China Traditional Chinese Medicine Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

ANNUAL REPORT **2014**

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. YANG Bin *(Managing Director)*
Mr. WANG Xiaochun

Non-executive Directors

Mr. LIU Cunzhou
Mr. ZHANG Jianhui
Mr. DONG Zenghe
Mr. ZHAO Dongji

Independent Non-executive Directors

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LO Wing Yat

COMPANY SECRETARY

Mr. HUEN Po Wah

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. ZHOU Bajun
Mr. LO Wing Yat

REMUNERATION COMMITTEE

Mr. ZHOU Bajun *(Chairman)*
Mr. LIU Cunzhou
Mr. XIE Rong
Mr. LO Wing Yat

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. YANG Bin
Mr. ZHOU Bajun
Mr. XIE Rong
Mr. LO Wing Yat

STRATEGIC COMMITTEE

Mr. LIU Cunzhou *(Chairman)*
Mr. WU Xian
Mr. YANG Bin
Mr. WANG Xiaochun
Mr. ZHOU Bajun
Mr. YU Tze Shan Hailson

REGISTERED OFFICE

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STOCK CODE

The shares of China Traditional Chinese Medicine Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Limited Macau Branch
Industrial and Commercial Bank of China Limited
(Foshan Branch)
China Merchants Bank Co., Ltd. (Foshan Branch)
Foshan Shunde Rural Commercial Bank Co., Ltd.

WEBSITE

http://www.china-tcm.com.cn

FIVE YEAR FINANCIAL SUMMARY

(Expressed in RMB)

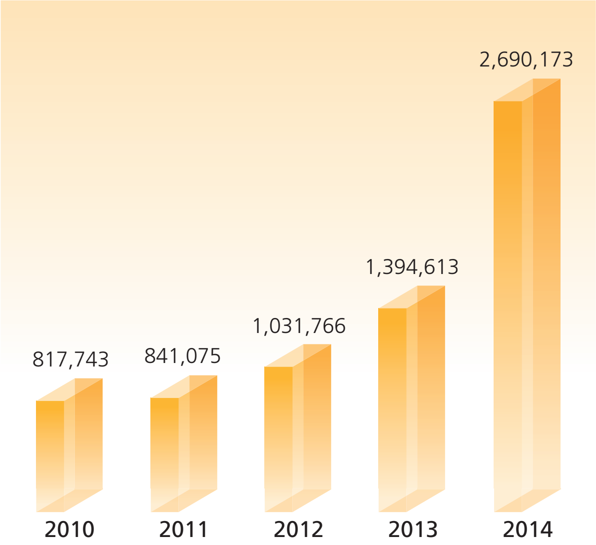
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**	2010-2014 Compound Annual Growth Rate
Results						
Turnover	817,743	841,075	1,031,766	1,394,613	**2,690,173**	34.68%
Gross profit	456,164	454,016	564,013	825,779	**1,654,323**	38.00%
Profit from operations	103,667	84,563	235,795	272,757	**545,390**	51.45%
Profit before taxation	100,331	78,198	216,406	237,575	**481,173**	47.98%
Profit attributable to the shareholders of the Company	53,047	59,667	168,526	198,463	**413,090**	67.05%
Profitability						
Gross profit margin	55.78%	53.98%	54.66%	59.21%	**61.50%**	
Operating profit margin	12.68%	10.05%	22.85%	19.56%	**20.27%**	
Net profit margin	9.17%	7.26%	16.77%	14.29%	**15.30%**	
Earnings per share						
Basic & Diluted	3.07 cents	3.34 cents	9.45 cents	9.68 cents	**16.30 cents**	51.80%
Financial position						
Total assets	1,196,542	1,315,566	1,554,220	5,066,470	**5,331,852**	
Total equity attributable to equity shareholders of the Company	710,940	768,945	828,454	2,759,853	**3,183,756**	
Total liabilities	473,955	533,795	708,449	2,231,707	**2,074,730**	
Cash and cash equivalents	102,120	34,336	46,258	345,411	**439,416**	
Debt asset ratio	39.61%	40.58%	45.58%	44.05%	**38.91%**	

FIVE YEAR FINANCIAL SUMMARY

(Expressed in RMB)

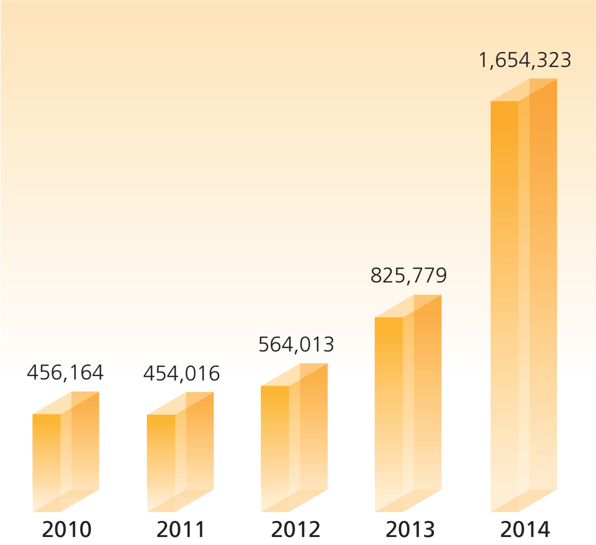
TURNOVER
RMB'000

Annual Growth of 2013-2014
92.90%



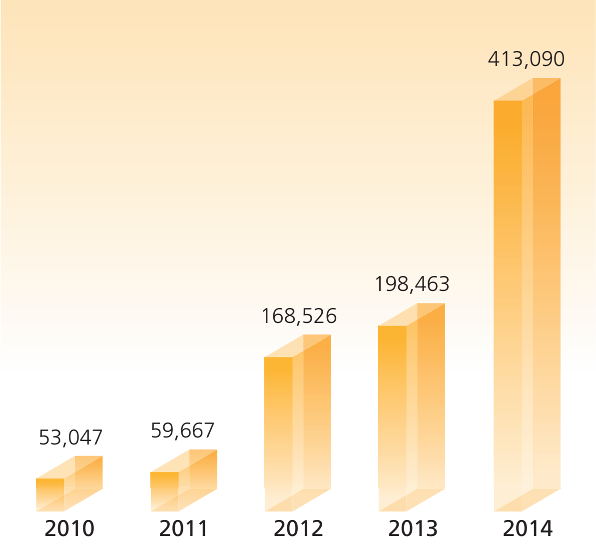
GROSS PROFIT
RMB'000

Annual Growth of 2013-2014
100.33%



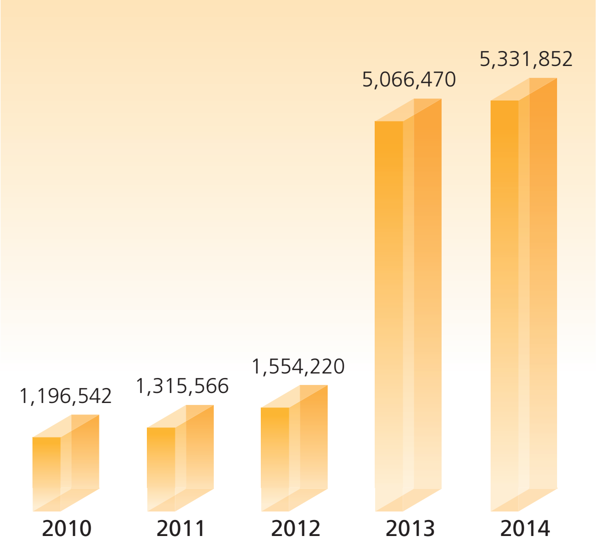
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY
RMB'000

Annual Growth of 2013-2014
108.14%



TOTAL ASSETS
RMB'000

Annual Growth of 2013-2014
5.24%



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to express my gratitude to our shareholders and other stakeholders for their continued attention and substantial support to us. On behalf of the board (the "Board") of directors (the "Directors") of China Traditional Chinese Medicine Company Limited (the "Company"), I am pleased to present the audited Annual Report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014.

