer, the general engineer and executive vice president, Mr. Wang has rich management experience in the PRC pharmaceutical field, his design of new preparation plant in CT Tianqing Haizhou was obtained the first GMP certificate of new edition GMP. He was awarded as Lianyungang City Technology Advancement Worker, Jiangsu Province Technology Advancement Worker and Jiangsu Province Labour Model and Jiangsu Province Science Technology Second Honour Award.

**Mr. Tian Zhoushan** (田舟山先生), aged 51, joined the Group in April, 1997 and is responsible for the business of NJCTT. Mr. Tian is a vice president of CT Tianqing and the general manager of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the production manager, and assistant to the president of CT Tianqing. Mr. Tian has 26 years of experience in the pharmaceutical industry.

**Ms. Li Mingqin**（李名沁女士）, aged 56, is the vice president of the Company, the director of Beijing Tide and Shaoyang Hospital. She is principally responsible for the investment affairs of the Group. Ms. Li graduated from the Faculty of Medicine of the Beijing Chinese Medicine University with a Bachelor Degree in medicine. Prior to joining the Company, Ms. Li has worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in the teaching of medicines, R&D of new medicines and medicines management. During the period from 1992 to 1995, Ms. Li has been engaged in Post-doctorate research in the Medicine School of University of Colorado, USA and the Medical College in the University of Massachusetts. Ms. Li joined the Group in March, 1997 and she has 32 years of experience in the pharmaceutical industry.

### Independent non-executive Directors

**Mr. Lu Zhengfei**（陸正飛先生）, aged 51, is an INED of the Company and is the Chairman of the AC and a member of the RC and the NC. He received P.h.D. Degree in Economics (financial management). Mr. Lu is currently the specially appointed Professor of Chang Jiang Scholars and supervisor of doctoral students, Guanghua School of Management of Peking University. He has previously held various senior positions in the Department of Accounting of both Peking University and Nanjing University. He is the expert consultant of the China Financial Accounting Standards Board, Ministry of Finance. He is also an executive director of the China Accounting Association and deputy director of Financial Management Committee. Mr. Lu is the editor of several accounting and finance journals and he has issued various publications. He is an independent non-executive director of Bank of China, China National Materials Co. Ltd. and Sinotrans Limited and an independent supervisor of PICC Property and Casualty Company Limited, whose shares are listed on the Stock Exchange.

**Mr. Li Dakui**（李大魁先生）, aged 71, joined the Company as an INED and a member of the AC in September, 2004. He graduated from the Faculty of Pharmacy of Beijing Medical University (now named Faculty of Medicine and Pharmacy of Beijing University) in 1965. In 1982, he obtained a Master Degree in Pharmaceutics from Peking Union Medical College ("PUMC"). He used to be the chief pharmacist of PUMC Hospital (retired in 2013) and used to be a director of Pharmacy Department of PUMC Hospital for years. Mr. Li used to be a vice president of the Chinese Pharmaceutical Association, the Chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association and the vice chairman of the Chinese Practicing Pharmacist Association. He is currently a vice editor of Chinese Pharmaceutical Magazine, a member of the Chinese Pharmaceutical Committee and vice team leader of its medicine professional team and a member of the State Council Medical Health Reform Commission Specialist Consultative Council.

**Ms. Lu Hong**（魯紅女士）, aged 45, joined the Company as an INED and a member each of the AC, the RC and the NC in April 2015. Ms. Lu has over 20 years of experience in accounting, financial management, company secretarial and domestic and overseas capital operations field. She is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Lu has extensive knowledge in accounting and the listing rules and regulations both in Hong Kong and the PRC. She has rich experience in the listing of corporations in the PRC, Hong Kong, Singapore and the United States of America and foreign and domestic investment and financing operations as well as mergers and acquisitions. She is familiar with financial analysis, budgeting, financial management and tax planning. She is also expertise in dealing with complex financing and taxation matters.

**Mr. Zhang Lu Fu**（張魯夫先生）, aged 57, joined the Company as an INED, the chairman of the RC and a member of the NC in April 2015. Mr. Zhang holds a Master Degree in Philosophy from the Beijing Normal University, is a research associate and a part-time professor. Mr. Zhang has been working for the Chinese government since 1987, including the Xin Hua News Agency branch in Hong Kong (Liaison Office of the Central People's Government in Hong Kong). Mr. Zhang has worked for a member of Hong Kong listed companies and charitable organisations on a full-time and part-time basis. Mr. Zhang was the council member of the Shenzhen Overseas Friendship Association, a member of the Shenzhen Committee of the 4th Chinese People's Political Consultative Conference, the council member of the China Overseas Friendship Association and a part-time professor of the hong Kong Academy of Management and the Hong Kong Financial Services Institute. Mr. Zhang is an INED of Kingboard Laminates Holdings Limited which is listed on the main board of the Stock Exchange.

## SENIOR MANAGEMENT

**Ms. Leung Sau Fung, Fanny** (梁秀鳳女士), is the vice president and the company secretary of the Company. She joined the Group in February, 1992. She is responsible for overseeing the corporate compliance of the Group's listed and statutory issues. She obtained a Honours Diploma in Company Secretaryship and Administration. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Before joining the Group, Ms. Leung worked in the Company Secretarial Department of an international audit firm.

**Ms. Yu Chau Ling** (余秋玲女士), is the assistant vice president, financial controller and qualified accountant of the Company. She graduated from the University of Hong Kong with a Bachelor Degree in Social Sciences and obtained the MBA Degree from The Open University of Hong Kong in 2005. She is the fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants respectively. Ms. Yu joined the Company in February, 2003 and has extensive working experience in the international audit firm and listed companies.

**Ms. Cheng Hui** (程惠女士), aged 51, is the deputy financial controller of the Group. Ms. Cheng joined the Group in May, 1993 and is responsible for the Group's PRC financial and personnel issues. She has been the head of the finance department in China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 24 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel in 1992, and ACCA Chinese finance and accounting qualification certificate issued by Chartered Association of Certified Accountants. Ms. Cheng received international advanced human resources management professional training held by the International Public Management Association for Human Resources (IPMA-HR).

**Mr. Xia Wenyu (**夏文余先生**),** aged 46, has a professional qualification in finance and accounting discipline with tertiary education level and is an accountant. He was graduated from the Renmin University of China with the MBA Degree. He is a general manager and director of Jiangsu Fenghai since September 2014 and was the financial officer, a deputy head of Corporate Restructuring Committee, a manager of Planning and Finance Unit, board secretary, an assistant to general manager and a manager of logistic department, the sales director and the deputy general manager. He has ample experience of managing the corporate, sales, human resources and financial issues and has 28 years of experience in the pharmaceutical industry. He is an executive director of China Price Association and Jiangsu Province Medical Insurance Committee.

**Mr. Tang Zhaocheng** (唐兆成先生), aged 48, is a vice president of CT Tianqing. He is responsible for the production management of CT Tianqing. Mr. Tang joined CT Tianqing in April, 1997. He has a professional qualification in chemical engineering. Mr. Tang has been a vice officer in technological production, and a manager in quality control as well as a chief officer in GMP and assistant to president of CT Tianqing. He has been a team leader in the production of Ganlixin and Zegui Longshuang in CT Tianqing. Mr. Tang has over 21 years of experience in the pharmaceutical industry.

**Mr. Zhu Yong** (朱勇先生), was the marketing director of Jiangsu Fenghai since 2005, was mainly responsible for the marketing and academic promotion of new products, setting up the branch name of Fenghai, making the successful sales policies for market leading and development, and hence "New Model of Sugar Infusion Solution" of Jiangsu Fenghai was well received by the pharmaceutical industry. In 2008, as the sales vice president, he initiated Jiangsu Fenghai's characteristic mixed marketing model (i.e. the use of agency and pure sales, and the integration of the sales of new products and generic medicines) successfully. In 2011, he was the executive vice president of Jiangsu Fenghai and was responsible for R&D, marketing and human resources, formed the medical R&D centre in Nanjing and set up the training system for all staff. In October 2014, he was acted as executive vice president of Jiangsu Qingjiang and was responsible for R&D, human resources and office administration. In January 2015 onwards, he is the president of Jiangsu Qingjiang and is responsible for all matters of Jiangsu Qingjiang.

**Mr. Wang Minggang** (王明剛先生), aged 58, joined the Group in September, 2008 and is the vice chairman of the board of directors and the general manager of Qingdao Haier. He is also a practicing doctor and a senior engineer. Mr. Wang has worked in some large-scale domestic and foreign pharmaceutical companies and he has more than 25 years of experience in the pharmaceutical industry. He has been the marketing director of Xian CP, the sales general manager of Beijing Sihuan Pharmaceutical Factory and the general manager of Qingdao Haier. Mr. Wang is also a member of Qingdao Pharmaceutical Association, a member of Qingdao Medical Association, and a member of the Tenth Qingdao Laoshan District's Committee of the Chinese People's Political Consultative Conference.

**Mr. Zhang Xiquan** (張喜全先生), aged 45, is the chief engineer of CT Tianqing. Mr. Zhang graduated from Nankai University in 1994 with a M.S. Degree. He has carried out studies of a number of new drugs with expertise in drug candidate selection and drug development with partners. Mr. Zhang joined CT Tianqing in April, 1997.

**Ms. Li Chun Ling** (李春玲女士), aged 43, is a vice president of CT Tianqing. She is responsible for the financial and accounting affairs of CT Tianqing. Ms. Li joined the Group in February, 1996 and was a manager in the audit department and finance and accounting department of the Group. Ms. Li graduated from Guizhou College of Finance and Accounting. Before joining the Group, Ms. Li had worked in audit firms and as a team in-charge for social auditing of projects. Ms. Li has over 16 years experience in finance and accounting, and is a certified accountant in the PRC.

**Mr. Zhang Jie** (張杰先生), aged 44, is a vice president of CT Tianqing. He graduated from Henan University and holds the MBA Degree. Mr. Zhang joined the Group in July, 1993 and is responsible for the office affairs of CT Tianqing.

**Mr. Wang Xiangjian** (王祥建先生), aged 44, is a vice president of CT Tianqing. He graduated from Nankai University and holds a Bachelor Degree in Molecular Biology. Mr. Wang joined the Group in June, 1994 and is responsible for CT Tianqing's R&D Institute.

**Mr. Zhuang Xinglong** (莊興龍先生), aged 45, is an assistant to the president of CT Tianqing. He graduated from Heilongjiang University of Chinese Medicine and holds a Bachelor Degree in Chinese Medicine. Mr. Zhuang joined the Group in January, 2008 and is currently the secretary of the board of CT Tianqing.

**Mr. Li Jinming** (李金明先生), aged 50, is the deputy general manager of LYG Tianqing. Mr. Li studied in the pharmaceutical major of Chinese Pharmaceutical University. Mr. Li holds the MBA Degree awarded jointly by Huadong University of Science and Technology and America University of Management and Technology. Mr. Li has over 15 years experience as major district manager in pharmaceutical sales in two well-known pharmaceutical enterprises in the PRC. He was the major district manager of CT Tianqing for five years. Mr. Li has extensive sales and management experience.

**Mr. Wang Hong** (王宏先生), aged 51, is a deputy general manager of LYG Tianqing and is responsible for the sales management. Mr. Wang graduated from Shanghai Medical University in 1991 with a Master degree in medical science. He also holds an MBA Degree from the Business School of the National University of Singapore. He was the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. where he had worked for 8 years. Mr. Wang has more than 15 years of experience in sales and he joined the Group in December, 2002, he was a vice president of CT Tianqing and was responsible for sales management.

**Mr. Zhang Zhenqian** (張震乾先生), aged 45, is the deputy general manager and an engineer of NJCTT. Mr. Zhang joined the Group in April, 1997 and is responsible for the sales and operation of NJCTT. Graduated from Xuzhou College of Engineering, Mr. Zhang has completed the studies in EMBA program in Guanghua Management School in Beijing University. Mr. Zhang has over 16 years experience in pharmaceutical industry and was a branch manager, major district manager of CT Tianqing.

**Mr. Wang Kuanqi** (王寬起先生), aged 48, is the deputy general manager of NJCTT and is responsible for production. Mr. Wang graduated from Changzhou Chemical Institute with the profession qualification in organic synthesis. He joined CT Tianqing in 1988. He studied pharmacy with China Pharmaceutical University from 1999 to 2002. He was a team leader and an officer of the production plant, the production manager and an assistant to general manager.

**Mr. Wang Junping** (王軍平先生), joined the Group in July 2014, is currently the general manager of Shanghai Tongyong. He obtained the Bachelor Degree in Material Science and Chemical Application faculty from the National University of Defense Technology in 1989 and obtained the MBA from Tinajin University Management College in 2000. He studied the industrial property rights management from The Association for Overseas Technical Scholarship in Japan. He has 25 years of experience in the pharmaceutical industry. He was the senior management of North China Pharmaceutical Group Corporation, Shanghai Fosun Pharmaceutical Industry Development Co., Ltd. and Fu Jen Pharmaceutical Group and was responsible for R&D, quality control, policy making and sales management.

# Directors and Senior Management Profile

**Dr. Ye Wei Nong**（葉衛農博士）, aged 52, is the assistant president of the Company and general manager of the R&D department. He is responsible for the Group's development on Biotechnology. He is currently a director of China Biotech & Drug Development Limited and Jiangsu Fenghai. In 1983, Dr. Ye graduated from Zhongshan (Dr. Sun Yat-Sen) University in biochemistry with a bachelor degree in science. In 1989, Dr. Ye obtained a doctoral degree (Ph.D.) in microbiology in Institute National des Sciences Appliquees (INSA) de Toulouse of France. He also obtained a certificate of study for Masters specialised in marketing and food technology in Ecole Superieure de Commerce (ESC) de Toulouse of France. Prior to joining the Group in July, 2002, Dr. Ye worked in Europe and Hong Kong for biotechnology and pharmaceutical companies. Dr. Ye was a member of The Advisory Committee on Applied Biology and Chemical Technology of The Hong Kong Polytechnic University from February 2006 to September 2014. He is also a member of the 8th Subcommittee of Industrial Biochemistry and Molecular Biology under The Chinese Society of Biochemistry and Molecular Biology (CSBMB).

**Ms. Chia Fai**（謝輝女士）, is an assistant to the chairman of the Company and personnel manager. Ms. Chia joined the Group in November, 1991 and has more than 25 years of experience in financial area. Ms. Chia is a director of various companies including Chia Tai Medicines Investment Limited, Chia Tai Pharmaceutical (Lianyungang) Company Limited, Chia Tai Refined Chemical Industry Limited, Evon Industries Limited, Talent Forward Limited, Sino Biopharmaceutical (Beijing) Limited and Magnificent Technology Limited. She is a sister of Mr. Tse Ping and a first cousin of Mr. Tse Hsin.

**Ms. Tse Wun**（謝瑗小姐）, is an assistant to the chairman of the Company. She joined the Group in November, 1991. She is principally responsible for the Group's administration and financial matters in Hong Kong. Ms. Tse graduated from the University of Oregon with a B.S. Degree. She was formerly a director of Shenzhen 999 Pharmaceutical Co., Ltd. and has 16 years of experience in finance and investment. She is a first cousin of Mr. Tse Ping. She is a sister of Mr. Tse Hsin.

**Mr. Zhang Yangqing** (張揚清先生), aged 46, is currently the deputy general manager of finance department of NJCTT. He was graduated from Central South University with a Bachelor Degree of Industrial Management Engineering. He is a registered accountant and registered Real Estate appraiser with practicing qualification. He was a member of National Development and Reform Commission of Ziyang District of Yiyang City in Hunan Province, civil servant of Housing Administrative Bureau of Yiyang City, an audit manager of Hunan Kaiyuan CPA, a financial controller of Chengdu Jiuzhitang Jinding Pharmaceutical Ltd., a vice minister of finance department and sales officer of Jiuzhitang Co., Ltd., audit head of CT Tiangqing, a finance manager of Chia Tai Pharmaceutical Group and a deputy general manager of finance department of Jiangsu Fenghai.

**Mr. Tse Hsuan, Johnny**（謝炫先生）, aged 45, is the general manager of the Company's Information Management Department. He joined the Group in January, 2003. He is principally responsible for the development and maintenance of information system for the Company. Mr. Tse graduated from the University of Oregon with a B.S. Degree in computer science in the United States. He also graduated from ESMOD Paris (Ecole International de Mode Paris) with a diploma in fashion design and pattern drafting. Before joining the Company, Mr. Tse worked in Beijing Major Kind Co., Ltd. engaged in fashion design and computer system maintenance. His design of uniform for air attendants was adopted by Air China. He is a first cousin of Mr. Tse Ping and Mr. Tse Hsin, respectively.

**Mr. Shen Xiaoguang**（沈曉光先生）, aged 43, is the general manager of the investment management department and an assistant to directors of the Company. Mr. Shen participates in the business development and management of the Group, and is responsible for the market analysis of main products and R&D of new products. Mr. Shen graduated from the Heilongjiang College of Business with a Bachelor Degree in Science in pharmaceutical manufacturing, and has about 17 years experience in pharmaceutical sales and marketing and product R&D. Mr. Shen joined the Group in February, 2003.

## LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

## STOCK CODE

1177

## COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

## PLACE OF INCORPORATION

Cayman Islands

## DATE OF LISTING ON MAIN BOARD

8 December, 2003

## DATE OF LISTING ON GEM BOARD

29 September, 2000

## DIRECTORS

**Executive Directors**
Mr. Tse Ping *(Chairman)*
Mr. Xu Xiaoyang *(CEO)*
Ms. Cheng Cheung Ling
Mr. Tse Hsin
Mr. Wang Shanchun
Mr. Tian Zhoushan
Ms. Li Mingqin

**Independent non-executive Directors**
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Lu Hong
Mr. Zhang Lu Fu

**Executive Board Committee**
Mr. Tse Ping *(Chairman)*
Mr. Xu Xiaoyang
Ms. Cheng Cheung Ling
Mr. Tse Hsin

## AUDIT COMMITTEE

Mr. Lu Zhengfei *(Chairman)*
Mr. Li Dakui
Ms. Lu Hong

## REMUNERATION COMMITTEE

Mr. Zhang Lu Fu *(Chairman)*
Mr. Lu Zhengfei
Ms. Lu Hong

## NOMINATION COMMITTEE

Mr. Tse Ping *(Chairman)*
Mr. Lu Zhengfei
Ms. Lu Hong
Mr. Zhang Lu Fu

## COMPANY SECRETARY

Ms. Leung Sau Fung, Fanny

## QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

## AUTHORISED REPRESENTATIVES

Mr. Tse Ping
Ms. Leung Sau Fung, Fanny

## AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

## PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
166 Hennessy Road
Wanchai
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

# Corporate Information

Agricultural Bank of China, Lianyungang Branch
No. 43 North Tong-guan Road
Xinpu, Lianyungang
Jiangsu Province
PRC

## 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

Tricor Tengis Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

## REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

## LEGAL ADVISERS

*As to Hong Kong Law:*
Sidley Austin
39/F, Two International Finance Centre
Central
Hong Kong

*As to Cayman Islands Law:*
Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

*As to PRC Law:*
Navigator Law Office
308A, Tower C2
Oriental Plaza No. 1
East Chang An Ave
Dong Cheng Districts
Beijing
PRC

## AUDITORS

Ernst & Young
*Certified Public Accountants*
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

EY 安永

## TO THE SHAREHOLDERS OF SINO BIOPHARMACEUTICAL LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Sino Biopharmaceutical Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 156, which comprise the consolidated and company statements of financial position as at 31 December, 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

# Independent Auditors' Report

## OPINION

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

**Ernst & Young**
*Certified Public Accountants*
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
25 March, 2015

# Consolidated Statement of Profit or Loss

Year ended 31 December, 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **12,378,350** | 9,901,196 |
| Cost of sales | | **(2,920,531)** | (2,228,351) |
| Gross profit | | **9,457,819** | 7,672,845 |
| Other income and gains | 5 | **293,182** | 188,782 |
| Selling and distribution costs | | **(5,342,527)** | (4,413,986) |
| Administrative expenses | | **(824,966)** | (638,312) |
| Other expenses | | **(1,075,997)** | (908,321) |
| Finance costs | 7 | **(43,096)** | (2,500) |
| Share of profits and losses of associates | 19 | **336,792** | 238,002 |
| **PROFIT BEFORE TAX** | 6 | **2,801,207** | 2,136,510 |
| Income tax expense | 10 | **(440,153)** | (354,551) |
| **PROFIT FOR THE YEAR** | | **2,361,054** | 1,781,959 |
| Attributable to: | | | |
| Owners of the parent | 11 | **1,513,205** | 1,036,764 |
| Non-controlling interests | | **847,849** | 745,195 |
| | | **2,361,054** | 1,781,959 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 13 | | |
| Basic and diluted | | **HK$30.62cents** | HK$20.98cents |

Details of the dividend payable and proposed for the year are disclosed in note 12 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December, 2014

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **2,361,054** | 1,781,959 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **(139,673)** | 94,632 |
| Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods | | **(139,673)** | 94,632 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | | |
| Gains on property revaluation | | **49,714** | 72,779 |
| Gains on available-for-sale investment revaluation | | **1,206** | – |
| Income tax effect | | **(11,002)** | (9,816) |
| | | **39,918** | 62,963 |
| Share of other comprehensive (loss)/income of associates | | **(6,024)** | 19,827 |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods | | **33,894** | 82,790 |
| **OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX** | | **(105,779)** | 177,422 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **2,255,275** | 1,959,381 |
| Attributable to: | | | |
| Owners of the parent | 11 | **1,443,682** | 1,146,930 |
| Non-controlling interests | | **811,593** | 812,451 |
| | | **2,255,275** | 1,959,381 |

# Consolidated Statement of Financial Position

31 December, 2014

| | Notes | 31 December, 2014 HK$'000 | 31 December, 2013 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **2,340,180** | 2,107,111 |
| Prepaid land lease payments | 15 | **339,351** | 192,969 |
| Goodwill | 16 | **110,850** | 58,083 |
| Other intangible assets | 17 | **162,233** | 87,759 |
| Investments in associates | 19 | **1,361,421** | 1,119,122 |
| Available-for-sale investments | 20 | **425,563** | 142,747 |
| Deferred tax assets | 30 | **107,927** | 122,243 |
| Long term prepayments | 23 | **1,135,890** | 311,942 |
| Total non-current assets | | **5,983,415** | 4,141,976 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | **901,625** | 805,343 |
| Trade and bills receivables | 22 | **1,889,661** | 1,582,998 |
| Prepayments, deposits and other receivables | 23 | **373,186** | 317,506 |
| Due from related companies | 38(c) | **18,050** | 1,019 |
| Equity investments at fair value through profit or loss | 24 | **529,671** | 138,682 |
| Cash and bank balances | 25 | **4,468,333** | 2,981,343 |
| Total current assets | | **8,180,526** | 5,826,891 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 26 | **775,241** | 475,003 |
| Tax payable | | **172,820** | 58,267 |
| Other payables and accruals | 27 | **2,444,065** | 1,971,324 |
| Interest-bearing bank borrowings | 28 | **435,187** | 74,153 |
| Due to related companies | 38(c) | **33,959** | 1,123 |
| Total current liabilities | | **3,861,272** | 2,579,870 |
| **NET CURRENT ASSETS** | | **4,319,254** | 3,247,021 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **10,302,669** | 7,388,997 |

# Consolidated Statement of Financial Position (continued)

31 December, 2014

| | Notes | 31 December, 2014 HK$'000 | 31 December, 2013 HK$'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **10,302,669** | 7,388,997 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred government grants | 29 | **119,050** | 96,197 |
| Interest-bearing bank borrowings | 28 | **1,288,597** | – |
| Deferred tax liabilities | 30 | **76,726** | 67,837 |
| Total non-current liabilities | | **1,484,373** | 164,034 |
| Net assets | | **8,818,296** | 7,224,963 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 31 | **123,536** | 123,536 |
| Reserves | 33(a) | **6,412,984** | 5,264,651 |
| Proposed final dividend | 12 | **74,122** | 98,829 |
| | | **6,610,642** | 5,487,016 |
| **Non-controlling interests** | | **2,207,654** | 1,737,947 |
| Total equity | | **8,818,296** | 7,224,963 |

**Xu Xiaoyang**
*Director*

**Tse Hsin**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December, 2014

| | | Attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 (note 31) | Share premium account HK$'000 | Capital reserve HK$'000 | Asset revaluation reserve HK$'000 | Available-for-sale investment revaluation reserve HK$'000 | Contributed surplus HK$'000 | Reserve funds HK$'000 (note 33(a)) | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Proposed final dividend HK$'000 (note 12) | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January, 2013 | | 123,536 | 1,285,444 | (176,834) | 168,111 | – | 20,743 | 438,406 | 256,235 | 2,367,506 | 98,829 | 4,581,976 | 1,202,720 | 5,784,696 |
| Profit for the year | | – | – | – | – | – | – | – | – | 1,036,764 | – | 1,036,764 | 745,195 | 1,781,959 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | |
| Surplus on revaluation of buildings | | – | – | – | 60,318 | – | – | – | – | – | – | 60,318 | 22,472 | 82,790 |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | 49,848 | – | – | 49,848 | 44,784 | 94,632 |
| Total comprehensive income for the year | | – | – | – | 60,318 | – | – | – | 49,848 | 1,036,764 | – | 1,146,930 | 812,451 | 1,959,381 |
| Acquisition of subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | 35,298 | 35,298 |
| Contribution from non-controlling shareholders | 18 | – | – | 5,183 | – | – | – | – | – | – | – | 5,183 | 31,740 | 36,923 |
| Dividends paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | – | – | – | (344,262) | (344,262) |
| Final 2012 dividend declared | 12 | – | – | – | – | – | – | – | – | – | (98,829) | (98,829) | – | (98,829) |
| Interim 2013 dividend | 12 | – | – | – | – | – | – | – | – | (148,244) | – | (148,244) | – | (148,244) |
| Proposed final 2013 dividend | 12 | – | – | – | – | – | – | – | – | (98,829) | 98,829 | – | – | – |
| Transfer from retained profits | | – | – | – | – | – | – | 208,701 | – | (208,701) | – | – | – | – |
| At 31 December, 2013 | | 123,536 | 1,285,444* | (171,651)* | 228,429* | –* | 20,743* | 647,107* | 306,083* | 2,948,496* | 98,829 | 5,487,016 | 1,737,947 | 7,224,963 |

# Consolidated Statement of Changes in Equity (continued)

Year ended 31 December, 2014

| | | Attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 (note 31) | Share premium account HK$'000 | Capital reserve HK$'000 | Asset revaluation reserve HK$'000 | Available-for-sale investment revaluation reserve HK$'000 | Contributed surplus HK$'000 | Reserve funds HK$'000 (note 33(a)) | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Proposed final dividend HK$'000 (note 12) | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January, 2014 | | 123,536 | 1,285,444 | (171,651) | 228,429 | – | 20,743 | 647,107 | 306,083 | 2,948,496 | 98,829 | 5,487,016 | 1,737,947 | 7,224,963 |
| Profit for the year | | – | – | – | – | – | – | – | – | 1,513,205 | – | 1,513,205 | 847,849 | 2,361,054 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | |
| Changes in fair value of available-for-sale investment, net of tax | | – | – | – | – | 1,206 | – | – | – | – | – | 1,206 | – | 1,206 |
| Surplus on revaluation of buildings | | – | – | – | 23,834 | – | – | – | – | – | – | 23,834 | 14,878 | 38,712 |
| Surplus on revaluation of buildings of associates | | – | – | – | 1,473 | – | – | – | – | – | – | 1,473 | – | 1,473 |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | (88,539) | – | – | (88,539) | (51,134) | (139,673) |
| Exchange differences on translation of associates | | – | – | – | – | – | – | – | (7,497) | – | – | (7,497) | – | (7,497) |
| Total comprehensive income for the year | | – | – | – | 25,307 | 1,206 | – | – | (96,036) | 1,513,205 | – | 1,443,682 | 811,593 | 2,255,275 |
| Acquisition of subsidiaries | 34 | – | – | – | – | – | – | – | – | – | – | – | 84,926 | 84,926 |
| Contribution from non-controlling shareholders | | – | – | – | – | – | – | – | – | – | – | – | 7,646 | 7,646 |
| Disposal of a subsidiary | 35 | – | – | – | – | – | – | – | 249 | – | – | 249 | 1,080 | 1,329 |
| Dividends paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | – | – | – | (435,538) | (435,538) |
| Final 2013 dividend declared | 12 | – | – | – | – | – | – | – | – | – | (98,829) | (98,829) | – | (98,829) |
| Interim 2014 dividend | 12 | – | – | – | – | – | – | – | – | (222,366) | – | (222,366) | – | (222,366) |
| Proposed final 2014 dividend | 12 | – | – | – | – | – | – | – | – | (74,122) | 74,122 | – | – | – |
| Transfer from retained profits | | – | – | – | – | – | – | 276,747 | – | (276,747) | – | – | – | – |
| Medical risk reserve | | – | – | – | – | – | – | 890 | – | – | – | 890 | – | 890 |
| At 31 December, 2014 | | 123,536 | 1,285,444* | (171,651)* | 253,736* | 1,206* | 20,743* | 924,744* | 210,296* | 3,888,466* | 74,122 | 6,610,642 | 2,207,654 | 8,818,296 |

* These reserve accounts comprise the consolidated other reserves of HK$6,412,984,000 (2013: HK$5,264,651,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December, 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **2,801,207** | 2,136,510 |
| Adjustments for: | | | |
| Finance costs | 7 | **43,096** | 2,500 |
| Share of profits and losses of associates | 19 | **(336,792)** | (238,002) |
| Interest income | 5 | **(113,593)** | (68,524) |
| Dividend income | 5 | **(15,776)** | (14,040) |
| Depreciation | 14 | **248,164** | 207,115 |
| Revaluation (surplus)/deficit of property, plant and equipment | 6 | **(24)** | 1,102 |
| Recognition of prepaid land lease payments | 15 | **6,078** | 3,781 |
| Amortisation of other intangible assets | 17 | **11,326** | 16,828 |
| Loss/(gain)on disposal of items of property, plant and equipment | 5, 6 | **1,753** | (1,301) |
| Gain on disposal of a prepaid land lease payment | 5, 6 | **(125)** | – |
| Gain on disposal of a subsidiary | 5, 6 | **(8,428)** | – |
| Gain on acquisition of an associate | 5, 6 | **–** | (34,505) |
| Fair value (gain)/loss net of equity investments at fair value through profit or loss | 5, 6 | **(35,677)** | 28,538 |
| | | **2,601,209** | 2,040,002 |
| Increase in inventories | | **(79,504)** | (230,366) |
| Increase in trade and bills receivables | | **(259,658)** | (360,676) |
| Increase in prepayments, deposits and other receivables | | **(18,994)** | (114,377) |
| Increase in equity investments at fair value through profit or loss | | **(355,312)** | (47,741) |
| Increase in amounts due from related companies | | **(8,089)** | (4,222) |
| Increase in trade payables | | **268,187** | 111,294 |
| Increase in other payables and accruals | | **425,264** | 514,580 |
| Increase in deferred government grants | | **22,853** | 21,289 |
| Increase/(decrease) in amounts due to related companies | | **35,231** | (5,057) |
| Cash generated from operations | | **2,631,187** | 1,924,726 |
| Profits tax paid | | **(330,995)** | (348,771) |
| Net cash flows from operating activities | | **2,300,192** | 1,575,955 |

# Consolidated Statement of Cash Flows (continued)

Year ended 31 December, 2014

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| Net cash flows from operating activities | | 2,300,192 | 1,575,955 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 113,593 | 68,524 |
| Dividends received from unlisted investments | | 15,776 | 14,040 |
| Dividends received from associates | | 88,469 | 47,849 |
| Purchases of items of property, plant and equipment | | (446,962) | (500,717) |
| Proceeds from disposal of items of property, plant and equipment | | 7,989 | 18,581 |
| Proceeds from disposal of prepaid land lease payment | | 1,124 | – |
| Additions to other intangible assets | | (28,555) | (19,594) |
| Acquisition of subsidiaries | | (73,609) | (9,710) |
| Acquisition of an associate | | – | (120,023) |
| Additions of available-for-sale investments | | (282,816) | (89,649) |
| Increase in prepaid land lease payments | | (162,861) | (62,413) |
| Increase in long term prepayments | | (823,948) | (809) |
| Increase in time deposits with original maturity of more than three months | | (1,210,173) | (38,208) |
| Proceeds from disposal of a subsidiary | | 13,440 | – |
| Net cash flows used in investing activities | | (2,788,533) | (692,129) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Interest paid | | (43,096) | (2,500) |
| Dividends paid | | (321,195) | (247,073) |
| Dividends paid to non-controlling shareholders | | (435,538) | (344,262) |
| Contribution from non-controlling shareholders | | 7,646 | 36,923 |
| New bank loans | | 1,829,957 | 79,979 |
| Repayment of bank loans | | (192,878) | (58,759) |
| Net cash flow from/(used in) financing activities | | 844,896 | (535,692) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 356,555 | 348,134 |
| Cash and cash equivalents at beginning of year | | 2,890,413 | 2,494,733 |
| Effect of foreign exchange rate changes, net | | (79,738) | 47,546 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 3,167,230 | 2,890,413 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances, unrestricted | 25 | 1,362,227 | 1,438,151 |
| Time deposits with original maturity of less than three months when acquired | 25 | 1,805,003 | 1,452,262 |
| Cash and cash equivalents as stated in the statement of cash flows | | 3,167,230 | 2,890,413 |

# Statement of Financial Position

31 December, 2014

| | Notes | 31 December, 2014 HK$'000 | 31 December, 2013 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | 18,185 | 8,439 |
| Investments in subsidiaries | 18 | 1,025,819 | 1,025,819 |
| Investments in associates | 19 | – | – |
| Available-for-sale investments | 20 | 87,215 | 23,278 |
| Long term prepayments | 23 | 135,058 | – |
| Total non-current assets | | 1,266,277 | 1,057,536 |
| **CURRENT ASSETS** | | | |
| Due from subsidiaries | 18 | 1,742,854 | 948,011 |
| Prepayments, deposits and other receivables | 23 | 70,089 | 65,968 |
| Equity investments at fair value through profit and loss | 24 | 529,671 | 134,705 |
| Cash and bank balances | 25 | 747,658 | 643,337 |
| Total current assets | | 3,090,272 | 1,792,021 |
| **CURRENT LIABILITIES** | | | |
| Due to subsidiaries | 18 | 626,150 | 578,246 |
| Other payables and accruals | 27 | 63,234 | 53,569 |
| Total current liabilities | | 689,384 | 631,815 |
| **NET CURRENT ASSETS** | | 2,400,888 | 1,160,206 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 3,667,165 | 2,217,742 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | | 1,287,000 | – |
| Total non-current liabilities | | 1,287,000 | – |
| Net assets | | 2,380,165 | 2,217,742 |
| **EQUITY** | | | |
| Issued capital | 31 | 123,536 | 123,536 |
| Reserves | 33(b) | 2,182,507 | 1,995,377 |
| Proposed final dividend | 12 | 74,122 | 98,829 |
| Total equity | | 2,380,165 | 2,217,742 |

**Xu Xiaoyang**
*Director*

**Tse Hsin**
*Director*

# Notes to Financial Statements

31 December, 2014

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. Upon approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the Main Board on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.