IMPROVED PERFORMANCE THROUGH TOTAL INTEGRATION

The year 2014 is the first complete fiscal year for consolidating the financial statements of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang") subsequent to the acquisition of Tongjitang which was completed in October 2013. The audited revenue of the Group was RMB2,690,173,000, representing an increase of 92.9% compared to RMB1,394,613,000 in last year; the audited profit attributable to shareholders was RMB413,090,000, representing a growth of 108.1% compared to RMB198,463,000 in last year. Audited earnings per share increased to RMB16.30 cents from RMB 9.68 cents from last year, representing an increase of 68.4%.

The aforementioned improved performance was a manifestation of the successful integration after the acquisition of Tongjitang. At present, the Company has set up a centralized sales and marketing management center, responsible for the promotion and selling of all major products of the Group, covering both prescription and OTC markets of over 30 provinces, autonomous regions and municipalities throughout mainland China. On top of that, the Company has set up its financial center, R&D center, manufacturing center, purchasing center, human resources center and information center, unifying and improving the rules and regulations of each management center, and achieving synergy from all functions of the business. The whole of the integration process was smoothly completed in mid 2014.

AGGRESSIVE ENTRY INTO CONCENTRATED TCM GRANULES MARKET

Between the end of 2014 and the beginning of 2015, the Company signed agreements for the acquisition of 81.48% of the equity interest of Jiangyin Tianjiang Pharmaceutical Co., Limited ("Tianjiang Pharmaceutical"). In terms of market share by revenue, Tianjiang Pharmaceutical is the biggest concentrated Traditional Chinese Medicine ("TCM") granules manufacturer in China. Concentrated TCM granules is one of the most important trends for the future of TCM. According to the statistics from an independent third party research institute, the market size of concentrated TCM granules grew at a compound annual growth rate of over 50% for the period from 2006 to 2013, which was much greater than other categories of TCM products. The market size is expected to reach approximately RMB 18.8 billion in 2018.

Tianjiang Pharmaceutical is the forerunner among all TCM manufacturers specializing in the research and development and production of concentrated TCM granules; with its role as leader in the industry, its revenue figure took up about 50% of the market share. The acquisition of Tianjiang Pharmaceutical enables the Company an immediate entry into the concentrated TCM granules market and to hold a dominant position in the industry. At the same time, concentrated TCM granules are an important supplement to the TCM products that are currently manufactured by the Company. It will also be a strong boost towards the Company's goal of establishing itself as the leader of TCM industry.

Currently, various steps of the acquisition of Tianjiang Pharmaceutical are being undertaken in a tense but orderly manner; it is expected that the transaction will be completed by mid 2015. The Company is experienced in mergers and acquisitions ("M&A") and post-deal integration, and has flexible business practices and effective incentive mechanisms. The Company is confident that the acquisition and integration processes will be successfully completed, with the purpose of creating synergy and raising earnings per share soon.

ENDEAVORING TO BE THE LEADER OF TCM INDUSTRY

As the flagship company of China National Pharmaceutical Group Corporation ("CNPGC") in the Chinese medicine sector, the Company's goal is to establish itself as the leader of TCM industry in China.

The Company will fully leverage on the strong brand of "Sinopharm" to develop and flourish such historical and well-known brands as "Dezhong", "Fengliaoxing" and "Tongjitang", with a view to establishing and strengthening the advantageous position held by the Company in the market and the industry. The Company possesses production approvals for more than 500 TCM and chemical drugs, including over 60 exclusive products and specifications. The Company has 26 exclusive products which are listed on the National Drugs List for Basic Medical Insurance, among which, Xianling Gubao Capsule/Tablet（仙靈骨葆膠囊／片）, Yu Ping Feng Granule（玉屏風顆粒）, Bi Yan Kang Tablet（鼻炎康片）, Jingshu Granule（頸舒顆粒）, Moisturising & Anti-Itching Capsule（潤燥止癢膠囊）, Fengshi Gutong Capsule（風濕骨痛膠囊）and Zaoren Anshen Capsule（棗仁安神膠囊）are exclusive products on the National Essential Drug List (2012 edition) ("EDL"). The Company has achieved healthy business growth in the past few years and is confident in maintaining such momentum.

The Company has established its base in the Chinese medicine sector and maintains a staunch stand in its strategy of organic growth and M&As. On the foundation of a sustainable growth of its existing TCM business and the entry into concentrated TCM granules market, the Company will continue to seek for resources in the relevant sector in order to support the development in the above two businesses and to enhance the value chain of TCM manufacturing. Meanwhile, the Company will explore entering into TCM service sector in accordance with the characteristics of TCM theory and practice, with a view to expanding its business scope and leveraging on its superior resources in the sector.

Currently, with the complex economic conditions, there is an apparent slow-down in the growth of various industries, including healthcare. The ongoing change in government policy and the intense competition during the process of industry consolidation, together with the impact of new technology on the market, have increased uncertainties faced by pharmaceutical companies. However, the Company has a firm SOE-background with CNPGC being its controlling shareholder, while maintaining flexible and down-to-earth business strategies for a private enterprise. With established corporate governance mechanism and sustainable business model, as well as benefiting from the efficient capital market in Hong Kong, the Company will be able to maintain continuous growth in its revenue size and profitability. The Company will become the leader in China's TCM industry and create value for all shareholders.

Wu Xian
Chairman

16 March 2015

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

The Group is a leading pharmaceutical company in China with excellent brands. It has a total of 332 products and 526 product specifications, 63 of which are national exclusive products. The Group has 58 products being listed on the 2012 edition of EDL, 7 of which are exclusive products, namely Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊／片), Yu Ping Feng Granule (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Jingshu Granule (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Fengshi Gutong Capsule (風濕骨痛膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊). The Group has over 200 products being listed on National Drugs List for Basic Medical Insurance, 26 of which are exclusive products. The Group has accumulated extensive technical experience in extraction of Chinese medicinal herbs, preparation of modern Chinese medicine, sustained or controlled release preparation, manufacturing of traditional Big Candid Pills (大蜜丸) and enhancement of quality.

The Group has 11 manufacturing facilities in Foshan of Guangdong Province, Guiyang and Kaili of Guizhou Province, Xuancheng of Anhui Province, Jining of Shandong Province and Xining of Qinghai Province, with over 49 GMP (2010 edition) certified production lines and annual production capacity of 870 million packs of granules, 5.65 billion tablets and 3.2 billion capsules, as well as 22,000 tonnes of Chinese medicine preprocessing and extraction.

During the year under review, sales of TCM accounted for approximately 88.5% of the Group's turnover, sales of chemical medicine made up approximately 10.0% of the turnover, and sales of bio-medicine accounted for approximately 1.5%.

INDUSTRY OVERVIEW

More Emphasis on Healthcare at Grass-Roots Level

The reform of healthcare system of the State focus on strengthening healthcare protection at grass-roots level. The key points include expanding the scope and raising the level of medical insurance coverage, improving the overall capability of primary hospitals and reinforcing the use of essential drugs.

On 28 May 2014, the General Office of State Council promulgated the "Notice of Key Tasks in Intensifying Reform of Healthcare System in 2014" (深化醫藥衛生體制改革2014年重點工作任務的通知). It highlighted the comprehensive reform of public hospital at county level and initiated the second pilot scheme of the reform, aiming at covering over 50% of the counties and 500 million rural residents in China.

On 17 July 2014, the National Health and Family Planning Commission ("Health Commission") issued the "Notice on Several Key Tasks of New Rural Cooperative Medical System" ("NCMS"), (《關於做好新型農村合作醫療幾項重點工作的通知》), proposing raising the financing and protection level of NCMS in 2014, and increasing the subsidy to NCMS by all levels of government to RMB320 per person per year, and the average payment by individuals to RMB90 per person per year, respectively. Each region should adjust and optimize the compensation plan. The reimbursement ratio of in-patient care under NCMS coverage should be over 75%, and the medication expenses reimbursement ratio of out-patient should be raised to around 50%.

On 26 August 2014, the Health Commission published the "Notice on Enhancing the Overall Capability of Hospitals at County Level" (《全面提升縣級醫院綜合能力工作方案的通知》), proposing to build up the capability of hospitals at county level with focuses on talent, technology and key specialist. It specified that in stage 1, from 2014 to 2017, 500 hospitals at county level would be chosen among those under the pilot scheme of reform of public hospital at county level based on the infrastructure and medical service capability, aiming to improve the overall capability of such 500 hospitals. In stage 2 (2018-2020), the overall capability of all hospitals at county level should be enhanced.

On 23 January 2015, the Health Commission published the "Key Tasks of Healthcare and Family Planning Work in 2015" (《2015年衛生計生工作要點》), with the key points of 1) to formulate and carry out the "Opinion on the Full-Scale Implementation of Overall Reform of Public Hospitals at County Level" (《關於全面推廣縣級公立醫院綜合改革的實施意見》) in order to expand the reform to all counties in the country; 2) to improve the national medical insurance system and increase government subsidy to urban resident medical insurance and NCMS; 3) to enhance the essential drug system and its operation at primary healthcare institutions by strengthening the stocking and prescription of essential drugs; 4) to improve the supply system of drugs and to link the sourcing mechanisms of essential drugs and non-essential drugs; 5) to promote impartiality in public basic healthcare service; 6) to push forward the system of tiered medical service by producing guidance and pilot scheme and to start trial of tiered medical service in the region undertaking urban public hospital reform; 7) to develop healthcare service sector, with focus on optimizing the macro-environment of private hospitals, regulating the reform of public hospitals, carrying forward the pilot scheme of reform for hospitals owned by SOE, and improving policies of foreign investment on healthcare.

The Group has 7 exclusive products listed on the 2012 edition EDL, and always keeps track of the primary healthcare institution market, including penetrating into hospitals at county level and rural/community hospitals with a strong sales and marketing team of over 1,600 staff. The Group will benefit from government's increasing focus and allocation of more resources in the primary healthcare sector, and is confident to achieve rapid growth in the primary healthcare market.

Flourishing Chinese Medicine Industry

The culture of Chinese medicine is an indispensible element in Chinese civilization, and is a treasure for Chinese people. Traditional Chinese medicines are made from natural substances with minimal toxic side effect and drug resistance, and the expenses of treatment are relatively lower. Traditional Chinese medicine has unique efficacy in rebalancing bodily functions of human being, prevention of illness, and treatment of chronic diseases. As the aging population in China has created huge demand for healthcare products and services, it is high time to carry forward and promote Chinese medicine.

On 24 July 2014, the Legal Affairs Office of the State Council published the notice of invitation for public opinion on "Chinese Medicine Law of the People's Republic of China (Draft for Comments)" (《中華人民共和國中醫藥法(徵求意見稿)》), citing the key points of: 1) Chinese medicine, i.e. traditional Chinese medicine, is the collective name of the medicines of all nationalities in China. It has specific theories and systems with the characteristics of Chinese culture, which is different from western medicine; 2) the government encourages TCM practitioners to coach apprentices in order to nurture TCM physicians and technicians, while engaging in TCM practices; 3) when making up TCM preparations, healthcare institutions should acquire "Dispensing Permit for Medical Organization" (《醫療機構製劑許可證》) according to the stipulations of "Law on the Administration of Pharmaceuticals of the People's Republic of China" (《中華人民共和國藥品管理法》). An organization should make filing at the local drug administration authority when entrusting subcontractors to make up TCM preparations.

On 29 July 2014, China Food and Drug Administration ("CFDA") issued the "Notice on Strengthening the Supervision and Administration of Extraction and Extracts during the Production of TCM" (《加強中藥生產中提取和提取物監督管理的通知》), requiring: 1) TCM manufacturers must possess extraction ability which is appropriate to the type of products and scale of production. Starting from 1 January 2016, TCM extraction by subcontractors will be forbidden, with the exception of setting up extraction workshop at different location or sharing extraction workshop between companies with shareholding relationship. 2) The "Detailed Rules for Implementing the Administration of Filing of TCM Extracts" (《中藥提取物備案管理實施細則》) specify the scope, procedures and requirement of the filing, impose the responsibility of quality on the users of TCM extracts, i.e. producers of finished products. No further approval is needed for those TCM extracts for which fillings have been made.

With an aging population, the trend of "combining medical service with care for the old" is inevitable. For those elderly who are incapable of taking care of themselves in particular, combining care service with medical treatment provides a good solution to their demand. At the end of 2014, Jiangsu Province selected sites in 6 cities to build up TCM nursing home in order to set up models for others. The TCM nursing homes will be owned or managed by TCM hospitals so that the elderly could benefit from TCM ways of keeping good health.

Through TCM legislations and regulating TCM products, the government strengthens the supervision of TCM industry and enhances the quality of TCM products, this will benefit large companies with operation in scale. With focus on TCM business, the Group has always been emphasizing on operation management and product quality, and has accumulated rich experience in the areas of TCM herb sourcing, extracting and finished products manufacturing. While investing on research and development of new drugs, the Group applied the method of evidence-based medicine to its existing key TCM products, and carried out several phase IV clinical trails with the aim to collect more scientific data to support market promotion. The Group is an industry consolidator, and will be the leader of TCM industry in China.

Reform of Pricing System of Drugs

On 8 May 2014, National Development and Reform Commission ("NDRC") released the "Notice of the Issues Related to Improving the Pricing System of Low-Price Drugs" (《關於改進低價藥品價格管理有關問題的通知》), publishing the list of low-price drugs of which the pricing is controlled by NDRC. It also requested the price administration authority of each province to release, before 1 July 2014, the list of low-price drugs of which the pricing is controlled by the local authority.