## 2.1 BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for certain buildings classified as property, plant and equipment and equity investments which have been measured at fair value, as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December, 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION (continued)

**Basis of consolidation (continued)**

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | *Investment Entities* |
| Amendments to HKAS 32 | *Offsetting Financial Assets and Financial Liabilities* |
| Amendments to HKAS 36 | *Recoverable Amount Disclosures for Non-Financial Assets* |
| Amendments to HKAS 39 | *Novation of Derivatives and Continuation of Hedge Accounting* |
| HK(IFRIC)-Int 21 | *Levies* |
| Amendment to HKFRS 2 included in Annual *Improvements 2010-2012 Cycle* | *Definition of Vesting Condition*[1] |
| Amendment to HKFRS 3 included in Annual *Improvements 2010-2012 Cycle* | *Accounting for Contingent Consideration in a Business Combination*[1] |
| Amendment to HKFRS 13 included in Annual *Improvements 2010-2012 Cycle* | *Short-term Receivables and Payables* |
| Amendment to HKFRS 1 included in Annual *Improvements 2011-2013 Cycle* | *Meaning of Effective HKFRSs* |

1 Effective from 1 July, 2014

The adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

## 2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

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

1 Effective for annual periods beginning on or after 1 July, 2014
2 Effective for annual periods beginning on or after 1 January, 2016
3 Effective for annual periods beginning on or after 1 January, 2017
4 Effective for annual periods beginning on or after 1 January, 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January, 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December, 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January, 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

## 2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January, 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January, 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January, 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January, 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January, 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint venture are eliminated to the extent of the Group's investments in the associates or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint venture is included as part of the Group's investments in associates or joint ventures.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates and joint venture are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint venture are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in the prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Related parties (continued)**

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

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

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

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

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

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed on buildings frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of buildings are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 4%-5% |
| Leasehold improvements | 5%-20% |
| Plant and machinery | 5%-9% |
| Motor vehicles | 9%-18% |
| Furniture and fixtures | 18% |

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

*Trademarks*

Trademarks with finite useful lives are measured initially at cost and are amortised on the straight-line basis over the respective estimated useful lives of 30 years. Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of trademarks are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

*Patents and licences*

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

*Research and development costs*

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (other than goodwill) (continued)

*Research and development costs (continued)*

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, amounts due from related companies, equity investments at fair value through profit or loss and available-for-sale investments.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

*Available-for-sale financial investments (continued)*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

*Assets carried at cost*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss, if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, deposits received, amounts due to related companies and interest-bearing bank borrowings.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### Offsetting of financial instruments

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

### Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

**Employee benefits**

*Share-based payments*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November, 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

*Pension schemes*

The Company and the Group's subsidiaries joint venture which operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries and the joint ventures are required to contribute 20 to 23% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of certain Mainland China subsidiaries, joint venture and associates is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rate for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Consolidation of entities in which the Group holds less than a majority of equity interest*

The Group considers that it controls Chia Tai Shaoyang Orthopaedic Hospital ("Shaoyang Hospital") even though it owns less than 50% of the equity interest. This is because the Group is the single largest shareholder of Shaoyang Hospital with a 46.7% equity interest and owns more than 50% of the voting rights. The number of directors assigned by the Group to Shaoyang Hospital's board has been more than half of the total number of directors since the date of acquisition by the Group.

*Recognition of deferred tax assets*

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries. The Group considers that the deferred tax assets are recognised to the extent that it is probable that the subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets at 31 December, 2014 was approximately HK$107,927,000 (2013: approximately HK$122,243,000). More details are given in note 30.

### Estimation uncertainty

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December, 2014 was approximately HK$110,850,000 (2013: approximately HK$58,083,000). More details are given in note 16.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Estimation uncertainty (continued)**

*Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December, 2014, the best estimate of the carrying amount of capitalised development costs was approximately HK$83,920,000 (2013: approximately HK$64,499,000). More details are given in note 17.

*Assessment of useful lives of deferred development costs*

In assessing the estimated useful lives of deferred development costs, the Group takes into account factors such as the expected life span of the underlying pharmaceutical products based on past experience or from a change in the market demand for the products. The estimation of the useful lives is based on the experience of management.

## 4. OPERATING SEGMENT INFORMATION

The management considers the business from products/services perspective. The three reportable segments are as follows:

(a) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of modernised Chinese medicine products and western medicine products;

(b) the investment segment is engaged in long term investments; and

(c) the “others” segment comprises, principally, (i) the Group’s research and development sector which provides services to third parties; and (ii) related healthcare and hospital business.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax.

Segment assets exclude deferred tax assets and the investments in associates as these assets are managed on a group basis.

## 4. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

**Year ended 31 December, 2014**

| | Modernised Chinese medicines and chemical medicines HK$'000 | Investment HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 11,951,420 | – | 426,930 | 12,378,350 |
| **Segment results** | 2,482,034 | 26,136 | 111,630 | 2,619,800 |
| *Reconciliation:* | | | | |
| Interest and unallocated gains | | | | 113,593 |
| Share of profits and losses of associates | | | | 336,792 |
| Unallocated expenses | | | | (268,978) |
| Profit before tax | | | | 2,801,207 |
| Income tax expense | | | | (440,153) |
| **Profit for the year** | | | | 2,361,054 |
| **Assets and liabilities** | | | | |
| Segment assets | 8,676,147 | 3,515,351 | 503,095 | 12,694,593 |
| *Reconciliation:* | | | | |
| Investments in associates | | | | 1,361,421 |
| Other unallocated assets | | | | 107,927 |
| **Total assets** | | | | 14,163,941 |
| Segment liabilities | 3,501,846 | 1,418,194 | 176,059 | 5,096,099 |
| *Reconciliation:* | | | | |
| Other unallocated liabilities | | | | 249,546 |
| **Total liabilities** | | | | 5,345,645 |
| **Other segment information:** | | | | |
| Depreciation and amortisation | 253,547 | 6,291 | 5,730 | 265,568 |
| Capital expenditure | 584,248 | 17,428 | 36,702 | 638,378 |
| Other non-cash expenses | 1,962 | 4 | 45 | 2,011 |

## 4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December, 2013

| | Modernised Chinese medicines and chemical medicines HK$'000 | Investment HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 9,657,398 | – | 243,798 | 9,901,196 |
| Segment results | 1,712,746 | 257,184 | 74,486 | 2,044,416 |
| *Reconciliation:* | | | | |
| Interest and unallocated gains | | | | 68,524 |
| Share of profits and losses of associates | | | | 238,002 |
| Unallocated expenses | | | | (214,432) |
| Profit before tax | | | | 2,136,510 |
| Income tax expense | | | | (354,551) |
| **Profit for the year** | | | | 1,781,959 |
| **Assets and liabilities** | | | | |
| Segment assets | 6,278,888 | 2,110,492 | 338,122 | 8,727,502 |
| *Reconciliation:* | | | | |
| Investments in associates | | | | 1,119,122 |
| Other unallocated assets | | | | 122,243 |
| **Total assets** | | | | 9,968,867 |
| Segment liabilities | 2,423,227 | 89,600 | 104,973 | 2,617,800 |
| *Reconciliation:* | | | | |
| Other unallocated liabilities | | | | 126,104 |
| **Total liabilities** | | | | 2,743,904 |
| **Other segment information:** | | | | |
| Depreciation and amortisation | 219,329 | 1,871 | 6,524 | 227,724 |
| Capital expenditure | 464,284 | 9,337 | 109,103 | 582,724 |
| Other non-cash expenses | 3,384 | 33 | – | 3,417 |

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's non-current assets other than available-for-sale investments and deferred tax assets are based in Mainland China.

No information about a major customer is presented as no single customer contributes to over 10% of the Group's revenue for the years ended 31 December, 2014 and 2013.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 12,378,350 | 9,901,196 |
| **Other income** | | |
| Bank interest income | 113,593 | 68,524 |
| Dividend income | 15,776 | 14,040 |
| Investment income | 23,349 | 2,553 |
| Government grants* | 52,373 | 24,326 |
| Sale of scrap materials | 14,481 | 26,137 |
| Others | 29,122 | 13,979 |
| | 248,694 | 149,559 |
| **Gains** | | |
| Gain on disposal of items of property, plant and equipment | 258 | 4,718 |
| Gain on disposal of a prepaid land lease payment | 125 | – |
| Gain on acquisition of an associate | – | 34,505 |
| Gain on disposal of a subsidiary | 8,428 | – |
| Fair value gains | | |
| Equity investments at fair value through profit or loss | | |
| – held for trading | 35,677 | – |
| | 44,488 | 39,223 |
| Total other income and gains | 293,182 | 188,782 |

* Various government grants have been received for setting up research activities in Mainland China. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | 2,920,531 | 2,228,351 |
| Depreciation | 14 | 248,164 | 207,115 |
| Recognition of prepaid land lease payments | 15 | 6,078 | 3,781 |
| Amortisation of other intangible assets* | 17 | 11,326 | 16,828 |
| Research and development costs | | 1,073,319 | 878,051 |
| Revaluation (surplus)/deficit of property, plant and equipment | | (24) | 1,102 |
| Gain on disposal of items of property, plant and equipment | 5 | (258) | (4,718) |
| Gain on disposal of a prepaid land lease payment | 5 | (125) | – |
| Gain on acquisition of an associate | 5 | – | (34,505) |
| Loss on disposal of items of property, plant and equipment | | 2,011 | 3,417 |
| Bank interest income | 5 | (113,593) | (68,524) |
| Dividend income | 5 | (15,776) | (14,040) |
| Investment income | 5 | (23,349) | (2,553) |
| Gain on disposal of a subsidiary | 5 | (8,428) | – |
| Fair value (gain)/loss, net: | | | |
| Equity investments at fair value through profit or loss-held for trading | 5 | (35,677) | 28,538 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | 33,660 | 29,543 |
| Auditors' remuneration | | 4,879 | 4,111 |
| Employee benefit expense (including directors' remuneration (note 8)): | | | |
| Wages and salaries | | 904,335 | 833,542 |
| Pension scheme contributions | | 162,071 | 139,048 |
| | | 1,066,406 | 972,590 |
| (Reversal)/Accrual of impairment loss of trade receivables | 22 | (124) | 694 |
| Foreign exchange differences, net | | 30,840 | (41,926) |

Note:

* The amortisation of patents and licences and deferred development costs for the year were included in "Cost of sales" and "Other expenses", respectively, on the face of the consolidated statement of profit or loss.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | 43,096 | 2,500 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

| | Group 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Fees | 1,116 | 1,044 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 19,916 | 18,717 |
| Pension scheme contributions | 271 | 255 |
| Discretionary bonuses | 20,420 | 18,262 |
| | 40,607 | 37,234 |
| | 41,723 | 38,278 |

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Mr. Lu Zhengfei | 264 | 246 |
| Mr. Li Dakui | 264 | 246 |
| Ms. Li Jun | 324 | 306 |
| Mr. Mei Xingbo | 264 | 246 |
| | 1,116 | 1,044 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

### (b) Executive directors

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Employee share option benefits HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| Executive directors: | | | | | | |
| Mr. Tse Ping | – | 8,560 | 18,000 | – | 17 | 26,577 |
| Mr. Zhang Baowen | – | 1,418 | – | – | 110 | 1,528 |
| Mr. Xu Xiaoyang | – | 2,045 | – | – | 110 | 2,155 |
| Mr. Tse Hsin | – | 1,189 | 420 | – | 17 | 1,626 |
| Ms. Cheng Cheung Ling | – | 2,125 | 2,000 | – | 17 | 4,142 |
| Mr. Tao Huiqi | – | 3,559 | – | – | – | 3,559 |
| Mr. He Huiyu | – | 1,020 | – | – | – | 1,020 |
| | – | 19,916 | 20,420 | – | 271 | 40,607 |
| 2013 | | | | | | |
| Executive directors: | | | | | | |
| Mr. Tse Ping | – | 7,980 | 15,500 | – | 15 | 23,495 |
| Mr. Zhang Baowen | – | 3,035 | – | – | 105 | 3,140 |
| Mr. Xu Xiaoyang | – | 705 | 1,262 | – | 105 | 2,072 |
| Mr. Tse Hsin | – | 1,159 | 400 | – | 15 | 1,574 |
| Ms. Cheng Cheung Ling | – | 1,995 | 1,100 | – | 15 | 3,110 |
| Mr. Tao Huiqi | – | 2,823 | – | – | – | 2,823 |
| Mr. He Huiyu | – | 1,020 | – | – | – | 1,020 |
| | – | 18,717 | 18,262 | – | 255 | 37,234 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year represented five (2013: five) directors, details of whose remuneration are set out in note 8 above.

## 10. INCOME TAX

Hong Kong profit tax has been provided at a rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Group: | | |
| Current-Hong Kong | – | – |
| Current-Mainland China income tax | 409,468 | 350,476 |
| Deferred tax (note 30) | 30,685 | 4,075 |
| Total tax charge for the year | 440,153 | 354,551 |

In the year ended 31 December, 2014, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd. ("CT Tianqing"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang"), Qingdao Chia Tai Haier Pharmaceutical Co., Ltd., Shanghai Tongyong Pharmaceutical Co., Ltd. ("Shanghai Tongyong"), Lianyungang Runzhong Pharmaceutical Co.,Ltd. ("Runzhong") and Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGP") were subject to a corporate income tax rate of 15% because they were qualified as "High and New Technology Enterprises".

Other than the above-mentioned entities, the entities located in Mainland China were subject to a corporate income tax rate of 25% in 2014.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

**Group – 2014**

| | Mainland China<br>HK$'000 | Hong Kong<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| Profit before tax | 2,368,569 | 432,638 | 2,801,207 |
| Tax at the statutory tax rate | 592,142 | 71,385 | 663,527 |
| Less: Preferential tax rate reduction | (190,326) | – | (190,326) |
| Income not subject to tax | (1,204) | (104,163) | (105,367) |
| Expenses not deductible for tax | 27,627 | 33,414 | 61,041 |
| Additional tax deduction | (67,574) | – | (67,574) |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries | – | 78,852 | 78,852 |
| Tax charge at the Group's effective rate | 360,665 | 79,488 | 440,153 |

## 10. INCOME TAX (continued)

Group – 2013

| | Mainland China HK$'000 | Hong Kong HK$'000 | Total HK$'000 |
|---|---|---|---|
| Profit before tax | 1,856,648 | 279,862 | 2,136,510 |
| Tax at the statutory tax rate | 464,162 | 46,177 | 510,339 |
| Less: Preferential tax rate reduction | (151,043) | – | (151,043) |
| Income not subject to tax | (3,397) | (69,924) | (73,321) |
| Expenses not deductible for tax | 12,233 | 23,747 | 35,980 |
| Additional tax deduction | (44,767) | – | (44,767) |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries | – | 77,363 | 77,363 |
| Tax charge at the Group's effective rate | 277,188 | 77,363 | 354,551 |

## 11. PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO OWNERS OF THE PARENT

The profit from ordinary activities attributable to owners of the parent for the year ended 31 December, 2014 includes a profit of approximately HK$482,412,000 (2013: approximately HK$384,846,000) (note 33(b)) which has been dealt with in the financial statements of the Company.

## 12. DIVIDENDS

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Interim – HK$0.045 (2013: HK$0.03) per ordinary share | 222,366 | 148,244 |
| Proposed final – HK$0.015 (2013: HK$0.02) per ordinary share | 74,122 | 98,829 |
| | 296,488 | 247,073 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent for the year of approximately HK$1,513,205,000 (2013: approximately HK$1,036,764,000), and the weighted average number of ordinary shares of 4,941,461,473 (2013: 4,941,461,473) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years 2014 and 2013.

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

### 31 December, 2014

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Furniture and fixtures HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January, 2014: | | | | | | | |
| Cost or valuation | 960,990 | 8,112 | 947,444 | 142,706 | 319,029 | 227,278 | 2,605,559 |
| Accumulated depreciation | – | (8,007) | (300,313) | (69,330) | (120,798) | – | (498,448) |
| Net carrying amount | 960,990 | 105 | 647,131 | 73,376 | 198,231 | 227,278 | 2,107,111 |
| At 1 January, 2014, net of accumulated depreciation | 960,990 | 105 | 647,131 | 73,376 | 198,231 | 227,278 | 2,107,111 |
| Additions | 2,269 | 941 | 81,821 | 56,064 | 59,523 | 246,344 | 446,962 |
| Depreciation provided during the year | (67,335) | (486) | (93,512) | (29,486) | (57,345) | – | (248,164) |
| Acquisition of subsidiaries (note 34) | – | – | 35,654 | 3,432 | 3,961 | – | 43,047 |
| Surplus on revaluation | 49,738 | – | – | – | – | – | 49,738 |
| Disposals | (2,638) | (60) | (2,108) | (3,306) | (1,146) | (484) | (9,742) |
| Disposal of a subsidiary (note 35) | – | – | (255) | (2) | (26) | – | (283) |
| Transfers | 149,981 | – | 119,551 | – | 4,690 | (274,222) | – |
| Exchange realignment | (17,413) | (6) | (17,074) | (3,594) | (5,047) | (5,355) | (48,489) |
| At 31 December, 2014, net of accumulated depreciation | 1,075,592 | 494 | 771,208 | 96,484 | 202,841 | 193,561 | 2,340,180 |
| At 31 December, 2014: | | | | | | | |
| Cost or valuation | 1,075,592 | 8,975 | 1,186,211 | 180,345 | 376,826 | 193,561 | 3,021,510 |
| Accumulated depreciation | – | (8,481) | (415,003) | (83,861) | (173,985) | – | (681,330) |
| Net carrying amount | 1,075,592 | 494 | 771,208 | 96,484 | 202,841 | 193,561 | 2,340,180 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | – | 8,975 | 1,186,211 | 180,345 | 376,826 | 193,561 | 1,945,918 |
| At valuation | 1,075,592 | – | – | – | – | – | 1,075,592 |
| | 1,075,592 | 8,975 | 1,186,211 | 180,345 | 376,826 | 193,561 | 3,021,510 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

31 December, 2013

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Furniture and fixtures HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January, 2013: | | | | | | | |
| Cost or valuation | 868,417 | 7,967 | 825,298 | 103,763 | 207,007 | 67,253 | 2,079,705 |
| Accumulated depreciation | – | (7,967) | (224,906) | (55,919) | (73,583) | – | (362,375) |
| Net carrying amount | 868,417 | – | 600,392 | 47,844 | 133,424 | 67,253 | 1,717,330 |
| At 1 January, 2013, net of accumulated depreciation | 868,417 | – | 600,392 | 47,844 | 133,424 | 67,253 | 1,717,330 |
| Additions | 16,240 | 31 | 64,409 | 43,011 | 103,786 | 273,240 | 500,717 |
| Depreciation provided during the year | (62,649) | (41) | (75,930) | (19,376) | (49,119) | – | (207,115) |
| Acquisition of a subsidiary | – | 113 | 1,120 | 2,413 | 543 | – | 4,189 |
| Surplus on revaluation | 71,677 | – | – | – | – | – | 71,677 |
| Disposals | (5,767) | – | (6,182) | (2,264) | (2,990) | (77) | (17,280) |
| Transfers | 64,316 | – | 45,921 | – | 7,213 | (117,450) | – |
| Exchange realignment | 8,756 | 2 | 17,401 | 1,748 | 5,374 | 4,312 | 37,593 |
| At 31 December, 2013, net of accumulated depreciation | 960,990 | 105 | 647,131 | 73,376 | 198,231 | 227,278 | 2,107,111 |
| At 31 December, 2013: | | | | | | | |
| Cost or valuation | 960,990 | 8,112 | 947,444 | 142,706 | 319,029 | 227,278 | 2,605,559 |
| Accumulated depreciation | – | (8,007) | (300,313) | (69,330) | (120,798) | – | (498,448) |
| Net carrying amount | 960,990 | 105 | 647,131 | 73,376 | 198,231 | 227,278 | 2,107,111 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | – | 8,112 | 947,444 | 142,706 | 319,029 | 227,278 | 1,644,569 |
| At valuation | 960,990 | – | – | – | – | – | 960,990 |
| | 960,990 | 8,112 | 947,444 | 142,706 | 319,029 | 227,278 | 2,605,559 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

### Company

### 31 December, 2014

| | Motor vehicles HK$'000 | Furniture and fixtures HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January, 2014: | | | |
| Cost | 4,727 | 11,860 | 16,587 |
| Accumulated depreciation | (4,727) | (3,421) | (8,148) |
| Net carrying amount | – | 8,439 | 8,439 |
| At 1 January, 2014, net of accumulated depreciation | – | 8,439 | 8,439 |
| Additions | 12,721 | 3,243 | 15,964 |
| Depreciation provided during the year | (2,867) | (3,351) | (6,218) |
| At 31 December, 2014, net of accumulated depreciation | 9,854 | 8,331 | 18,185 |
| At 31 December, 2014: | | | |
| Cost or valuation | 17,448 | 15,103 | 32,551 |
| Accumulated depreciation | (7,594) | (6,772) | (14,366) |
| Net carrying amount | 9,854 | 8,331 | 18,185 |
| Analysis of cost or valuation: | | | |
| At cost | 17,448 | 15,103 | 32,551 |
| At valuation | | | |
| | 17,448 | 15,103 | 32,551 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

31 December, 2013

| | Motor vehicles HK$'000 | Furniture and fixtures HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January, 2013: | | | |
| Cost | 4,727 | 2,883 | 7,610 |
| Accumulated depreciation | (4,530) | (2,861) | (7,391) |
| Net carrying amount | 197 | 22 | 219 |
| At 1 January, 2013, net of accumulated depreciation | 197 | 22 | 219 |
| Additions | – | 8,977 | 8,977 |
| Depreciation provided during the year | (197) | (560) | (757) |
| At 31 December, 2013, net of accumulated depreciation | – | 8,439 | 8,439 |
| At 31 December, 2013: | | | |
| Cost or valuation | 4,727 | 11,860 | 16,587 |
| Accumulated depreciation | (4,727) | (3,421) | (8,148) |
| Net carrying amount | – | 8,439 | 8,439 |
| Analysis of cost or valuation: | | | |
| At cost | 4,727 | 11,860 | 16,587 |
| At valuation | – | – | – |
| | 4,727 | 11,860 | 16,587 |

As at 31 December, 2014, the Group's buildings were all situated in Mainland China and were all held under medium term leases.

The Group's buildings as at 31 December, 2014 were revalued as at that date by RHL Appraisal Ltd., independent professionally qualified valuers at an aggregate open market value of approximately HK$1,075,592,000 (2013: approximately HK$960,990,000) based on their existing use. The revaluation resulted in a surplus of approximately HK$49,738,000 (2013: approximately HK$71,677,000). The Group has credited approximately HK$25,307,000 (2013: approximately HK$60,318,000) to the revaluation reserve in the current year. The Group has credited approximately HK$23,520 (2013: debited a charge of approximately HK$1,102,000) to the statement of profit or loss in the current year.

Had the buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$770,526,000 (2013: approximately HK$639,611,000).

At 31 December, 2014, certain of the Group's buildings with a net carrying amount of approximately HK$52,079,000 (2013: Nil) were pledged to secure general banking facilities granted to the Group (note 28).

## 15. PREPAID LAND LEASE PAYMENTS

| | Group 2014 HK$'000 | Group 2013 HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **197,484** | 134,265 |
| Addition during the year | **162,861** | 62,413 |
| Disposal | **(999)** | – |
| Recognised during the year | **(6,078)** | (3,781) |
| Exchange realignment | **(6,594)** | 4,587 |
| Carrying amount at 31 December | **346,674** | 197,484 |
| Current portion included in prepayments, deposits and other receivables | **(7,323)** | (4,515) |
| Non-current portion | **339,351** | 192,969 |

The prepaid land lease payments for land use rights are held under medium term leases and the parcels of land are situated in Mainland China.

## 16. GOODWILL

### Group

### 31 December, 2014

| | HK$'000 |
|---|---|
| Cost and carrying amount at 1 January, 2014 | **58,083** |
| Acquisition of subsidiaries (note 34) | **52,847** |
| Exchange realignment | **(80)** |
| Cost and net carrying amount at 31 December, 2014 | **110,850** |

31 December, 2013

| | HK$'000 |
|---|---|
| Cost and carrying amount at 1 January, 2013 | 38,787 |
| Acquisition of subsidiaries | 19,204 |
| Exchange realignment | 92 |
| Cost and net carrying amount at 31 December, 2013 | 58,083 |

## 16. GOODWILL (continued)

**Impairment testing of goodwill**

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

The carrying amount of goodwill of the Group is related to twelve different cash-generating units ("CGUs"), namely Suzhou Xingwei, Shanghai Tongyong, Shaoyang Hospital, seven other subsidiaries of the Group acquired in previous years and two new subsidiaries of the Group acquired in the current year (note 34). Approximately 48% of the carrying amount of goodwill arose from the acquisitions of the two new subsidiaries in the current year.

The recoverable amounts of the goodwill attributable to the acquisition of equity interests in these CGUs have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Growth rates – The growth rates are based on industry growth forecasts.

Changes in selling prices and direct costs – These are based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs are consistent with external information sources.

## 17. OTHER INTANGIBLE ASSETS

### Group

### 31 December, 2014

| | Patent and licences HK$'000 | Deferred development costs HK$'000 | Trademark HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January, 2014 | 41,276 | 82,952 | – | 124,228 |
| Additions | 1,454 | 27,101 | – | 28,555 |
| Acquisition of a subsidiary (note 34a) | 253 | – | 64,919 | 65,172 |
| Disposal of a subsidiary (note 35) | (6,293) | – | – | (6,293) |
| Exchange realignment | 488 | (2,384) | (1,602) | (3,498) |
| At 31 December, 2014 | 37,178 | 107,669 | 63,317 | 208,164 |
| Accumulated amortisation: | | | | |
| At 1 January, 2014 | 18,016 | 18,453 | – | 36,469 |
| Provided during the year | 3,323 | 5,839 | 2,164 | 11,326 |
| Disposal of a subsidiary (note 35) | (793) | – | – | (793) |
| Exchange realignment | (491) | (543) | (37) | (1,071) |
| At 31 December, 2014 | 20,055 | 23,749 | 2,127 | 45,931 |
| Net carrying amount | 17,123 | 83,920 | 61,190 | 162,233 |

31 December, 2013

| | Patent and licences HK$'000 | Deferred development costs HK$'000 | Trademark HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January, 2013 | 29,448 | 71,520 | – | 100,968 |
| Acquisition of subsidiaries | 62 | – | – | 62 |
| Additions | 10,562 | 9,032 | – | 19,594 |
| Exchange realignment | 1,204 | 2,400 | – | 3,604 |
| At 31 December, 2013 | 41,276 | 82,952 | – | 124,228 |
| Accumulated amortisation: | | | | |
| At 1 January, 2013 | 13,432 | 5,271 | – | 18,703 |
| Provided during the year | 4,049 | 12,779 | – | 16,828 |
| Exchange realignment | 535 | 403 | – | 938 |
| At 31 December, 2013 | 18,016 | 18,453 | – | 36,469 |
| Net carrying amount | 23,260 | 64,499 | – | 87,759 |

## 18. INTERESTS IN SUBSIDIARIES

| | Company 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **1,025,819** | 1,025,819 |

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of approximately HK$1,742,854,000 (2013: approximately HK$948,011,000) and approximately HK$626,150,000 (2013: approximately HK$578,246,000) respectively, are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from and to subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

| Company name | Place of incorporation/ registration and business | Issued/ paid-up capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGP") | PRC/ Mainland China | US$1,000,000 | – | 75 | Research and development of pharmaceutical products |
| Champion First Investments Limited | British Virgin Islands/ Hong Kong | US$2 | 100 | – | Investment holding |
| China Biotech & Drug Development Limited | Hong Kong | HK$100 Ordinary | – | 51 | Research and development of pharmaceutical products |
| Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd. [1] ("CT Tianqing") | PRC/ Mainland China | RMB490,000,000 | – | 60 | Development, manufacture and distribution of pharmaceutical products |
| Jiangsu Runji Investment Co., Ltd. | PRC/ Mainland China | RMB10,000,000 | – | 60 | Investment holding |
| Magnificent Technology Limited | British Virgin Islands/ Hong Kong | US$500,000 | – | 60 | Investment holding |

## 18. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place of incorporation/ registration and business | Issued/ paid-up capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") | PRC/ Mainland China | US$5,050,000 | – | 55.6 | Development, manufacture and sale of pharmaceutical products |
| Lianyungang Hualing Medicines Technology Co., Ltd. ("LYG Hualing") | PRC/ Mainland China | US$5,000,000 | – | 60 | Manufacture and sale of pharmaceutical products |
| Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong") | PRC/ Mainland China | RMB65,000,000 | – | 60 | Development, manufacture and sale of pharmaceutical products |
| Lianyungang Chia Tai Tianqing Medicines Co., Ltd. ("LYG Tianqing") | PRC/ Mainland China | RMB50,000,000 | – | 60 | Distribution of pharmaceutical products |
| Chia Tai Refined Chemical Industry Limited | Hong Kong | HK$2 Ordinary | 100 | – | Investment holding |
| Evon Industries Limited | Hong Kong | HK$2 Ordinary | 100 | – | Property holding |
| Fine Enterprise Investment Limited | Hong Kong | HK$1 Ordinary | 100 | – | Investment holding |
| Sino Biopharmaceutical (Tianjin) Co., Ltd. | Hong Kong | HK$1 Ordinary | 100 | | Investment holding |
| Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") | PRC/ Mainland China | RMB48,960,000 | – | 55.6 | Development, manufacture and sale of pharmaceutical products |
| Jiangsu Chia Tai Qingjiang Medicines Co., Ltd. [2] ("Jiangsu Qingjiang Medicines") | PRC/ Mainland China | RMB5,000,000 | – | 55.6 | Distribution of pharmaceutical products |

## 18. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place of incorporation/ registration and business | Issued/ paid-up capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai") | PRC/ Mainland China | US$9,363,500 | – | 60.9 | Development, manufacture and sale of pharmaceutical products |
| Jiangsu Chia Tai Fenghai Medicines Co., Ltd. ("Jiangsu Fenghai Medicines") | PRC/ Mainland China | RMB20,000,000 | – | 60.9 | Distribution of pharmaceutical products |
| Nanjing Chia Tai Fenghai Medicines Technology Co., Ltd. | PRC/ Mainland China | RMB500,000 | – | 60.9 | Distribution of pharmaceutical products |
| Chia Tai Wing Fuk Limited | Hong Kong | HK$1 Ordinary | 100 | – | Investment holding |
| Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. | PRC/ Mainland China | US$7,560,000 | – | 51 | Development, manufacture and sale of pharmaceutical products |
| Qingdao Hang Seng Tang Pharmacy Co., Ltd. | PRC/ Mainland China | RMB1,250,000 | – | 51 | Retail of pharmaceutical products |
| Qingdao Haier Medicines Co., Ltd. | PRC/ Mainland China | RMB5,000,000 | – | 51 | Distribution of pharmaceutical products |
| Talent Forward Limited | Hong Kong | HK$1 Ordinary | 100 | – | Investment holding |
| Sino Biopharmaceutical (Beijing) Limited | Hong Kong | HK$100 Ordinary | 100 | – | Investment holding |
| Chia Tai Pharmaceutical (Lianyungang) Company Limited ("CTP(LYG)") | Hong Kong | HK$1 Ordinary | 100 | – | Investment holding |

## 18. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place of incorporation/ registration and business | Issued/ paid-up capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Lucky Symbol Holdings Limited | Hong Kong | HK$1 Ordinary | 100 | – | Investment holding |
| Ace Elite Investments Limited | Hong Kong | HK$10 Ordinary | – | 100 | Investment holding |
| Shanghai Tong Yong Pharmaceutical Co., Ltd. [3] ("Shanghai Tongyong") | PRC/ Mainland China | RMB52,800,000 | – | 63.6 | Manufacture and sale of pharmaceutical products |
| Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. ("CTP Investment") | PRC/ Mainland China | US$118,500,000 | 100 | – | Investment holding |
| Chia Tai Healthcare (Holding) Limited | Hong Kong | HK$100 Ordinary | 100 | – | Investment holding |
| Chia Tai Shaoyang Orthopaedic Hospital ("Shaoyang Hospital ") | PRC/ Mainland China | RMB127,228,711 | – | 46.7 | Orthopaedic outpatient and surgical procedures |
| Lianyungang Tianrun Pharmacy Ltd. | PRC/ Mainland China | RMB100,000 | – | 60 | Retail of pharmaceutical products |
| Shanghai Tongzheng Import-Export Co., Ltd. | PRC/ Mainland China | RMB1,200,000 | – | 63.6 | Distribution of pharmaceutical products |
| Suzhou Tianqing Xingwei Medicines Co., Ltd. ("Suzhou Xingwei") | PRC/ Mainland China | RMB30,000,000 | – | 33 | Distribution of pharmaceutical products |
| Nanjing Shunxin Pharmaceutical Co., Ltd. | PRC/ Mainland China | RMB350,000,000 | – | 60 | Manufacture and sale of pharmaceutical products |

## 18. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place of incorporation/ registration and business | Issued/ paid-up capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Tianjin Chia Tai Zhenwutang Food Co., Ltd. 4 ("Tianjin Zhenwutang") | PRC/ Mainland China | RMB19,000,000 | – | 51 | Manufacture and sale of healthy food |
| Tianjin Chia Tai Zhenwutang Trading Co., Ltd. 5 ("Tianjin Zhenwutang Trading") | PRC/ Mainland China | RMB500,000 | – | 51 | Distribution and retail of healthy food |
| Zhejiang Tianqing Zhongwei Medicines Co., Ltd.6 ("Zhejiang Zhongwei") | PRC/ Mainland China | RMB30,000,000 | – | 33 | Distribution of pharmaceutical products |
| Chia Tai Medicines Investment., Ltd. 7 ("CT Medicines Investment") | Hong Kong | HK$100 Ordinary | 100 | – | Investment holding |
| Hong Kong Pacific Boai Investment., Ltd. 8 ("Hong Kong Pacific") | Hong Kong | US$125,000 | – | 55 | Investment holding |
| Beijing Fuxing Boai Vision Optical Centre Co., Ltd. 8 | PRC/ Mainland China | RMB500,000 | – | 55 | Optometry for optical glasses and sale of ophthalmic products |
| Zhengzhou Boai Ophthalmology Center Co., Ltd. 8 | PRC/ Mainland China | RMB7,000,000 | – | 38.5 | Ophthalmic examination and diagnosis |
| Jiangxi Boai Ophthalmology Center Co., Ltd. 8 | PRC/ Mainland China | RMB5,000,000 | – | 38.5 | Ophthalmic examination and diagnosis |
| Beijing Pacific Boai Medical Management Co., Ltd. 8 | PRC/ Mainland China | RMB17,373,261 | – | 55 | Medical management consultancy sevices |
| Zhengzhou Puai Optical Sales Co., Ltd. 8 | PRC/ Mainland China | RMB100,000 | – | 55 | Optometry for optical glasses and sale of ophthalmic products |
| Linyi City People Hospital – Boai Ophthalmology Hospital8 | PRC/ Mainland China | RMB15,101,000 | – | 33 | Ophthalmic prevention and diagnosis |
| Linyi Boai Vision Optical Centre Co., Ltd. 8 | PRC/ Mainland China | – | – | 33 | Optometry for optical glasses and sale of ophthalmic products |