It is reported that NDRC issued a draft for comments to the pricing departments of each province at the end of October 2014 to discuss the liberalization of drug pricing control. The document proposed that by the end of 2014, it would first liberalize the pricing control of four categories of drugs, namely plasma-based products, preventative and immunity drugs and contraceptive drugs and devices under centralized sourcing by the government, class one psychotropic and anaesthetic drugs, and patented drugs. Regarding the price adjustment of the drugs on the National Drugs List for Basic Medical Insurance, NDRC proposed that the mechanism should be changed to allow medical insurance department, together with other government authorities, to fix the reimbursement standards, and the actual purchase and selling prices would then be determined by market competition.

The reform of pricing system of drugs will promote the market-based pricing mechanism for pharmaceutical products, which will benefit pharmaceutical companies with good quality and good services to win competition advantages. Setting up a medical insurance reimbursement standard will change the current trend of focusing on price only during the tender process. Doctors and patients will have more freedom in the selection of drugs, and manufacturers will focus on the quality and efficacy of their products, rather than making every effort to cut cost to reduce price. The introduction of the low-price drug list will allow pharmaceutical companies more room to improve their product quality and to enhance market promotion. The Group has over 100 products being included in NDRC's low-price drug list, including the exclusive EDL product Bi Yan Kang Tablet (鼻炎康片). The Group will further verify the applicable symptoms and diseases of the existing major products by means of in-depth clinical trials, so that to get well prepared for the forthcoming changes brought by the reform of pricing system of drugs.

BUSINESS REVIEW

Sales of Products

During the year under review, the Group's turnover increased by 92.9% from RMB1,394,613,000 for the corresponding period last year to RMB2,690,173,000, which was mainly attributable to the full-year consolidation of the financial statements of Tongjitang. At the same time, the Group's 7 exclusive products listed on the National Essential Drug List recorded satisfactory growth in sales revenue.

Analysis by TCM, Chemical and Bio-medicine:

	For the year ended 31 December				
	2014 RMB'000	**Percentage to turnover**	2013 RMB'000	Percentage to turnover	Change
TCM	**2,380,766**	**88.5%**	1,160,708	83.2%	105.1%
Chemical medicine	**269,688**	**10.0%**	195,424	14.0%	38.0%
Bio-medicine	**39,719**	**1.5%**	38,481	2.8%	3.2%
Total	**2,690,173**	**100.0%**	1,394,613	100.0%	92.9%

Sales Analysis of Top Ten Products:

	For the year ended 31 December				
	2014 RMB'000	**Percentage to turnover**	2013 RMB'000	Percentage to turnover	Change
Xianling Gubao (仙靈骨葆)	**850,358**	**31.6%**	207,340	14.9%	310.1%
Bi Yan Kang Tablet (鼻炎康片)	**255,841**	**9.5%**	215,338	15.4%	18.8%
Yu Ping Feng Granule (玉屏風顆粒)	**250,049**	**9.3%**	218,459	15.7%	14.5%
Jingshu Granule (頸舒顆粒)	**200,534**	**7.5%**	38,238	2.7%	424.4%
Moisturising & Anti-Itching Capsule (潤燥止癢膠囊)	**158,455**	**5.9%**	30,942	2.2%	412.1%
Sheng Tong Ping (聖通平)	**87,303**	**3.2%**	90,231	6.5%	-3.2%
Gao De (高德)	**87,113**	**3.2%**	61,066	4.4%	42.7%
Feng Liao Xing Medicinal Wine (馮了性藥酒)	**81,585**	**3.0%**	85,102	6.1%	-4.1%
Zaoren Anshen Capsule (棗仁安神膠囊)	**57,909**	**2.2%**	8,364	0.6%	592.4%
Fengshi Gutong Capsule (風濕骨痛膠囊)	**52,790**	**2.0%**	8,212	0.6%	542.8%
Other products	**608,236**	**22.6%**	431,321	30.9%	41.0%
Total	**2,690,173**	**100.0%**	1,394,613	100.0%	92.9%

Xianling Gubao (仙靈骨葆), Jingshu Granule (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Zaoren Anshen Capsule (棗仁安神膠囊) and Fengshi Gutong Capsule (風濕骨痛膠囊) are main products of Tongjitang. The turnover of Tonjitang's products in November and December 2013 was consolidated since the completion of acquisition.

Research and Development

In 2014, the Group passed the on-site inspection by CFDA regarding Fexofenadine/Pseudophedrine Sustained-release capsule (非索偽麻緩釋膠囊), a class 3.2 drug, and obtained the new drug certificate and approval for production at the beginning of 2015. During the year under review, the Group also received notice of on-site inspection from CFDA regarding a TCM class 6 new drug-Wuwei Huoxiang Tablet (五味藿香片) which is for curing medium and mild depression. It is expected that the on-site inspection will be carried out in mid 2015.

During the year under review, the Group actively pushed forward the project of "Yu Ping Feng Granule (玉屏風顆粒) Re-evaluation", which will provide more solid medical theoretical foundation for prescribing Yu Ping Feng Granule (玉屏風顆粒) to suitable patients, and in turn will help the academic promotion of this product in healthcare institutions at all levels. The projects which have already started include the study on the efficacy of bi-directional immunological regulation with Shanghai Institute of Pharmaceutical Industry (上海醫藥工業研究院 or "SIPI"), the multi-centre clinical trial for the treatment of COPD led by Dr. Zhong Nanshan, the multi-centre clinical trial for curing child repeated infection of upper respiratory tract, and the multi-centre clinical trial for the treatment of child asthma with high IgE and eosinophils increase and the study on molecular biology mechanism. The revaluation project is expected to last for several years, and may draw subsidy from CNPGC and government.

The Group will focus on investing in R&D projects of new drugs for neural degradation diseases, cerebro-cardiovascular drugs and drugs for diseases of the ageing population.

Progress of Investment Projects

Acquisition of Tianjiang Pharmaceutical

On 31 December 2014 and 15 January 2015, the Company entered into agreements with various vendors, pursuant to which the Company conditionally agreed to acquire approximately 81.48% equity interest in Tianjiang Pharmaceutical, with a total consideration between RMB7,595,900,000 and RMB8,346,000,000. The consideration will be paid in cash generated from equity finance, debt finance and internal resources. Details of the acquisition are set out in the announcement of the Company dated 27 January 2015.

Tianjiang Pharmaceutical is the largest manufacturer of concentrated TCM granules in China. The acquisition will allow the Company to get prompt access to the market of concentrated TCM granules with a leading position. Moreover, there is potential to achieve synergy between the Company and Tianjiang Pharmaceutical in terms of raw material purchasing, production, R&D and distribution network.

The transaction has not yet been completed till now.

Guizhou Zhongtai

On 27 January 2015 the Group and 中國生物技術股份有限公司 (China Biotechnology Co., Ltd.) ("China Biotechnology Co") entered into an agreement to conditionally sell 31% equity interest in Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai") to China Biotechnology Co for a consideration of RMB139,500,000. The Group considered that the main business of Guizhou Zhongtai was R&D, production and sale of plasma-based biopharmaceutical products, which was not the core business of the Group. The disposal of Guizhou Zhongtai will allow the Group to allocate more resources to focus on the development of TCM business.

The transaction can only be completed after all conditions specified in the agreement are met. Upon completion of the transaction, the Group will hold 20% equity interest of Guizhou Zhongtai, which will subsequently be sold to China Biotechnology Co at an appropriate price under certain conditions. As the controlling shareholder of China Biotechnology Co is CNPGC, this transaction constitutes a connected transaction.

For the year under review, turnover of Guizhou Zhongtai was approximately RMB39,719,000, and its loss was approximately RMB7,187,000.

Construction of Headquarters Building

On 19 April 2014, the Group acquired the land use rights certificate of a land parcel at the south part of Kui Qi Road and the east part of Ling Nan Road, Chan Cheng Area, Foshan City of Guangdong Province. The Group will construct its headquarters, R&D center and ancillary facilities on the land parcel. The Group is working with an independent third party to develop the project. The allocation of the space of the buildings will be based on the amount of investment from each of the two parties. During the year under review, construction work was started. The Group expects the project to be completed in 2016.

Manufacturing Facilities at Guiyang Economic & Technology Development Zone

During the year under review, the construction work for the manufacturing base located at Guiyang Economic & Technology Development Zone, Guizhou Province (new factory of Tongjitang) has been started. It is expected the project will be completed in 2016. The new facilities will be in full compliance with new GMP requirements and, upon operational, will significantly improve the production capacity of the Group and meet the business expansion needs.

FINANCIAL REVIEW

Turnover

During the year under review, the Group's turnover amounted to RMB2,690,173,000, representing an increase of 92.9% from RMB1,394,613,000 of last year. The growth of turnover was mainly attributable to the full-year consolidation of Tongjitang's financial statements. In addition, synergy from the integration of the sales force also facilitated the growth of turnover.

Cost of sales and gross profit margin

During the year under review, the Group's cost of sales was RMB1,035,850,000, representing an increase of 82.1% as compared to RMB568,834,000 for last year. Direct raw materials, direct labor and production overhead accounted for 74.8%, 9.6% and 15.6% of the total cost of sales, respectively, as compared to 74.3%, 13.0% and 12.7% for last year. Gross profit for the year was RMB1,654,323,000, or an increase of RMB828,544,000 from RMB825,779,000 of last year. Gross profit margin also rose to 61.5% from 59.2% of last year.

Other revenue

During the year under review, the Group's other revenue was RMB38,413,000, representing an increase of 143.6% compared to RMB15,769,000 for last year.

	2014 ***RMB'000***	2013 *RMB'000*	Change
Interest income	**1,694**	7,748	-78.1%
Government grants	**35,708**	7,390	383.2%
Rental income	**1,011**	631	60.2%
Total	**38,413**	15,769	143.6%

Interest income decreased, which was because the interest compensation for land premium of the land for headquarter was received in the last year, and the remaining interest income was confirmed as non-recurring income, which was terminated this year. The increase in government grants was mainly due to the construction of the headquarter building, which brought in a local government incentive of RMB22,000,000, as the project met the conditions.

Other net (expenses)/income

During the year under review, the Group's other net expenses were RMB3,516,000 (2013: other net income of RMB8,146,000). The change from other net income to other net expenses was mainly due to the net income derived from the sale of equity investments in the market last year, which was a non-recurring income and was terminated in the year. In addition, there was an exchange loss due to the change in exchange rate in the year.

Selling and distribution costs

During the year under review, the Group's sales and distribution costs amounted to RMB903,493,000 (2013: RMB404,629,000).

	2014 ***RMB'000***	2013 *RMB'000*	Change
Advertising, promotion and traveling expenses	**499,424**	227,509	119.5 %
Salary expenses of sales and marketing staff	**244,012**	109,440	123.0%
Distribution costs	**27,817**	13,263	109.7%
Other sales and distribution costs	**132,240**	54,417	143.0 %
Total	**903,493**	404,629	123.3%

Selling and distribution costs increased by 123.3% as compared to that of last year, as after the acquisition of Tongjitang, the size of sales and marketing teams of the Group increased significantly. At the same time, the Group strengthened the promotion of its products and brands, such that the related expenses increased. During the year under review, selling and distribution costs as a percentage to turnover was 33.6%, as compared to 29.0% for last year.

Administrative Expenses

During the year under review, the Group's administrative expenses amounted to RMB240,337,000 (2013: RMB172,308,000).

	2014 ***RMB'000***	2013 *RMB'000*	Change
Staff salary	**64,731**	52,099	24.2%
Depreciation and amortisation	**20,895**	15,412	35.6%
Expenses for product research and development	**67,875**	45,947	47.7%
Office rental cost and other expenses	**86,836**	58,850	47.6%
Total	**240,337**	172,308	39.5%

Administrative expenses increased to RMB240,337,000 after full-year consolidating Tongjitang's financial statements, representing an increase of 39.5% as compared to RMB172,308,000 for last year. However, the Group effectively controlled expenses and improved efficiency by post-merger integration. Administrative expenses as a percentage to turnover decreased from 12.4% for last year to 8.9% for the year.

Profit from Operations

During the year under review, the Group's profit from operations was RMB545,390,000, representing an increase of 100.0% as compared to RMB272,757,000 for last year, while operating profit margin (defined as profit from operations divided by turnover) increased to 20.3% from 19.6% for last year.

Finance Costs

During the year under review, the Group's finance costs amounted to RMB64,217,000 (2013: RMB35,182,000), and the higher finance costs as compared with last year was attributable to the bank loans for the acquisition projects in 2013. As at 31 December 2014, long-term bank loans of the Group was RMB670,565,000. In addition, the full-year consolidation of Tongjitang's financial statements increased the interest expenses by RMB8,486,000. During the year under review, the effective interest rate for loans was 5.04% (2013: 5.17%).

Earnings per share

During the year under review, the basic earnings per share was RMB16.30 cents, representing an increase of 68.4% as compared to RMB9.68 cents for last year. Basic earnings per share increased because of the acquisition of Tongjitang which generated good performance and synergy effect. Profit attributable to equity shareholders of the Company for the year increased by 108.1% to RMB413,090,000 (2013: RMB198,463,000).

Liquidity and Financial Resources

As at 31 December 2014, the Group's current assets amounted to RMB2,094,478,000 (31 December 2013: RMB1,778,150,000), which included cash, cash equivalents and deposits with banks of RMB439,721,000 (31 December 2013: RMB349,650,000), as well as trade and other receivables of RMB1,236,400,000 (31 December 2013: RMB1,016,832,000). Current liabilities amounted to RMB1,133,841,000 (31 December 2013: RMB1,264,388,000). Net current assets aggregated to RMB960,637,000 (31 December 2013: RMB513,762,000). The Group's current ratio was 1.8 (31 December 2013: 1.4). The gearing ratio (defined as bank and other loans divided by equity attributable to equity shareholders of the Company) decreased to 0.37 from 0.45 as at 31 December 2013. Gearing ratio decreased as the Group repaid part of the bank loans with its cash surplus from operating activities, and retained profits increased as well.

Bank and other Loans and Pledge of Assets

As at 31 December 2014, the balance of the Group's bank and other loans was RMB1,172,213,000 (31 December 2013: RMB1,251,896,000), of which RMB409,547,000 (31 December 2013: RMB338,928,000) was secured by the Group's assets with book value of RMB302,526,000 (31 December 2013: RMB189,003,000) in total and guaranteed by a shareholder. Bank loans decreased as the Group repaid part of the bank loans with its cash surplus from operating activities, so as to reduce finance costs.