## 18. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place of incorporation/ registration and business | Issued/ paid-up capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Jiangxi Boai Optometry Optical Centre Co., Ltd. [8] | PRC/ Mainland China | RMB1,000,000 | – | 38.5 | Optometry for optical glasses and retail and wholesale of optical and auditory products |
| Zhengzhou Boai Otorhinolaryngology Hospital Co., Ltd. [8] | PRC/ Mainland China | RMB3,000,000 | – | 55 | Outpatient and surgical procedures |
| Zhengzhou Boai Vision Optical Co., Ltd. [8] | PRC/ Mainland China | RMB100,000 | – | 55 | Optometry for optical glasses and sale of glasses |
| Beijing Fuxing Boai Ophthalmology Centre [8] | PRC/ Mainland China | RMB13,870,032 | – | 41.3 | Ophthalmic diagnosis |
| Chia Tai Haiyu Company Limited [9] ("CT Haiyu") | Hong Kong | HK$100 Ordinary | 100 | – | Investment holding |
| Chia Tai Kaiyue (Wuxi) Real Property Co., Ltd. [10] ("CT Kaiyue Wuxi") | PRC/ Mainland China | US$72,167,000 | – | 100 | Property holding |
| Chia Tai Resources Limited [11] ("CT Resources") | Hong Kong | HK$10 Ordinary | 100 | – | Investment holding |
| Lianyungang Tiance Medicines Technology Co., Ltd. [12] ("LYG Tiance") | PRC/ Mainland China | RMB186,300,000 | – | 100 | Investment holding |
| Huaian Jiuli Biotech Co., Ltd. [13] ("Huaian Jiuli") | PRC/ Mainland China | – | – | 55.6 | Manufacture and sale of pharmaceutical products |

## 18. INTERESTS IN SUBSIDIARIES (continued)

Notes:

1 During the year ended 31 December, 2014, CT Tianqing were authorised to transfer its reserve fund of RMB190,000,000 into paid-up capital, and its paid-up capital increased from RMB300,000,000 to RMB490,000,000. As at 31 December 2014, the Group's effective equity holding in CT Tianqing was 60% (2013: 60%).

2 During the year ended 31 December, 2014, Jiangsu Qingjiang Medicines had decreased its paid-up capital from RMB20,000,000 to RMB5,000,000. The Group, through Jiangsu Qingjiang, had made a capital reduction of RMB15,000,000. As at 31 December, 2014, the Group's effective equity holding in Jiangsu Qingjiang Medicines was 55.6% (2013: 55.6%).

3 During the year ended 31 December, 2014, Shanghai Tongyong had increased its paid-up capital from RMB40,000,000 to RMB52,800,000. The Group, through CTP Investment, had made an additional capital contribution of RMB18,165,120 and two independent third parties had made capital contribution of RMB6,055,040. As at 31 December, 2014, the Group's effective equity holding in Shanghai Tongyong was 63.6% (2013: 60%).

4 During the year ended 31 December, 2014, Tianjin Zhenwutang had changed from a limited liability company into a corporation, and increased its paid-up capital from RMB17,391,300 to RMB19,000,000 from its capital reserve. As at 31 December, 2014, the Group's effective equity holding in Tianjin Zhenwutang was 51% (2013: 51%).

5 Tianjin Zhenwutang Trading was newly established during the year ended 31 December, 2014. The Group hold 51% of its equity interest through Tianjin Zhenwutang.

6 During the year ended 31 December, 2014, the Group, through CT Tianqing, acquired 55% of total equity interests of Zhejiang Zhongwei at an aggregate consideration of RMB26,400,000 (approximately HK$33,137,000). Further details of this acquisition are included in note 34(b) to the financial statement.

7 CT Medicines Investment was newly acquired during the year ended 31 December, 2014. The Group holds 100% of its equity interest through the Company.

8 During the year ended 31 December, 2014, the Group, through CT Medicine Investment, acquired a 55% equity interests in Hong Kong Pacific together with its subsidiaries at an aggregate consideration of RMB82,500,000 (approximately HK$105,658,000). Further details of this acquisition are included in note 34(a) to the financial statement.

9 CT Haiyu was newly acquired during the year ended 31 December, 2014. The Group holds 100% of its equity interest through the Company.

10 CT Kaiyue Wuxi was newly established during the year ended 31 December, 2014. The Group holds 100% of its equity interest through CT Haiyu.

11 CT Resources was newly acquired during the year ended 31 December, 2014. The Group holds 100% of its equity interest through the Company.

12 LYG Tiance was newly established during the year ended 31 December, 2014. The Group holds 100% of its equity interest through CTP(LYG).

13 Huaian Jiuli was newly established during the year ended 31 December, 2014. The Group holds 55.6% of its equity interest through Jiangsu Qingjiang.

14 On 31 January, 2014, CTGP had transferred its entire 60% direct equity interest in Beijing Chia Tai Green Continent Medicines Co., Ltd. ("CTGM") to a third party for a consideration of approximately HK$13,831,000 in aggregate. The Group's share of net assets in CTGM as at the date of disposal was approximately HK$2,594,000. As at 31 December, 2014, the Group's effective equity holding in CTGM through CTGP was nil (2013: 45%).

## 18. INTERESTS IN SUBSIDIARIES (continued)

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | 2014 | 2013 |
|---|---|---|
| Percentage of equity interests held by non-controlling interest: | | |
| CT Tianqing | 40.0% | 40.0% |
| NJCTT | 44.4% | 44.4% |
| LYG Runzhong | 40.0% | 40.0% |

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Profit for the year allocated to non-controlling interests: | | |
| CT Tianqing | 584,638 | 448,305 |
| NJCTT | 131,199 | 93,027 |
| LYG Runzhong | 386,190 | 260,786 |
| Accumulated balances of non-controlling interests at the reporting date: | | |
| CT Tianqing | 1,001,038 | 805,332 |
| NJCTT | 343,955 | 228,381 |
| LYG Runzhong | 465,942 | 304,086 |

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

| 2014 | CT Tianqing<br>HK$'000 | NJCTT<br>HK$'000 | LYG Runzhong<br>HK$'000 |
|---|---|---|---|
| Revenue | 6,264,934 | 1,548,654 | 1,737,039 |
| Total expenses | (4,803,338) | (1,253,161) | (771,564) |
| Profit for the year | 1,461,596 | 295,493 | 965,475 |
| Total comprehensive income for the year | 1,435,183 | 282,954 | 943,532 |
| Current assets | 1,663,010 | 819,296 | 1,240,920 |
| Non-current assets | 2,225,070 | 495,279 | 132,440 |
| Current liabilities | (1,250,173) | (532,274) | (196,286) |
| Non-current liabilities | (135,313) | (7,627) | (12,220) |
| Net cash flows from operating activities | 1,647,798 | 401,607 | 598,826 |
| Net cash flows used in investing activities | (156,064) | (186,859) | (64,443) |
| Net cash flows used in financing activities | (759,793) | (79,787) | (542,057) |
| Net increase/(decrease) in cash and cash equivalents | 731,941 | 134,961 | (7,674) |

## 18. INTERESTS IN SUBSIDIARIES (continued)

| 2013 | CT Tianqing HK$'000 | NJCTT HK$'000 | LYG Runzhong HK$'000 |
|---|---|---|---|
| Revenue | 4,976,969 | 1,253,839 | 1,293,003 |
| Total expenses | (3,856,206) | (1,044,320) | (641,038) |
| Profit for the year | 1,120,763 | 209,519 | 651,965 |
| Total comprehensive income for the year | 1,227,555 | 227,294 | 667,531 |
| Current assets | 1,288,926 | 673,935 | 748,870 |
| Non-current assets | 1,690,995 | 247,651 | 118,690 |
| Current liabilities | (894,636) | (407,214) | (99,330) |
| Non-current liabilities | (71,954) | – | (8,015) |
| Net cash flows from operating activities | 1,039,202 | 247,646 | 345,111 |
| Net cash flows from/(used in) investing activities | 5,741 | (90,472) | (42,740) |
| Net cash flows used in financing activities | (736,916) | – | (304,126) |
| Net increase/(decrease) in cash and cash equivalents | 308,027 | 157,174 | (1,755) |

## 19. INVESTMENTS IN ASSOCIATES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2014 HK$'000 | 2013 HK$'000 | 2014 HK$'000 | 2013 HK$'000 |
| Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide") | (i) | 1,141,657 | 906,079 | – | – |
| Tianjin Binhai Teda Logistics (Group) Corporation Ltd. ("Tianjin Teda") | (ii) | 219,764 | 213,043 | – | – |
| | | 1,361,421 | 1,119,122 | – | – |

## 19. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

| Name | Particulars of issued shares held | Place of registration and business | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Beijing Tide* | Registered capital of RMB500,000,000 | PRC/ Mainland China | 33.6% | Manufacture and sale of pharmaceutical products |
| Tianjin Teda* | Ordinary shares | PRC/ Mainland China | 21.82% | Provision of comprehensive logistics services |

* Not audited by Ernst & Young, Hong Kong, or another member firm of the Ernst & Young global network

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

### (i) Beijing Tide

| | Group | |
|---|---|---|
| | 2014 HK$'000 | 2013 HK$'000 |
| Share of net assets | 1,101,768 | 866,190 |
| Goodwill on acquisition | 39,889 | 39,889 |
| Share of net assets | 1,141,657 | 906,079 |

## 19. INVESTMENTS IN ASSOCIATES (continued)

### (i) Beijing Tide (continued)

On 1 June, 2012, the Company entered into a restructuring agreement ("Restructuring Agreement") with France Investment (China 1) Group Limited (incorporated in Hong Kong, "France Investment Hong Kong") and Mr. Tse Ping (Chairman and executive director of the Company) in preparation for the proposed listing of Beijing Tide on the ChiNext of the Shenzhen Stock Exchange. Pursuant to the Restructuring Agreement, (a) the Company sold a 51% equity interest in Sino Biopharmaceutical (Beijing) Limited (which in turn holds approximately a 33.6% equity interest in Beijing Tide) to France Investment Hong Kong for a consideration of HK$293 million; (b) France Investment Hong Kong sold its 48% equity interest in Super Demand Investments Limited ("Super Demand") (which in turn holds approximately a 24% equity interest in Beijing Tide through a wholly-owned subsidiary, France Investment (China 1) Group Limited (incorporated in the BVI Island, ("France Investment BVI"), to the Company; and (c) Super Demand sold its 45% equity interests in France Investment the British Virgin Islands to the Company. The total consideration for the acquisitions under (b) and (c) was HK$293 million. Pursuant to the Restructuring Agreement, the Company is entitled to unwind the restructuring in the event that the completion of the proposed listing of Beijing Tide has not taken place by 31 December, 2013 (the "Proposed Listing Date"). The above transactions were completed in the year ended 31 December, 2012. For accounting purposes, given that there is a possibility for the restructuring to be unwound, the Group will account for the above transactions only when (a) the proposed listing of Beijing Tide is completed; (b) the Company elects to unwind the restructuring but such unwinding was not completed (if the proposed listing of Beijing Tide has not completed by 31 December, 2013); or (c) the Company elects not to unwind the restructuring.

On 23 December, 2013, after amicable negotiations, the Company, France Investment Hong Kong and Mr. Tse Ping entered into a supplemental agreement (the "Supplemental Agreement") pursuant to which the parties thereto agreed to extend the Proposed Listing Date from 31 December, 2013 to 31 December, 2016. Save for the extension of the Proposed Listing Date, all other terms and conditions of the Restructuring Agreement remain unchanged. The investment in Beijing Tide is classified as an investment in associate in the year ended 31 December, 2013 as the management assessed that the Group still had a significant influence on Beijing Tide after entering into the Supplemental Agreement.

## 19. INVESTMENTS IN ASSOCIATES (continued)

### (i) Beijing Tide (continued)

The following table illustrates the summarised financial information of Beijing Tide adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

| | 2014<br>HK$'000 |
|---|---|
| Current assets | 2,364,813 |
| Non-current assets | 1,659,259 |
| Current liabilities | (515,584) |
| Non-current liabilities | (210,983) |
| Net assets | 3,297,505 |
| Net assets, excluding goodwill | 3,297,505 |
| Reconciliation to the Group's interest in the associate: | |
| Proportion of the Group's ownership | 33.6% |
| Group's share of net assets of the associate, excluding goodwill | 1,107,962 |
| Goodwill on acquisition (less cumulative impairment) | 39,889 |
| Exchange realignment | (6,194) |
| Carrying amount of the investment | 1,141,657 |
| Revenue | 2,927,151 |
| Profit for the year | 956,136 |
| Total comprehensive income for the year | 952,843 |
| Dividend received | 84,577 |

### (ii) Tianjin Teda

| | Group | |
|---|---|---|
| | 2014<br>HK$'000 | 2013<br>HK$'000 |
| Share of net assets | 219,764 | 213,043 |
| Goodwill on acquisition | – | – |
| Share of net assets | 219,764 | 213,043 |

Tianjin Teda, which is considered a material associate of the Group, is a strategy partner of the Group engaged in provision of comprehensive logistic service and is accounted for using the equity method.

## 19. INVESTMENTS IN ASSOCIATES (continued)

### (ii) Tianjin Teda (continued)

The following table illustrates the summarised financial information of Tianjin Teda adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

| | 2014 HK$'000 |
|---|---|
| Current assets | 2,551,986 |
| Non-current assets | 828,903 |
| Current liabilities | (2,234,004) |
| Non-current liabilities | (117,185) |
| Net assets | 1,029,700 |
| Net assets, excluding goodwill | 1,029,700 |
| Reconciliation to the Group's interest in the associate: | |
| Proportion of the Group's ownership | 21.82% |
| Group's share of net assets of the associate, excluding goodwill | 224,681 |
| Goodwill on acquisition (less cumulative impairment) | – |
| Exchange realignment | (4,917) |
| Carrying amount of the investment | 219,764 |
| Revenue | 3,864,554 |
| Profit for the year | 71,174 |
| Total comprehensive income for the year | 48,641 |
| Dividend received | 3,892 |

## 20. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 HK$'000 | 2013 HK$'000 | 2014 HK$'000 | 2013 HK$'000 |
| Listed equity investments, at fair value: | | | | |
| Elsewhere | 63,937 | – | 63,937 | – |
| | 63,937 | – | 63,937 | – |
| Unlisted equity investments, at cost | 361,626 | 142,747 | 23,278 | 23,278 |
| | 425,563 | 142,747 | 87,215 | 23,278 |

The equity investment of Karolinska Development AB is stated at fair value because it is listed on NASDAQ OMX Stockholm and the directors are of the opinion that its fair value can be measured reliably.

## 20. AVAILABLE-FOR-SALE INVESTMENTS (continued)

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to approximately HK$1,206,000 (2013: Nil), of which approximately HK$1,206,000 (2013: Nil) was reclassified from other comprehensive income to the statement of profit or loss for the year.

The unlisted equity investments comprised the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., 4.93% equity investment in LTT Bio-Pharma Co., Ltd..

The unlisted equity investments are stated at cost less any impairment losses because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 21. INVENTORIES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Raw materials | **269,019** | 195,665 |
| Work in progress | **194,627** | 164,494 |
| Finished goods | **431,645** | 431,574 |
| Spare parts and consumables | **6,334** | 13,610 |
| | **901,625** | 805,343 |

## 22. TRADE AND BILLS RECEIVABLES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Trade and bills receivables | **1,892,020** | 1,588,160 |
| Impairment | **(2,359)** | (5,162) |
| | **1,889,661** | 1,582,998 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period ranges from 60 days to 180 days. The Group seeks to maintain a strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

## 22. TRADE AND BILLS RECEIVABLES (continued)

An aging analysis of the Group's trade receivables as at end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | HK$'000 | HK$'000 |
| Current to 90 days | 1,459,335 | 1,329,120 |
| 91 days to 180 days | 412,250 | 236,492 |
| Over 180 days | 18,076 | 17,386 |
| | 1,889,661 | 1,582,998 |

The movements in provision for impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | HK$'000 | HK$'000 |
| At 1 January | 5,162 | 4,329 |
| Impairment losses (reversal)/recognised (note 6) | (124) | 694 |
| Amount written off as uncollectible | (2,571) | – |
| Exchange realignment | (108) | 139 |
| | 2,359 | 5,162 |

The aging analysis of the trade receivables that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | HK$'000 | HK$'000 |
| Neither past due nor impaired | 1,777,452 | 1,489,247 |
| Less than 30 days past due | 84,059 | 76,118 |
| Between 31 and 90 days past due | 16,505 | 4,699 |
| Between 91 and 180 days past due | 7,569 | 9,130 |
| Between 181 and 365 days past due | 4,076 | 3,804 |
| | 1,889,661 | 1,582,998 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## 22. TRADE AND BILLS RECEIVABLES (continued)

The carrying amounts of the trade receivables approximate to their fair values due to their relatively short maturity term.