Contingent Liabilities

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

Employee and Remuneration Policies

As at 31 December 2014, the Group had a total of 6,791 (31 December 2013: 6,719) employees (including directors of the Company), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 3,813, 2,098 and 880 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the year was RMB414,778,000 (2013: RMB226,272,000).

FINAL DIVIDEND

The Board has not recommended the payment of a final dividend for the year ended 31 December 2014 (2013: nil).

The Directors have the pleasure in presenting the annual report together with the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC").

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2014 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 54 to 132 of this report.

No interim dividend was paid during the year (six months ended 30 June 2013: Nil).

The Board has not recommended to declare a final dividend for the year ended 31 December 2014 (2013: Nil). The Company shall review its dividend policy from time to time and would distribute dividend to shareholders at appropriate time.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB413,090,000 (2013: RMB198,463,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 11 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 26(a) and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 3 to 4 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2014 are set out in note 15 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Board comprises the following Directors during the financial year and up to the date of this report:

Executive Directors

Mr. WU Xian	*Chairman*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	

Non-executive Directors

Mr. SHE Lulin	*(resigned on 30 August 2014)*
Mr. LIU Cunzhou	
Mr. ZHANG Jianhui	*(appointed on 30 August 2014)*
Mr. DONG Zenghe	
Mr. ZHAO Dongji	

Independent Non-executive Directors

Mr. ZHOU Bajun	
Mr. XIE Rong	*(appointed as alternate director to Mr. YU Tze Shan Hailson for 1 day on 4 January 2014)*
Mr. FANG Shuting	*(resigned on 25 November 2014)*
Mr. YU Tze Shan Hailson	
Mr. LO Wing Yat	*(appointed on 27 January 2015)*

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and the Company considers all the independent non-executive Directors to be independent.

All the Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with Article 92 of the Company's Articles of Association, Mr. ZHANG Jianhui and Mr. LO Wing Yat shall hold office until the forthcoming general meeting of the Company and shall then be eligible for re-relection. In accordance with Article 101 of the Company's Articles of Association, Mr. WANG Xiaochun, Mr. DONG Zenghe, Mr. ZHAO Dongji and Mr. ZHOU Bajun shall retire by rotation at the annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of the existing Directors as at the date of this annual report, including the particulars required under paragraph 12 of Appendix 16 the Listing Rules (if and as applicable and appropriate), are set out on pages 48 to 51 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013. In 2014, Mr. WU Xian entered into an employment agreement with the Company with effect from 22 June 2014 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month's prior notice. Mr. WU is subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Articles of Association.

Mr. YANG Bin entered into a service agreement with the Company for an initial term of two years commencing from 21 June 2009 which shall automatically be renewed thereafter until terminated by either party to the service agreement by giving a six months' prior notice.

Mr. WANG Xiaochun entered into an appointment letter with the Company for a term of two years commencing from 23 October 2013.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. LIU Cunzhou and Mr. ZHAO Dongji renewed an appointment letter with the Company for a term of two years commencing from 5 February 2015.

Mr. ZHANG Jianhui entered into an appointment letter with the Company for a term of two years commencing from 30 August 2014.

Mr. DONG Zenghe renewed an appointment letter with the Company for a term of two years commencing from 6 March 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. ZHOU Bajun and Mr. XIE Rong renewed an appointment letter with the Company for a term of two years commencing from 5 February 2015.

Mr. YU Tze Shan Hailson entered into an appointment letter with the Company for a term of two years commencing from 25 November 2013.

Mr. LO Wing Yat entered into an appointment letter with the Company for a term of two years commencing from 27 January 2015.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration committee (the "Remuneration Committee") and the emoluments of the non-executive Director and independent non-executive Directors are recommended by the Remuneration Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2014, the fee for the eligible Directors was fixed at HK$234,000 per annum.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULES 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company since the date of the 2014 Interim Report is as follows:

- Mr. FANG Shuting resigned as an independent non-executive Director with effect from 25 November 2014.
- Mr. LO Wing Yat was appointed as an independent non-executive Director with effect from 27 January 2015.
- Mr. ZHOU Bajun retired as an independent non-executive director of Sinopharm Group Co. Ltd. with effect from 16 September 2014.
- Mr. XIE Rong retired as an independent non-executive director of Sinopharm Group Co. Ltd. with effect from 16 September 2014.
- Mr. YU Tze Shan Hailson was appointed as an independent non-executive director of Sinopharm Group Co. Ltd. with effect from 16 September 2014.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

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

Long positions and short positions in shares and underlying shares of the Company as at 31 December 2014:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
YANG Bin	Interest of controlled corporation	267,511,621 (long position) *(Note 1)*	10.56%
	Interest of controlled corporation	71,037,863 (short position) *(Note 2)*	2.80%
	Beneficial owner	66,488,379 (long position)	2.62%
	Total	334,000,000 (long position)	13.18%
WANG Xiaochun	Interest of controlled corporation	334,000,000 (long position) *(Note 3)*	13.18%
	Interest of controlled corporation	150,000,000 (short position) *(Note 4)*	5.92%
	Total	334,000,000 (long position)	13.18%

Notes:

1. The 267,511,621 shares are held by Profit Channel Development Limited ("Profit Channel"), which is wholly owned by Mr. YANG Bin.

2. Profit Channel pledged 71,037,863 shares to CNPGC as security in connection to the Company's bank borrowing to finance the Company's acquisition of Tongjitang.

3. The 334,000,000 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

4. On 26 March 2014, 150,000,000 shares were charged to Design Time Limited by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2014, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2014, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 31 December 2014:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
Sinopharm Hong Kong	Beneficial owner	1,016,023,044 (long position) *(Note 1)*	40.10%
CNPGC	Interest of controlled corporations	1, 016,023,044 (long position) *(Note 1)*	40.10%
CNPGC	Security interest	71,037,863 (long position) *(Note 2)*	2.80%
Profit Channel	Beneficial owner	267,511,621 (long position)	10.56%
	Interest of a controlled corporation	71,037,863 (short position) *(Note 2)*	2.80%
Hanmax	Beneficial owner	334,000,000 (long position) *(Note 3)*	13.18%
	Beneficial owner	150,000,000 (short position) *(Note 3)*	5.92%
China Construction Bank Corporation	Person having a security interest in shares *(Notes 4 and 5)*	150,000,000 (long position)	5.92%
Central Huijin Investment Ltd.	Person having a security interest in shares *(Notes 4 and 5)*	150,000,000 (long position)	5.92%

Notes:

1. The 1,016,023,044 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hong Kong"), which is indirectly wholly owned by CNPGC.

2. Profit Channel (wholly owned by Mr. YANG Bin) pledged 71,037,863 shares to CNPGC as security in connection with the Company's bank borrowing to finance the Company's acquisition of the Tongjitang.

3. The 334,000,000 shares are held by Hanmax which is wholly owned by Mr. WANG Xiaochun. On 26 March 2014, 150,000,000 shares were charged to Design Time Limited by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.

4. The interests of Central Huijin Investment Ltd. and China Construction Bank Corporation relate to the same block of shares.