**Financial assets that are derecognised in their entirety**

At 31 December, 2014, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of approximately RMB438,485,000 (equivalent to approximately HK$547,712,000) (2013: approximately RMB235,254,000, equivalent to approximately HK$301,290,000). The Derecognised Bills had maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills shall have recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposures to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December, 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Current** | | | | |
| Prepayments | 107,750 | 133,956 | – | – |
| Other receivables | 216,343 | 135,015 | 29,457 | 21,017 |
| Prepaid expenses | 41,770 | 44,020 | 40,632 | 44,951 |
| Current portion of prepaid land lease payments | 7,323 | 4,515 | – | – |
| | 373,186 | 317,506 | 70,089 | 65,968 |
| **Non-current** | | | | |
| Long term prepayments | 1,135,890 | 311,942 | 135,058 | – |

The carrying amounts of other receivables and prepaid expenses approximate to their fair values due to their relatively short maturity term.

Long term prepayments represent prepayments to (i) subscribe convertible bonds of Karolinska Development AB; (ii) purchase land use right in Wuxi; (iii) purchase property in One Harbor Square, Hong Kong; and (iv) form an investment consortium (see note 38(b)(xxv)).

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Listed equity investments, at market value: | | | | |
| Hong Kong | **497,871** | 134,705 | **497,871** | 134,705 |
| Elsewhere | **31,800** | 3,977 | **31,800** | – |
| | **529,671** | 138,682 | **529,671** | 134,705 |

The above equity investments at 31 December, 2014 were classified as held for trading.

## 25. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances, unrestricted | **1,362,227** | 1,438,151 | **85,654** | 25,188 |
| Time deposits with original maturity of less than three months | **1,805,003** | 1,452,262 | **662,004** | 618,149 |
| Time deposits with original maturity of more than three months | **1,301,103** | 90,930 | **–** | – |
| Cash and bank balances | **4,468,333** | 2,981,343 | **747,658** | 643,337 |

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$3,651,942,000 (2013: approximately HK$2,313,726,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

## 26. TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Current to 90 days | **600,036** | 364,359 |
| 91 days to 180 days | **135,742** | 72,853 |
| Over 180 days | **39,463** | 37,791 |
| | **775,241** | 475,003 |

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade payables approximate to their fair values due to their relatively short maturity term.

## 27. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Advances from customers | **46,528** | 24,984 | **–** | – |
| Accrued payroll and bonuses | **627,576** | 551,309 | **35,020** | 34,819 |
| Other payables | **609,569** | 444,766 | **15,489** | 6,025 |
| Accrued expenses | **989,705** | 812,837 | **–** | – |
| Staff welfare and bonus fund | **50,094** | 34,032 | **–** | – |
| Tax payable other than profits tax | **120,593** | 103,396 | **12,725** | 12,725 |
| | **2,444,065** | 1,971,324 | **63,234** | 53,569 |

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of the other payables and accruals approximate to their fair values due to their relatively short maturity term.

## 28. INTEREST-BEARING BANK BORROWINGS

### Group

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | HK$'000 | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank loans – unsecured | 3.0-5.6 | 2015 | 176,124 | 3.0-6.2 | 2014 | 68,518 |
| Bank loans – secured | 5.6-6.0 | 2015 | 29,978 | 6.6-7.8 | 2014 | 5,635 |
| Bills receivable discounted | 3.5-5.0 | 2015 | 216,594 | | | – |
| Current portion of long term bank loans – secured | 6.15 | 2015 | 12,491 | | | – |
| **Non-current** | | | | | | |
| Bank loans – unsecured | LIBOR+2 | 2016 | 1,287,000 | | | – |
| Bank loans – secured | 6.15 | 2016 | 1,597 | | | – |
| | | | 1,723,784 | | | 74,153 |
| Analysed into: | | | | | | |
| Bank loans repayable: | | | | | | |
| Within one year or on demand | | | 435,187 | | | 74,153 |
| In the second year | | | 1,288,597 | | | – |
| | | | 1,723,784 | | | 74,153 |

Notes:

(a) Except for the LIBOR plus 2.00% unsecured bank loan which is denominated in United States dollars, all borrowings are denominated in Renminbi.

(b) The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values.

(c) At 31 December, 2014, the Group's bank borrowings were secured by the Group's buildings with a carrying amount of approximately HK$52,079,000, respectively.

(d) On 20 December, 2013, the Company, as the borrower, has entered into a facility agreement with Societe Generale Asia Limited, Industrial and Commercial Bank of China (Asia) Limited and Mega International Commercial Bank Co., Ltd., for a three-year unsecured loan in the principal sum of US$165,000,000 at an interest rate of LIBOR plus 2.00% per annum. The amounts borrowed under the Syndicated Loan will be used by the Company for general corporate purposes. As of 31 December, 2014, the Group had used all the drawdown from the facility.

(e) As at 31 December, 2014, bills receivable of an amount of approximately HK$216,594,000 (2013: Nil) was discounted at banks to obtain certain bank facilities of HK$216,594,000 (2013: Nil).

## 29. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented government grants received for projects and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

## 30. DEFERRED TAX

### Deferred tax liabilities

**Group**

**2014**

| | Development costs HK$'000 | Revaluation of properties HK$'000 | Withholding taxes HK$'000 | Depreciation allowance in excess of related depreciation HK$'000 | Acquisition HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January, 2014 | 15,087 | 57,926 | 115,966 | – | 8,456 | 197,435 |
| Deferred tax charged/(credited) to the statement of profit or loss (note 10) | 3,473 | 126 | 78,852 | 9,198 | (1,168) | 90,481 |
| Realised during the year | – | – | (35,397) | – | – | (35,397) |
| Deferred tax debited to equity | – | 11,002 | – | – | 16,915 | 27,917 |
| Gross deferred tax liabilities at 31 December, 2014 | 18,560 | 69,054 | 159,421 | 9,198 | 24,203 | 280,436 |

### Deferred tax assets

**Group**

**2014**

| | Government grant HK$'000 | Provision for trade receivables HK$'000 | Accruals HK$'000 | Building revaluation depreciation HK$'000 | Elimination of unrealised profits on inventories HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January, 2014 | 15,853 | 1,116 | 195,139 | 7,517 | 32,216 | 251,841 |
| Deferred tax credited/(charged) to the statement of profit or loss (note 10) | 4,936 | (322) | 40,912 | 5,443 | 8,827 | 59,796 |
| Gross deferred tax assets at 31 December, 2014 | 20,789 | 794 | 236,051 | 12,960 | 41,043 | 311,637 |

## 30. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2014<br>HK$'000 |
|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | 107,927 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (76,726) |
| | 31,201 |

### Deferred tax liabilities

Group

2013

| | Development costs<br>HK$'000 | Revaluation of properties<br>HK$'000 | Withholding taxes<br>HK$'000 | Equity investments<br>HK$'000 | Acquisition<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January, 2013 | 15,722 | 48,336 | 64,270 | – | 9,060 | 137,388 |
| Deferred tax (credited)/charged to the statement of profit or loss (note 10) | (635) | (226) | 77,363 | – | (604) | 75,898 |
| Realised during the year | – | – | (25,667) | – | – | (25,667) |
| Deferred tax debited to equity | – | 9,816 | – | – | – | 9,816 |
| Gross deferred tax liabilities at 31 December, 2013 | 15,087 | 57,926 | 115,966 | – | 8,456 | 197,435 |

### Deferred tax assets

Group

2013

| | Government grant<br>HK$'000 | Provision for trade receivables<br>HK$'000 | Accruals<br>HK$'000 | Building revaluation depreciation<br>HK$'000 | Elimination of unrealised profits on inventories<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January, 2013 | 14,102 | 765 | 144,243 | 3,570 | 17,338 | 180,018 |
| Deferred tax credited to the statement of profit or loss (note 10) | 1,751 | 351 | 50,896 | 3,947 | 14,878 | 71,823 |
| Gross deferred tax assets at 31 December, 2013 | 15,853 | 1,116 | 195,139 | 7,517 | 32,216 | 251,841 |

## 30. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2013<br>HK$'000 |
|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | 122,243 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (67,837) |
| | 54,406 |

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January, 2008 and applies to earnings after 31 December, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January, 2008.

At 31 December, 2014, there was no significant unrecognised deferred tax liability (2013: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double taxation relief.

## 31. SHARE CAPITAL

**Shares**

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 8,000,000,000 ordinary shares of HK$0.025 each<br>(2013: 8,000,000,000 ordinary shares of HK$0.025 each) | **200,000** | 200,000 |
| Issued and fully paid: | | |
| 4,941,461,473 ordinary shares of HK$0.025 each<br>(2013: 4,941,461,473 ordinary shares of HK$0.025 each) | **123,536** | 123,536 |

## 32. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "2013 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The 2013 Scheme became effective on 24 November, 2013 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2013 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the 2013 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the 2013 Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the 2013 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding options, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2013 Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value (based on the closing price of the shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2013 Scheme at any time during a period to be determined on the date of offer of grant of a share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of grant of options to a grantee, there is no minimum period required under the 2013 Scheme for the holding of a share option before it can be exercised.

## 32. SHARE OPTION SCHEMES (continued)

The exercise price of the shares under the 2013 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the shares on the date of the offer of the grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2013 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued share of HK$0.10 each into four shares of HK$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2013 Scheme accordingly.

No share options were granted under the 2013 Scheme since 24 November, 2013.

## 33. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former group holding companies acquired pursuant to the group reorganisation as stated in the Company's prospectus dated 22 September, 2000, and the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, the enterprise expansion fund and the staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds is at the discretion of the boards of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to the staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as an expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint venture and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the PRC joint venture.

## 33. RESERVES (continued)

### (b) Company

| | Note | Share premium account HK$'000 | Contributed surplus HK$'000 | Available-for-sale investment HK$'000 | Asset revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January, 2013 | | 1,285,444 | 60,464 | – | – | 511,696 | 1,857,604 |
| Total comprehensive income for the year | | – | – | – | – | 384,846 | 384,846 |
| Interim 2013 dividend | 12 | – | – | – | – | (148,244) | (148,244) |
| Proposed final 2013 dividend | 12 | – | – | – | – | (98,829) | (98,829) |
| At 31 December, 2013 | | 1,285,444 | 60,464 | – | – | 649,469 | 1,995,377 |
| Balance at 1 January, 2014 | | 1,285,444 | 60,464 | – | – | 649,469 | 1,995,377 |
| Total comprehensive income for the year | | – | – | 1,206 | – | 482,412 | 483,618 |
| Interim 2014 dividend | 12 | – | – | – | – | (222,366) | (222,366) |
| Proposed final 2014 dividend | 12 | – | – | – | – | (74,122) | (74,122) |
| At 31 December, 2014 | | 1,285,444 | 60,464 | 1,206 | – | 835,393 | 2,182,507 |

## 34. BUSINESS COMBINATION

### (a) Hong Kong Pacific

On 13 January, 2014, the Group, through CT Medicines Investment, acquired a 55% equity interest in Hong Kong Pacific from two independent third parties. The acquisition was made as part of the Group's strategy to develop the ophthalmologic hospital business. The purchase consideration for the acquisition was paid in the form of cash of RMB82,500,000 (equivalent to approximately HK$105,658,000) at the acquisition date.

The Group has elected to measure the non-controlling interest in Hong Kong Pacific at the non-controlling interest's proportionate share of Boai's identifiable net assets.

## 34. BUSINESS COMBINATION (continued)

### (a) Hong Kong Pacific (continued)

The fair values of the identifiable assets and liabilities of Hong Kong Pacific as at the date of acquisition were as follows:

| | Note | Fair value recognised on acquisition HK$'000 |
|---|---|---|
| Property, plant and equipment | | 41,365 |
| Trademark | 17 | 64,919 |
| Intangible assets | 17 | 253 |
| Cash and bank balances | | 21,148 |
| Trade receivables | | 7,122 |
| Inventories | | 7,359 |
| Prepayments and other receivables | | 20,052 |
| Due from related companies | | 8,942 |
| Trade payables | | (11,045) |
| Tax payable | | (411) |
| Other payables and accruals | | (22,785) |
| Deferred tax liabilities | | (16,915) |
| Non-controlling interests | | (14,604) |
| Total identifiable net assets at fair value | | 105,400 |
| Non-controlling interests | | (47,430) |
| | | 57,970 |
| Goodwill on acquisition | | 47,688 |
| Satisfied by cash | | 105,658 |

The Group did not incur any transaction costs for this acquisition.

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | (105,658) |
| Cash and cash balances acquired | 21,148 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (84,510) |

Since the acquisition, Hong Kong Pacific contributed approximately HK$125,355,000 to the Group's turnover and approximately HK$5,593,000 to the consolidated profit for the year ended 31 December, 2014.

## 34. BUSINESS COMBINATION (continued)

### (b) Zhejiang Zhongwei

On 23 July, 2014, the Group, through CT Tianqing, acquired equity interests of total 55% in Zhejiang Zhongwei from two individuals. The acquisition was made as part of the Group's strategy to expand its distribution channel of medicines and injections in Mainland China. The purchase consideration for the acquisition was paid in the form of cash of RMB26,400,000 (approximately HK$33,137,000) at the acquisition.

The Group has elected to measure the non-controlling interest in Zhejiang Zhongwei at the non-controlling interest's proportionate share of Zhejiang Zhongwei's identifiable net assets.

The fair values of the identifiable assets and liabilities of Zhejiang Zhongwei as at the date of acquisition were as follows:

| | Fair value recognised on acquisition HK$'000 |
|---|---|
| Property, plant and equipment | 1,682 |
| Cash and bank balances | 44,038 |
| Trade receivables | 39,883 |
| Inventories | 9,701 |
| Prepayments and other receivables | 14,226 |
| Trade payables | (21,021) |
| Tax payable | (257) |
| Other payables and accruals | (24,792) |
| Interest-bearing bank borrowings | (12,552) |
| Due to related companies | (38) |
| Total identifiable net assets at fair value | 50,870 |
| Non-controlling interests | (22,892) |
| | 27,978 |
| Goodwill on acquisition | 5,159 |
| Satisfied by cash | 33,137 |

The Group did not incur any transaction costs for this acquisition.

None of the goodwill recognised is expected to be deductible for income tax purposes.

## 34. BUSINESS COMBINATION (continued)

### (b) Zhejiang Zhongwei (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | (33,137) |
| Cash and bank balances acquired | 44,038 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 10,901 |

Since the acquisition, Zhejiang Zhongwei contributed approximately HK$105,310,000 to the Group's turnover and approximately HK$2,974,000 to the consolidated loss for the year ended 31 December, 2014.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been approximately HK$12,525,785,000 and approximately HK$2,356,890,000, respectively.

## 35. DISPOSAL OF A SUBSIDIARY

| CTGM | Notes | At the date of Disposal HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | 14 | 283 |
| Intangible assets | 17 | 5,500 |
| Inventories | | 282 |
| Prepayments and other receivables | | 400 |
| Cash and bank balances | | 391 |
| Trade payables | | (15) |
| Tax payable | | 15 |
| Other payables and accruals | | (100) |
| Due to related companies | | (2,433) |
| Non-controlling interests | | 1,080 |
| | | 5,403 |
| Gain on disposal of a subsidiary | 5 | 8,428 |
| | | 13,831 |
| Satisfied by cash | | 13,831 |

## 35. DISPOSAL OF A SUBSIDIARY (continued)

An analysis of the cash flows in respect of the disposal of a subsidiary is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | 13,831 |
| Cash and bank balances disposed of | (391) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 13,440 |

## 36. OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and those for land use rights are for terms ranging from ten to fifty years.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014<br>HK$'000 | 2013<br>HK$'000 | 2014<br>HK$'000 | 2013<br>HK$'000 |
| Within one year | 10,363 | 9,282 | 7,045 | 4,800 |
| In the second to fifth years, inclusive | 20,347 | 17,738 | 7,495 | 10,440 |
| After five years | 32,211 | 31,126 | – | – |
| | 62,921 | 58,146 | 14,540 | 15,240 |

## 37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

| | Group 2014 HK$'000 | Group 2013 HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| – Land, plant and machinery | 180,860 | 201,870 |
| – Property investment | 406,422 | – |
| – Convertible bonds | 99,000 | – |
| | 686,282 | 201,870 |

| | Group 2014 HK$'000 | Group 2013 HK$'000 |
|---|---|---|
| Authorised, but not contracted for: | | |
| – Land, plant and machinery | 699,998 | 69,666 |

## 38. RELATED PARTY TRANSACTIONS

**(a)** In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

| | Group 2014 HK$'000 | Group 2013 HK$'000 |
|---|---|---|
| Sales of raw materials to: | | |
| – a company beneficially owned by connected persons (note (i)) | – | 1,324 |
| Operating lease rentals payable to: | | |
| – a company beneficially owned by two directors (note (ii)) | 5,744 | 3,784 |
| Provide consulting service to: | | |
| – a company beneficially owned by connected persons (note (iii)) | 7,124 | 7,349 |

Notes:

(i) Sales of raw materials were conducted with reference to the market prices.

(ii) Lease rentals were based on tenancy agreements entered into between the Group and each of the related party with reference to market prices.

(iii) Service fees were based on consulting agreements entered into between CTP Investment and Chia Tai Oversea Chinese Realty Development Co., Ltd. with reference to market prices.