5. Central Huijin Investment Ltd. is the holding company of China Construction Bank Corporation and is deemed to be interested in the shares in which China Construction Bank Corporation is interested through interests of corporations controlled by its as follows:

Name of Controlled Corporation	Name of Controlling Shareholder	Percentage Control
China Construction Bank Corporation	Central Huijin Investment Ltd.	57.26%
CCB International Group Holdings Limited	China Construction Bank Corporation	100%
CCB Financial Holdings Limited	CCB International Group Holdings Limited	100%
CCB International (Holdings) Limited	CCB Financial Holdings Limited	100%
CCBI Investments Limited	CCB International (Holdings) Limited	100%
Design Time Limited	CCBI Investments Limited	100%

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2014.

CONTINUING CONNECTED TRANSACTIONS

Entered into New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 11 December 2013, the Company entered into a New Master Purchase Agreement and a New Master Supply Agreement with CNPGC for the three financial years ending 31 December 2014, 2015 and 2016.

Pursuant to the New Master Purchase Agreement, the Group agreed to purchase and CNPGC and its subsidiaries ("CNPGC Group") conditionally agreed to sell the materials during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the New Master Purchase Agreement, the value of the Purchase Transactions does not exceed the annual cap of RMB35 million, RMB39 million and RMB45 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

Pursuant to the New Master Supply Agreement, the Group agreed to supply and CNPGC Group conditionally agreed to purchase products during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the New Master Supply Agreement, the value of the Supply Transactions does not exceed the annual cap of RMB500 million, RMB610 million and RMB740 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

CNPGC is beneficially interested in 1,140,179,044 shares as at 11 December 2013, representing approximately 45.00% of the total issued shares of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively, constituted continuing connected transactions of the Company under Listing Rules.

For details of these new continuing connected transactions, please refer to the announcement and the circular of the Company dated 12 December 2013 and 14 December 2013 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 3 January 2014.

Based on the background of CNPGC and the previous business relationship with CNPGC Group, CNPGC Group is a reliable business partner of the Group who has a strong supply capacity as well as a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality materials from CNPGC Group while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of CNPGC Group in the PRC. The role of CNPGC Group will be enhanced as a business partner of the Group to distribute the products to hospitals and retail pharmacies.

During the period from 1 January 2014 to 31 December 2014, the purchases of materials by the Group from CNPGC Group amounted to RMB23,540,000 (including value added tax) which was below the cap amount of RMB35 million for the year ended 31 December 2014.

During the period from 1 January 2014 to 31 December 2014, the sales of products by the Group to CNPGC Group amounted to RMB453,567,000 (including value added tax) which was below the cap amount of RMB500 million for the year ended 31 December 2014.

Entered into Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the "R&D Agreements") with SIPI and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or "SPERC") respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB136,270,000.

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry ("CSIPI"), which is a subsidiary of CNPGC. CNPGC is the ultimate holding company of Sinopharm Hong Kong which is in turn the controlling shareholder beneficially interested in 1,139,879,044 shares and 1,121,023,044 shares as at 23 December 2013 and 5 March 2014 respectively, representing approximately 44.99% and 44.24% of the total issued shares of the Company respectively. Accordingly, each of SIPI and SPERC is a connected person of the Company and the transactions contemplated under R&D Agreements constitute continuing connected transaction of the Company under the Listing Rules.

SIPI is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R&D Agreements, please refer to the announcements of the Company dated 23 December 2013 and 5 March 2014.

During the period from 1 January 2014 to 31 December 2014, the research and development fee payable by the Group to SIPI and SPERC amounted to RMB10,012,000 (including value added tax) which was below the cap amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

The independent non-executive directors have reviewed the above continuing connected transactions of the Group and have confirmed that the transactions have been entered into:

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

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from Independent third parties; and

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

Review by the Auditors

For the propose to Rule 14A.56 of the Listing Rules, the auditors of the Company has provided a letter to the Board, confirmed that nothing has come to their attention that causes them to believe that the continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(iii) were not into, in all material respects, in accordance with relevant agreements governing the transactions; and

(iv) have exceeded the cap.

DISPOSAL OF GUIZHOU ZHONGTAI

On 6 March 2014, Guangdong Medi-World entered into a termination agreement to terminate the disposal agreement signed on 26 August 2013, ceasing the disposal of 51% equity capital of Guizhou Zhongtai. For the year under review, Guizhou Zhongtai's turnover was approximately RMB39,719,000 and its loss was approximately RMB7,187,000.

On 27 January 2015, Guangdong Medi-World entered into an agreement with China Biotechnology Co to sell 31% equity interest of Guizhou Zhongtai to China Biotechnology Co at a cash consideration RMB139.5 million. The Group considered that the main business of Guizhou Zhongtai was R&D, production and sale of plasma-based biopharmaceutical products, which was not the core business of the Group. The Directors consider it an opportune time to dispose of 31% equity interest of Guizhou Zhongtai and thus allowing the Group to dedicate more resources to and focus on the development of traditional Chinese medicine and pharmaceutical products business.

The transaction can only be completed after all conditions specified in the agreement are met. Upon completion of the transaction, the Group will continue to hold 20% equity interest of Guizhou Zhongtai (the "Remaining Interest"). All members of Guizhou Zhongtai will cease to be subsidiaries of the Company and Guizhou Zhongtai will become an associate of the Company. The Remaining Interest will subsequently be sold to China Biotechnology Co at an appropriate price under certain conditions. China Biotechnology Co is a wholly-owned subsidiary of CNPGC, which is the holding company of Sinopharm Hong Kong. Sinopharm Hong Kong is the controlling shareholder holding 1,016,023,044 shares of the Company, representing approximately 40.10% of the issued shares of the Company as at 27 January 2015. China Biotechnology Co is a connected person of the Company under the Listing Rules. The entering into of the agreement therefore constitutes a connected transaction for the Company under the Listing Rules.

For details of the disposal, please refer to the announcement of the Company dated 27 January 2015.

VERY SUBSTANTIAL ACQUISITION

Acquisition of Tianjiang Pharmaceutical

On 31 December 2014 and 15 January 2015, the Company entered into agreements with various vendors, pursuant to which the Company conditionally agreed to acquire approximately 81.48% equity interest in Tianjiang Pharmaceutical, with a total consideration between RMB7,595,900,000 and RMB8,346,000,000. The consideration will be paid in cash generated from equity finance, debt finance and internal resources. Details of the acquisition are set out in the announcement of the Company dated 27 January 2015.

Tianjiang Pharmaceutical is the largest manufacturer of concentrated TCM granules in China. The acquisition will allow the Company to get prompt access to the market of concentrated TCM granules with a leading position. Moreover, there is potential to achieve synergy between the Company and Tianjiang Pharmaceutical in terms of raw material purchasing, production, R&D and distribution network.

The transaction has not yet been completed till now.

Save as disclosed above, there was no material acquisition or disposal of subsidiaries by the Company during the year.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the largest customer and the five largest customers of the Group accounted for around 14.4% and 26.4% of the Group's total turnover during the year. The turnover attributable to CNPGC Group accounted for around 14.4% of the Group's total turnover during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 5.6% and 20.7% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 2.3% of the Group's total purchases during the year.

Save as disclosed above, at no time during the year, none of the Directors, their associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 5(b) and 24 to the financial statements.