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties

(i) On 4 December, 2013, CT Tianqing, as service provider, has entered into the 2013 NJCTT Master Technical Service and Tenancy Agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company) for the provision of research and development services for improvement and application of cardio-cerebral medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB35,500,000 (approximately HK$44,900,000) each year. The terms of the 2013 NJCTT Master Technical Service and Tenancy Agreement are to be determined by reference to the prevailing market prices in the PRC. The 2013 NJCTT Master Technical Service and Tenancy Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the 2013 NJCTT Master Technical Service and Tenancy Agreement are set out in the Company's announcement dated 4 December, 2013. There are no transactions arising from the 2013 NJCTT Master Technical Service and Tenancy Agreement in 2014 (2013: Nil).

(ii) On 4 December, 2013, CT Tianqing, as service provider, has entered into the 2013 JQ Master Technical Service Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company) for the provision of research and development services for improvement and application of orthopaedic medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB20,000,000 (approximately HK$25,300,000), RMB30,000,000 (approximately HK$37,900,000) and RMB50,000,000 (approximately HK$63,200,000), respectively. The terms of the 2013 JQ Master Technical Service Agreement are to be determined by reference to the prevailing market prices in the PRC. The 2013 JQ Master Technical Service Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the 2013 JQ Master Technical Service Agreement are set out in the Company's announcement dated 4 December, 2013. There are no transactions arising from the 2013 JQ Master Technical Services Agreement in 2014 (2013: Nil).

(iii) On 4 December, 2013, LYG Tianqing, as the purchaser, has entered into the 2013 NJCTT-LYG Tianqing Master Pharmaceutical Supply Agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, digestive system, oncology and anti-infectious medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB63,300,000 (approximately HK$80,000,000), RMB75,900,000 (approximately HK$95,900,000) and RMB90,900,000 (approximately HK$114,900,000), respectively. The terms of the 2013 NJCTT-LYG Tianqing Master Pharmaceutical Supply Agreement are to be determined by reference to the prevailing market prices and demand for cardio-cerebral, digestive system, oncological and anti-infectious medicines in the PRC. The 2013 NJCTT-LYG Tianqing Master Pharmaceutical Supply Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the 2013 NJCTT-LYG Tianqing Master Pharmaceutical Supply Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by NJCTT to LYG Tianqing of the year amounted to approximately HK$37,158,000 (2013: approximately HK$38,625,000) and have been eliminated on consolidation.

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(iv) On 4 December, 2013, LYG Tianqing, as the purchaser, has entered into the 2013 LYG Tianqing-JF Master Pharmaceutical Purchase Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of nutritious, anti-infectious, digestive system, antipsychotic, respiratory system, cardio-cerebral, gynaecology and internal medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB12,900,000 (approximately HK$16,300,000), RMB15,300,000 (approximately HK$19,300,000) and RMB18,400,000 (approximately HK$23,300,000), respectively. The terms of the 2013 LYG Tianqing-JF Master Pharmaceutical Purchase Agreement are to be determined by reference to the prevailing market prices and demand for nutritious, anti-infectious, digestive system, antipsychotic, respiratory system, cardio-cerebral, gynaecology and internal medicines in the PRC. The 2013 LYG Tianqing-JF Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the 2013 LYG Tianqing-JF Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by Jiangsu Fenghai to LYG Tianqing of the year amounted to approximately HK$10,475,000 (2013: approximately HK$7,362,000) and have been eliminated on consolidation.

(v) On 4 December, 2013, LYG Tianqing, as the purchaser, has entered into the 2013 LYG Tianqing-JFM Master Pharmaceutical Purchase Agreement with Jiangsu Fenghai Medicines (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of oncological medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB1,500,000 (approximately HK$1,900,000), RMB2,000,000 (approximately HK$2,500,000) and RMB2,500,000 (approximately HK$3,200,000), respectively. The terms of the 2013 LYG Tianqing-JFM Master Pharmaceutical Purchase Agreement are to be determined by reference to the prevailing market prices of and demand for oncological medicines in the PRC. The LYG Tianqing-JFM Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the 2013 LYG Tianqing-JFM Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by Jiangsu Fenghai Medicine to LYG Tianqing of the year amounted to approximately HK$975,000 (2013: approximately HK$202,000) and have been eliminated on consolidation.

(vi) On 4 December, 2013, the Company, as the tenant, has entered into the 2013 Billion Source-Sino Tenancy Agreement with Billion Source (a connected person of the Company owned as to 50% by each of Mr. Tse and Ms. Cheng, Directors of the Company), as the landlord, regarding the letting of premises in Beijing for a term of three years from 1 January, 2014 to 31 December, 2016 for annual rental not exceeding RMB3,600,000 (equivalent to approximately HK$4,500,000), RMB3,840,000 (equivalent to approximately HK$4,900,000) and RMB4,200,000 (equivalent to approximately HK$5,300,000), respectively. The terms of the 2013 Billion Source-Sino Tenancy Agreement are to be determined by reference to the prevailing market prices in the PRC. Billion Source is a company beneficially owned by two directors. Billion Source is a connected party as defined in Chapter 14A of the Listing Rules. Details of the 2013 Billion Source-Sino Tenancy Agreement are set out in the Company's announcement dated 4 December, 2013. The rental fee paid to Billion Source for the year amounted to approximately RMB3,600,000 (equivalent to approximately HK$4,500,000) (2013: approximately HK$3,784,000) and has been disclosed in note 38(a) under "Operating lease rentals payable to a company beneficially owned by two directors".

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(vii) On 4 December, 2013, CT Tianqing, as service provider, has entered into the CT Tianqing Master Entrusted Pharmaceutical Processing Agreement with NJCTT (an associate of Jiangsu Agribusiness, a 33.5% equity holder of CT Tianqing and a connected person of the Company) for the provision of processing of sub-contract production for lyophilised formulation for NJCTT for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB10,000,000 (approximately HK$12,600,000) each year. The terms of the CT Tianqing Master Entrusted Pharmaceutical Processing Agreement are to be determined with reference to the prevailing market price in the PRC. The CT Tianqing Master Entrusted Pharmaceutical Processing Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the CT Tianqing Master Entrusted Pharmaceutical Processing Agreement are set out in the Company's announcement dated 4 December, 2013. The service fee paid to CT Tianqing for the year amounted to approximately HK$3,883,000 (2013: Nil) and has been eliminated on consolidation.

(viii) On 4 December, 2013, CT Tianqing, as the landlord, has entered into the CT Tianqing-Jiangsu Fenghai Tenancy Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the tenant, regarding the leasing of premises and four car parking spaces at Nanjing for a term of three years from 1 January, 2014 to 31 December, 2016 for annual rental not exceeding RMB900,000 (approximately HK$1,100,000) each year. The terms of the CT Tianqing-Jiangsu Fenghai Tenancy Agreement are to be determined with reference to the current market rental rate in the PRC. The CT Tianqing-Jiangsu Fenghai Tenancy Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the CT Tianqing-Jiangsu Fenghai Tenancy Agreement are set out in the Company's announcement dated 4 December, 2013. The rental fee paid to Jiangsu Fenghai for the year amounted to approximately HK$429,000 (2013: Nil) and has been eliminated on consolidation.

(ix) On 4 December, 2013, CT Tianqing, as the landlord, has entered into the 2013 NJCTT Master Technical Service and Tenancy Agreement with NJCTT, as the tenant, regarding the leasing of premises at Nanjing for a term of three years from 1 January, 2014 to 31 December, 2016 for annual rental not exceeding RMB4,500,000 (approximately HK$5,700,000) each year. The terms of the 2013 NJCTT Master Technical Service and Tenancy Agreement are to be determined with reference to the current market rental rate in the PRC. The 2013 NJCTT Master Technical Service and Tenancy Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the 2013 NJCTT Master Technical Service and Tenancy Agreement are set out in the Company's announcement dated 4 December, 2013. The rental fee paid to NJCTT for the year amounted to approximately HK$3,477,000 (2013: Nil) and has been eliminated on consolidation.

(x) On 4 December, 2013, LYG Runzhong, as the tenant, has entered into the LYG Hualing-LYG Runzhong Tenancy Agreement with LYG Hualing (an associate of Jiangsu Agribusiness and a connected person of the Company), as the landlord, regarding the leasing of industrial complex, roads and facilities at Lianyungang for a term of three years from 1 January, 2014 to 31 December, 2016 for annual rental not exceeding RMB14,200,000 (approximately HK$17,900,000), RMB15,800,000 (approximately HK$20,000,000) and RMB17,300,000 (approximately HK$21,900,000), respectively. The terms of the LYG Hualing-LYG Runzhong Tenancy Agreement are to be determined with reference to the current market rental rate in the PRC. The LYG Hualing-LYG Runzhong Tenancy Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the LYG Hualing-LYG Runzhong Tenancy Agreement are set out in the Company's announcement dated 4 December, 2013 The rental fee paid to LYG Hualing for the year amounted to approximately HK$9,894,000 (2013: Nil) and has been eliminated on consolidation.

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(xi) On 4 December, 2013, Shanghai Tongyong, as the supplier, has entered into the Jiangsu Fenghai Medicines-Shanghai Tongyong Master Pharmaceutical Purchase Agreement with Jiangsu Fenghai Medicines (an associate of Jiangsu Agribusiness and a connected person of the Company), as the purchaser, regarding the purchase of dermatological medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB800,000 (approximately HK$1,000,000), RMB1,200,000 (approximately HK$1,500,000) and RMB1,600,000 (approximately HK$2,000,000), respectively. The terms of the Jiangsu Fenghai Medicines-Shanghai Tongyong Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for dermatological medicines in the PRC. The Jiangsu Fenghai Medicines-Shanghai Tongyong Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai Medicines-Shanghai Tongyong Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. There are no transactions arising from the Master Pharmaceutical Purchase Agreement in 2014 (2013: Nil).

(xii) On 4 December, 2013, LYG Runzhong, as the supplier, has entered into the Jiangsu Fenghai-LYG Runzhong Master Pharmaceutical Purchase Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the purchaser, for the purchase of raw materials of medicines for treating diarrhoea and respiratory system diseases for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB4,000,000 (approximately HK$5,100,000), RMB5,000,000 (approximately HK$6,300,000) and RMB6,000,000 (approximately HK$7,600,000), respectively. The terms of the Jiangsu Fenghai-LYG Runzhong Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for raw materials of diarrhoea and respiratory system disease medicines in the PRC. The Jiangsu Fenghai-LYG Runzhong Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Jiangsu Fenghai-LYG Runzhong Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by LYG Runzhong to Jiangsu Fenghai of the year amounted to approximately HK$1,174,000 (2013: Nil) and have been eliminated on consolidation.

(xiii) On 4 December, 2013, NJCTT, as the purchaser, has entered into the NJCTT-LYG Runzhong Master Pharmaceutical Purchase Agreement with LYG Runzhong (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of medicines for treating cardio-cerebral diseases, and oncological and anorectal diseases for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB40,000,000 (approximately HK$50,500,000), RMB56,000,000 (approximately HK$70,800,000) and RMB78,400,000 (approximately HK$99,100,000), respectively. The terms of the NJCTT-LYG Runzhong Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for cardio-cerebral diseases, oncology and anorectal diseases medicines in the PRC. The NJCTT-LYG Runzhong Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the NJCTT-LYG Runzhong Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by LYG Runzhong to NJCTT of the year amounted to approximately HK$22,501,000 (2013: Nil) and have been eliminated on consolidation.

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(xiv) On 4 December, 2013, NJCTT, as the purchaser, has entered into the NJCTT-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of raw materials of oncological medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB2,000,000 (approximately HK$2,500,000), RMB3,000,000 (approximately HK$3,800,000) and RMB4,000,000 (approximately HK$5,100,000), respectively. The terms of the NJCTT-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for oncological medicines in the PRC. The NJCTT-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the NJCTT-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by Jiangsu Qingjiang to NJCTT of the year amounted to approximately HK$602,000 (2013: Nil) and have been eliminated on consolidation.

(xv) On 4 December, 2013, LYG Tianqing, as the purchaser, has entered into the LYG Tianqing-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, respiratory system and orthopaedic medicines for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB3,300,000 (approximately HK$4,200,000), RMB4,000,000 (approximately HK$5,100,000) and RMB4,800,000 (approximately HK$6,100,000), respectively. The terms of the LYG Tianqing-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for cardio-cerebral, respiratory system and orthopaedic medicines in the PRC. The LYG Tianqing-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the LYG Tianqing-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by Jiangsu Qingjiang to LYG Tianqing of the year amounted to approximately HK$3,448,000 (2013: Nil) and have been eliminated on consolidation.

(xvi) On 4 December, 2013, Suzhou Xingwei, as the purchaser, has entered into the Suzhou Xingwei-Jiangsu Fenghai Master Pharmaceutical Purchase Agreement with Jiangsu Fenghai (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of infusion solution including mainly invert sugar for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB10,000,000 (approximately HK$12,600,000), RMB13,000,000 (approximately HK$16,400,000) and RMB16,900,000 (approximately HK$21,400,000) respectively. The terms of the Suzhou Xingwei-Jiangsu Fenghai Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for infusion solution in the PRC. The Suzhou Xingwei-Jiangsu Fenghai Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Suzhou Xingwei-Jiangsu Fenghai Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by Jiangsu Fenghai to Suzhou Xingwei of the year amounted to approximately HK$1,427,000 (2013: Nil) and have been eliminated on consolidation.

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(xvii) On 4 December, 2013, Suzhou Xingwei, as the purchaser, has entered into the Suzhou Xingwei-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement with Jiangsu Qingjiang (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of anti-infectious and endocrinal medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB10,000,000 (approximately HK$12,600,000), RMB13,000,000 (approximately HK$16,400,000) and RMB16,900,000 (approximately HK$21,400,000), respectively. The terms of the Suzhou Xingwei-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for anti-infectious and endocrinal medicines in the PRC. The Suzhou Xingwei-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Suzhou Xingwei-Jiangsu Qingjiang Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. There are no transactions arising from the Master Pharmaceutical Purchase Agreement in 2014 (2013: Nil).

(xviii) On 4 December, 2013, Suzhou Xingwei, as the purchaser, has entered into the Suzhou Xingwei-LYG Tianqing Master Pharmaceutical Purchase Agreement with LYG Tianqing (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of hepatitis, oncological, anti-infectious, diabetes, respiratory system and osteoporosis medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB156,000,000 (approximately HK$197,100,000), RMB202,800,000 (approximately HK$256,300,000) and RMB255,000,000 (approximately HK$322,200,000), respectively. The terms of the Suzhou Xingwei-LYG Tianqing Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for the above mentioned medicines in the PRC. The Suzhou Xingwei-LYG Tianqing Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Suzhou Xingwei-LYG Tianqing Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by LYG Tianqing to Suzhou Xingwei of the year amounted to approximately HK$153,941,000 (2013: Nil) and have been eliminated on consolidation.

(xix) On 4 December, 2013, Suzhou Xingwei, as the purchaser, has entered into the Suzhou Xingwei-NJCTT Master Pharmaceutical Purchase Agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the purchase of cardio-cerebral, anti-infectious, digestive system, oncological and anticardiac failure medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB20,000,000 (approximately HK$25,300,000), RMB26,000,000 (approximately HK$32,900,000) and RMB33,800,000 (approximately HK$42,700,000), respectively. The terms of the Suzhou Xingwei-NJCTT Master Pharmaceutical Purchase Agreement are to be determined with reference to the prevailing market prices and demand for the above mentioned medicines in the PRC. The Suzhou Xingwei-NJCTT Master Pharmaceutical Purchase Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Suzhou Xingwei-NJCTT Master Pharmaceutical Purchase Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by NJCTT to Suzhou Xingwei of the year amounted to approximately HK$11,523,000 (2013: Nil) and have been eliminated on consolidation.

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(xx) On 4 December, 2013, NJCTT, as the supplier, has entered into the NJCTT-Jiangsu Fenghai Medicines Master Pharmaceutical Supply Agreement with Jiangsu Fenghai Medicines (an associate of Jiangsu Agribusiness), as the purchaser, for the supply of cardio-cerebral, anti-infectious, digestive system, oncological and anticardiac failure medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB9,600,000 (approximately HK$12,100,000), RMB11,600,000 (approximately HK$14,700,000) and RMB15,000,000 (approximately HK$19,000,000), respectively. The terms of the NJCTT-Jiangsu Fenghai Medicines Master Pharmaceutical Supply Agreement are to be determined with reference to the prevailing market prices and demand for cardio-cerebral, anti-infectious, digestive system, oncological and anticardiac failure medicines in the PRC. The NJCTT-Jiangsu Fenghai Medicines Master Pharmaceutical Supply Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the NJCTT-Jiangsu Fenghai Medicines Master Pharmaceutical Supply Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by NJCTT to Jiangsu Fenghai Medicines of the year amounted to approximately HK$3,950,000 (2013: approximately HK$3,719,000) and have been eliminated on consolidation.

(xxi) On 4 December, 2013, Shaoyang Hospital, as the purchaser, has entered into the NJCTT-Shaoyang Hospital Master Pharmaceutical Supply Agreement with NJCTT (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the supply of cardio-cerebral, anti-infectious, digestive system, oncological and anti-cardiac failure medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB2,000,000 (approximately HK$2,500,000), RMB2,600,000 (approximately HK$3,300,000) and RMB3,500,000 (approximately HK$4,400,000), respectively. The terms of the NJCTT-Shaoyang Hospital Master Pharmaceutical Supply Agreement are to be determined with reference to the prevailing market price and demand for cardio-cerebral, anti-infectious, digestive system, oncological and anti-cardiac failure medicines in the PRC. The NJCTT-Shaoyang Hospital Master Pharmaceutical Supply Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the NJCTT-Shaoyang Hospital Master Pharmaceutical Supply Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by NJCTT to Shaoyang Hospital of the year amounted to approximately HK$1,966,000 (2013: Nil) and have been eliminated on consolidation.

(xxii) On 4 December, 2013, the Company, as the tenant, has entered into the Sino-Ledo Properties Tenancy Agreement with Ledo Properties Ltd. ("Ledo Properties") (a connected person of the Company held as to 99% by Ms. Cheng, a Director of the Company), as the landlord, regarding the letting of the premises in Hong Kong for a term of three years from 1 January, 2014 to 31 December, 2016 for annual rental not exceeding HK$1,200,000, HK$1,440,000 and HK$1,800,000, respectively. The terms of the Sino-Ledo Properties Tenancy Agreement are to be determined with reference to the current market rental rate. The Sino-Ledo Properties Tenancy Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the Sino-Ledo Properties Tenancy Agreement are set out in the Company's announcement dated 4 December, 2013. The rental fee paid to Billion Source for the year amounted to approximately HK$1,200,000 (2013: HK$960,000), and has been disclosed in note 38(a) under "Operating lease rentals payable to a company beneficially owned by two directors".

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(xxiii) On 4 December, 2013, LYG Runzhong, as the purchaser, has entered into the LYG Hualing-LYG Runzhong Master Pharmaceutical Supply Agreement with LYG Hualing (an associate of Jiangsu Agribusiness and a connected person of the Company), as the supplier, for the supply of raw materials of anti-infectious medicines for three years from 1 January, 2014 to 31 December, 2016 for annual caps not exceeding RMB32,300,000 (approximately HK$40,800,000), RMB36,500,000 (approximately HK$46,100,000) and RMB39,600,000 (approximately HK$50,000,000), respectively. The terms of the LYG Hualing-LYG Runzhong Master Pharmaceutical Supply Agreement are to be determined with reference to the prevailing market prices and demand for raw materials of anti-infectious medicines in the PRC. The LYG Hualing-LYG Runzhong Master Pharmaceutical Supply Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the LYG Hualing-LYG Runzhong Master Pharmaceutical Supply Agreement are set out in the Company's announcement dated 4 December, 2013. The sales of goods by LYG Hualing to LYG Runzhong of the year amounted to approximately HK$22,009,000 (2013: Nil) and have been eliminated on consolidation.

(xxiv) On 4 December, 2013, CTP Investment, as service provider, has entered into the Master Consultancy Service Agreement with Chia Tai Oversea Chinese Realty Development Co., Ltd. (an associate of the Chearavanont Shareholders and a connected person of the Company) ("the CTOCRD Master Consultancy Service Agreement") for the provision of consultancy services in relation to corporate management, information technology, financial, internal control and human resources matters for three years from 1 January, 2014 to 31 December, 2016 for an annual cap not exceeding RMB6,000,000 (approximately HK$7,600,000) each year. The terms of the CTOCRD Master Consultancy Service Agreement are to be determined with reference to the prevailing market price in the PRC. The CTOCRD Master Consultancy Service Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. Details of the CTOCRD Master Consultancy Services Agreement are set out in the Company's announcement dated 4 December, 2013. The fee for services provided by CTP Investment to CTOCRD of the year amounted to approximately HK$7,124,000 (2013: approximately HK$7,349,000), and has been disclosed in note 38 (a) under "provide consulting service to a company beneficially owned by connected persons".

(xxv) In 2010, Validated Profits Limited ("Validated Profits"), which is wholly owned by Mr. Tse, Chia Tai Land Company Limited ("CT Land") and some other investors have entered into an agreement (the "Consortium Agreement") to form an investment consortium for the purpose of tendering a bid to the relevant governmental authorities in Beijing for the acquisition of a site located at Beijing Chaoyang District CBD and, subject to the bid being successful, to form a project company for the purpose of carrying out the development. On 6 December, 2010, CTP Investment, a wholly-owned subsidiary, entered into (a) an investment agreement with Validated Profits whereby Validated Profits agreed to transfer to CTP Investment all of its investment rights and obligations under the Consortium Agreement in connection with 7.5% of the total investment to be contributed by the Investment Consortium with nil consideration, and (b) an investment agreement with CT Land whereby CTP Investment agreed to transfer to CT Land all of its investment rights and obligations under the Consortium Agreement in connection with 2.5% of the total investment to be contributed by the Investment Consortium with nil consideration. Details are set out in the Company's press announcement dated 6 December, 2010. As at 31 December, 2014, the Group's prepayment was approximately HK$293,539,000 (2013: approximately HK$253,813,000) in relation to this investment (note 23). During the year ended 31 December, 2014, the project company Chia Tai Oversea Chinese Realty Development Co., Ltd. was registered in the PRC with registered capital of RMB4,700,000,000. The Group, through CTP Investment, hold a 5% equity interest in Chia Tai Oversea Chinese Realty Development Co., Ltd..

## 38. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

(xxvi) On 1 June, 2012, the Company entered into a restructuring agreement with France Investment Hong Kong and Mr. Tse Ping (Chairman and executive director of the Company) in preparation for the proposed listing of Beijing Tide on the ChiNext of the Shenzhen Stock Exchange. Pursuant to the Restructuring Agreement, (a) the Company sold a 51% equity interest in Sino Biopharmaceutical (Beijing) Limited (which in turn holds approximately 33.6% equity interests in Beijing Tide) to France Investment Hong Kong for a consideration of HK$293 million; (b) France Investment Hong Kong sold its 48% equity interests in Super Demand (which in turn holds approximately 24% equity interests in Beijing Tide through a wholly-owned subsidiary, France Investment BVI to the Company; and (c) Super Demand sold its 45% equity interests in France Investment the British Virgin Islands to the Company. The total consideration for the acquisition under (b) and (c) is HK$293 million. Pursuant to the Restructuring Agreement, the Company is entitled to unwind the restructuring in the event that the completion of the proposed listing of Beijing Tide has not taken place by 31 December, 2013. The above transactions were completed in the year ended 31 December, 2012. For accounting purposes, given that there is a possibility for the restructuring to be unwound, the Group will account for the above transactions only when (a) the proposed listing of Beijing Tide is completed; (b) the Company elects to unwind the restructuring but such unwinding was not completed (if the proposed listing of Beijing Tide was not completed by 31 December, 2013); or (c) the Company elects not to unwind the restructuring. On 23 December, 2013, after amicable negotiations, the Company, France Investment Hong Kong and Mr. Tse Ping entered into a supplemental agreement (the "Supplemental Agreement") pursuant to which the parties thereto agreed to extend the Proposed Listing Date from 31 December, 2013 to 31 December, 2016. Save for the extension of the Proposed Listing Date, all other terms and conditions of the Restructuring Agreement remain unchanged.

### (c) Outstanding balances with related parties

As disclosed in the consolidated statement of financial position, as at 31 December, 2014, the Group had trade and other payables to its PRC joint venture partners of approximately HK$33,959,000 (2013: approximately HK$1,123,000) and trade receivables from its PRC joint venture partners of approximately HK$18,050,000 (2013: approximately HK$1,019,000). Trade and other payables and receivables are unsecured, interest-free and on normal trade terms for repayment.

The carrying values of the amounts due from/to related companies approximate to their fair values.

### (d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors as disclosed in note 8 to the financial statements, is as follows:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefit | 75,861 | 84,942 |
| Pension scheme contribution | 1,273 | 1,190 |
| | 77,134 | 86,132 |

## 39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**Financial assets**

**Group**

**2014**

| | Financial assets at fair value through profit or loss-held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | 529,671 | – | – | 529,671 |
| Available-for-sale investments | – | – | 425,563 | 425,563 |
| Trade and bills receivables | – | 1,889,661 | – | 1,889,661 |
| Financial assets included in prepayments, deposits and other receivables | – | 216,343 | – | 216,343 |
| Amount due from related companies | – | 18,050 | – | 18,050 |
| Cash and bank balances | – | 4,468,333 | – | 4,468,333 |
| | 529,671 | 6,592,387 | 425,563 | 7,547,621 |

2013

| | Financial assets at fair value through profit or loss-held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | 138,682 | – | – | 138,682 |
| Available-for-sale investments | – | – | 142,747 | 142,747 |
| Trade and bills receivables | – | 1,582,998 | – | 1,582,998 |
| Financial assets included in prepayments, deposits and other receivables | – | 135,015 | – | 135,015 |
| Amount due from related companies | – | 1,019 | – | 1,019 |
| Cash and bank balances | – | 2,981,343 | – | 2,981,343 |
| | 138,682 | 4,700,375 | 142,747 | 4,981,804 |

## 39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

**Financial assets (continued)**

**Company**

**2014**

| | Financial assets at fair value through profit or loss-held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | 529,671 | – | – | 529,671 |
| Available-for-sale investments | – | – | 87,215 | 87,215 |
| Financial assets included in prepayments, deposits and other receivables | – | 29,457 | – | 29,457 |
| Amount due from related companies | – | 1,742,854 | – | 1,742,854 |
| Cash and bank balances | – | 747,658 | – | 747,658 |
| | 529,671 | 2,519,969 | 87,215 | 3,136,855 |

2013

| | Financial assets at fair value through profit or loss-held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | 134,705 | – | – | 134,705 |
| Available-for-sale investments | – | – | 23,278 | 23,278 |
| Financial assets included in prepayments, deposits and other receivables | – | 21,017 | – | 21,017 |
| Amount due from related companies | – | 948,011 | – | 948,011 |
| Cash and bank balances | – | 643,337 | – | 643,337 |
| | 134,705 | 1,612,365 | 23,278 | 1,770,348 |

## 39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

**Financial liabilities**

| | Financial liabilities at amortised cost | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2014 HK$'000 | 2013 HK$'000 | 2014 HK$'000 | 2013 HK$'000 |
| Trade payables | 775,241 | 475,003 | – | – |
| Financial liabilities included in other payables and accruals | 609,569 | 444,766 | 15,489 | 6,025 |
| Interest-bearing bank borrowings | 1,723,784 | 74,153 | 1,287,000 | – |
| Amount due to related companies | 33,959 | 1,123 | – | – |
| Amount due to subsidiaries | – | – | 626,150 | 578,246 |
| | 3,142,553 | 995,045 | 1,928,639 | 584,271 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

### Group

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 2014 HK$'000 | 2013 HK$'000 | 2014 HK$'000 | 2013 HK$'000 |
| **Financial assets** | | | | |
| Equity investments at fair value through profit or loss | 529,671 | 138,682 | 529,671 | 138,682 |
| Available-for-sale investments | 425,563 | 142,747 | 425,563 | 142,747 |
| Trade and bills receivables | 1,889,661 | 1,582,998 | 1,889,661 | 1,582,998 |
| Financial assets included in prepayments, deposits and other receivables | 216,343 | 135,015 | 216,343 | 135,015 |
| Amount due from related companies | 18,050 | 1,019 | 18,050 | 1,019 |
| Cash and bank balances | 4,468,333 | 2,981,343 | 4,468,333 | 2,981,343 |
| | 7,547,621 | 4,981,804 | 7,547,621 | 4,981,804 |
| **Financial liabilities** | | | | |
| Trade payables | 775,241 | 475,003 | 775,241 | 475,003 |
| Financial liabilities included in other payables and accruals | 609,569 | 444,766 | 609,569 | 444,766 |
| Interest-bearing bank borrowings | 1,723,784 | 74,153 | 1,723,784 | 74,153 |
| Amount due to related companies | 33,959 | 1,123 | 33,959 | 1,123 |
| | 3,142,553 | 995,045 | 3,142,553 | 995,045 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Company

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets** | | | | |
| Equity investments at fair value through profit or loss | 529,671 | 134,705 | 529,671 | 134,705 |
| Available-for-sale investments | 87,215 | 23,278 | 87,215 | 23,278 |
| Financial assets included in prepayments, deposits and other receivables | 29,457 | 21,017 | 29,457 | 21,017 |
| Amount due from subsidiaries | 1,742,854 | 948,011 | 1,742,854 | 948,011 |
| Cash and bank balances | 747,658 | 643,337 | 747,658 | 643,337 |
| | 3,136,855 | 1,770,348 | 3,136,855 | 1,770,348 |
| **Financial liabilities** | | | | |
| Financial liabilities included in other payables and accruals | 15,489 | 6,025 | 15,489 | 6,025 |
| Interest-bearing bank borrowings | 1,287,000 | – | 1,287,000 | – |
| Amount due to subsidiaries | 626,150 | 578,246 | 626,150 | 578,246 |
| | 1,928,639 | 584,271 | 1,928,639 | 584,271 |

The fair values of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/ to subsidiaries, amounts due to related companies and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank borrowings approximate to their carrying amounts as the borrowings are floating interest rate loans.

The fair values of the listed equity investments are based on quoted market prices.

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

**Assets measured at fair value**

**Group**

***As at 31 December, 2014***

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Equity investments at fair value through profit or loss | 529,671 | – | – | 529,671 |

*As at 31 December, 2013*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Equity investments at fair value through profit or loss | 138,682 | – | – | 138,682 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

**Assets measured at fair value (continued)**

**Company**

*As at 31 December, 2014*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Equity investments at fair value through profit or loss | 529,671 | – | – | 529,671 |

*As at 31 December, 2013*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Equity investments at fair value through profit or loss | 134,705 | – | – | 134,705 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's bank borrowings with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in US$ interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

| | Increase/ (decrease) in basis points | (Decrease) increase/ in profit before tax HK$'000 | (Decrease) increase/ in equity HK$'000 |
|---|---|---|---|
| **2014** | | | |
| Renminbi-denominated borrowings | 50 | – | – |
| US$-denominated borrowings | 50 | (6,435) | (6,435) |
| Renminbi-denominated borrowings | (50) | – | – |
| US$-denominated borrowings | (50) | 6,435 | 6,435 |
| 2013 | | | |
| Renminbi-denominated borrowings | 50 | – | – |
| Renminbi-denominated borrowings | (50) | – | – |

### Foreign currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. In Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currencies in respect of the current account items (including payment of dividend and profit to the foreign joint venture partner).

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of monetary assets and liabilities):

| | Increase/ (decrease) in exchange rate % | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity HK$'000 |
|---|---|---|---|
| **2014** | | | |
| If the Hong Kong dollar weakens against Renminbi | 5 | – | 213,536 |
| If the Hong Kong dollar strengthens against Renminbi | (5) | – | (213,536) |
| 2013 | | | |
| If the Hong Kong dollar weakens against Renminbi | 5 | – | 175,206 |
| If the Hong Kong dollar strengthens against Renminbi | (5) | – | (175,206) |

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and bills receivables are widely dispersed in different sectors and industries.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk

The Group's liquidity remained strong as at the end of the reporting period. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group is not exposed to liquidity risk.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**Group**

**2014**

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Trade payables | 110,711 | 598,903 | 58,382 | 7,245 | 775,241 |
| Other payables | 213,667 | 227,318 | 153,626 | 14,958 | 609,569 |
| Interest-bearing bank borrowings | – | 307,779 | 127,408 | 1,288,597 | 1,723,784 |
| Amount due to related companies | 33,959 | – | – | – | 33,959 |
| | 358,337 | 1,134,000 | 339,416 | 1,310,800 | 3,142,553 |

2013

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Trade payables | 167,142 | 262,250 | 41,857 | 3,754 | 475,003 |
| Other payables | 197,696 | 111,205 | 124,705 | 11,160 | 444,766 |
| Interest-bearing bank borrowings | – | 20,714 | 53,439 | – | 74,153 |
| Amount due to related companies | 1,123 | – | – | – | 1,123 |
| | 365,961 | 394,169 | 220,001 | 14,914 | 995,045 |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk (continued)**

**Company**

**2014**

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Other payables | 15,489 | – | – | – | 15,489 |
| Interest-bearing bank borrowings | – | – | – | 1,287,000 | 1,287,000 |
| Amount due to related companies | 626,150 | – | – | – | 626,150 |
| | 641,639 | – | – | 1,287,000 | 1,928,639 |

2013

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Other payables | 6,025 | – | – | – | 6,025 |
| Amount due to related companies | 578,246 | – | – | – | 578,246 |
| | 584,271 | – | – | – | 584,271 |

**Equity price risk**

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as held-for-trading investments (note 24) as at 31 December, 2014. The Group's listed investments are listed on the Hong Kong Stock Exchange and Tokyo Stock Exchange, which were valued at quoted market prices at the end of the reporting period.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Equity price risk (continued)

The following table demonstrates the sensitivity to every 1% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

| | Carrying amount of equity investments HK$'000 | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity HK$'000 |
|---|---|---|---|
| **2014** | | | |
| Investments listed in | | | |
| Hong Kong – Held-for-trading | **497,871** | **4,979/(4,979)** | **4,979/(4,979)** |
| Japan – Held-for-trading | **31,800** | **318/(318)** | **318/(318)** |
| 2013 | | | |
| Investments listed in | | | |
| Hong Kong – Held-for-trading | 134,705 | 1,347/(1,347) | 1,347/(1,347) |
| PRC – Held-for-trading | 3,977 | 40/(40) | 40/(40) |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group funds its operations principally via its capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December, 2014 and 31 December, 2013.

## 42. EVENTS AFTER THE REPORTING PERIOD

The Company and its subsidiary CT Resources respectively subscribed the convertible bonds of Karolinska Development AB of SEK22,858,294 (equivalent to approximately HK$22,728,000) and SEK150,000,000 (equivalent to approximately HK$149,145,000). The transaction was completed in 2015, and the convertible bonds started to be listed on NASDAQ OMX Stockholm since 16 January, 2015. The Company has also undertaken to subscribe the convertible bonds of Karolinska Development AB of SEK100,000,000 (equivalent to approximately HK$99,000,000) of which the payment has been settled on February 2015. The transactions was completed on 12 March, 2015.

## 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March, 2015.