AUDITORS

There was not any change of auditors of the Company in the preceding three years. KPMG shall retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming AGM. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2014 have been reviewed by the audit committee ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 33 to 47 of this annual report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 33 to 47 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

WU Xian
Chairman

Hong Kong, 16 March 2015

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2014 except for the deviation of code provision A.5.1 of the Code as disclosed in the section headed "Nomination Committee" in this report.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There is no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. WU Xian	*Chairman*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	

Non-executive Directors:

Mr. SHE Lulin	*(resigned on 30 August 2014)*
Mr. LIU Cunzhou	
Mr. ZHANG Jianhui	*(appointed on 30 August 2014)*
Mr. DONG Zenghe	
Mr. ZHAO Dongji	

Independent Non-executive Directors:

Mr. ZHOU Bajun	
Mr. XIE Rong	*(appointed as alternate director to Mr. YU Tze Shan Hailson for 1 day on 4 January 2014)*
Mr. FANG Shuting	*(resigned on 25 November 2014)*
Mr. YU Tze Shan Hailson	
Mr. LO Wing Yat	*(appointed on 27 January 2015)*

As of the date of this report, the Board comprises eleven Directors, including three executive Directors, four non-executive Directors and four independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, finance, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and the relevant committee works. In addition, Mr. XIE Rong, an independent non-executive Director, possesses appropriate professional accounting qualifications and financial management expertise. Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Pursuant to Rule 3.10A of the Listing Rules, the independent non-executive directors of a listed issuer must represent at least one-third of the board of directors. On 25 November 2014, due to the resignation of Mr. FANG Shuting as an independent non-executive Director, the number of independent non-executive Directors fell below one-third of the Board as required under Rule 3.10A of the Listing Rules. In compliance with the requirement of the Listing Rules, the Board appointed Mr. LO Wing Yat as an independent non-executive Director to fill the vacancy on 27 January 2015.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at approximately quarterly intervals. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the Directors within reasonable time before the meetings. Draft minutes of Board meetings are circulated to the Directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by Directors.

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results;

– declaration and recommendation of the payment of dividend;

– appointment of new directors;

– appointment and dismissal of senior management of the Company.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board Committees.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 7 and 8 to the financial statements.

The remuneration of the members of the senior management by band for the year ended 31 December 2014 is set out below:

Remuneration Band (RMB'000)	Number of persons
0 to 650	4
651 to 1,300	1

For the year ended 31 December 2014, the Company had convened four Board meetings, the 2014 annual general meeting (the "2014 AGM") and one extraordinary general meeting (collectively terms as the "General Meetings"). The following table shows the details of Directors' attendance:

Directors	Board Meetings: Attendance In Person/ Number of Meetings	Board Meetings: Attendance by Alternate Directors/ Number of Meetings *(note)*	2014 AGM: Attendance/ Number of Meetings	Extraordinary General Meetings
Executive Directors:				
Mr. WU Xian *(Chairman)*	4/4	0/4	1/1	0/1
Mr. YANG Bin	4/4	0/4	1/1	0/1
Mr. WANG Xiaochun	4/4	0/4	0/1	0/1

Directors	Board Meetings: Attendance In Person/ Number of Meetings	Board Meetings: Attendance by Alternate Directors/ Number of Meetings *(note)*	2014 AGM: Attendance/ Number of Meetings	Extraordinary General Meetings
Non-executive Directors:				
Mr. SHE Lulin *(resigned on 30 August 2014)*	2/2	0/2	0/1	0/1
Mr. LIU Cunzhou	4/4	0/4	0/1	0/1
Mr. ZHANG Jianhui *(appointed on 30 August 2014)*	1/1	0/1	N/A	N/A
Mr. DONG Zenghe	4/4	0/4	0/1	0/1
Mr. ZHAO Dongji	4/4	0/4	1/1	1/1
Independent Non-executive Directors:				
Mr. ZHOU Bajun	4/4	0/4	1/1	1/1
Mr. XIE Rong	4/4	0/4	1/1	0/1
Mr. FANG Shuting *(resigned on 25 November 2014)*	2/3	0/3	0/1	1/1
Mr. YU Tze Shan Hailson	3/4	1/4	1/1	0/1

Note: Pursuant to Article 93 of the Articles of Association of the Company, an alternate Director shall be entitled to attend and vote as a Director at any meeting of the Directors at which the Director appointing him is not personally present or any meeting of any committee of the Directors which his appointor is a member.

Chairman and Managing Director

As at the date of this report, Mr. WU Xian, an executive Director, is the Chairman of the Board, and Mr. YANG Bin, an executive Director, is the Managing Director of the Company.

The Chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of the daily operations of the Group.

Appointment and Re-election of Directors

The nomination committee (the "Nomination Committee") is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company.

All the Directors are appointed for a specific term and subject to retirement by rotation once every three years and re-election in accordance with the Articles of Association of the Company.

According to the Articles of Association of the Company, newly appointed Directors are required to offer themselves for re-election at the next following general meeting (in the case of filling a causal vacancy) or at the next following AGM (in the case of an addition to the Board) following their appointment.

Continuous Professional Development of Directors

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will be arranged as necessary.

Pursuant to the requirements of the Code, all Directors should provide their training record to the Company. According to the training records provided by the Directors, the training attended by them during the reporting period is summarized as follows:

Directors	**Corporate Governance, Regulatory Development and Trainings on other relevant topics**
Executive Directors:	
Mr. WU Xian	✓
Mr. YANG Bin	✓
Mr. WANG Xiaochun	✓
Non-executive Directors:	
Mr. SHE Lulin *(resigned on 30 August 2014)*	N/A
Mr. LIU Cunzhou	✓
Mr. ZHANG Jianhui *(appointed on 30 August 2014)*	✓
Mr. DONG Zenghe	✓
Mr. ZHAO Dongji	✓
Independent Non-executive Directors:	
Mr. ZHOU Bajun	✓
Mr. XIE Rong	✓
Mr. FANG Shuting *(resigned on 25 November 2014)*	N/A
Mr. YU Tze Shan Hailson	✓

Nomination Committee

The Board established the Nomination Committee in 2012. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors. The written terms of reference which describe the authority and duty of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

Due to Mr. FANG Shuting's resignation with effect from 25 November 2014, the number of independent non-executive Directors acting as members of the Nomination Committee decreased from three to two, less than the majority of the independent non-executive Directors required under the terms of reference of the nomination committee and being deviated from code provision A.5.1 of the Code. In compliance with the requirements of the Listing Rules, the Board appointed Mr. LO Wing Yat as an independent non-executive Director of the Company to fill the vacancy on 27 January 2015. As at the date of this report, the Nomination Committee comprises of the two executive Directors and three independent non-executive Directors.

During the year, two Nomination Committee meetings were held and the individual attendance of each member is set out below:

Members of the Nomination Committee	**Attendance in Person/Number of Meetings**
Executive Directors:	
Mr. WU Xian *Chairman*	2/2
Mr. YANG Bin	2/2
Independent Non-executive Directors:	
Mr. ZHOU Bajun	2/2
Mr. XIE Rong	2/2
Mr. FANG Shuting *(resigned on 25 November 2014)*	1/2

Note: Pursuant to Article 93 of the Articles of Association of the Company, an alternate Director shall be entitled to attend and vote as a Director at any meeting of the Directors at which the Director appointing him is not personally present or any meeting of any committee of the Directors which his appointor is a member.

Board Diversity Policy

The Board adopted the board diversity policy in August 2013. The policy sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board developed measurable objectives to implement the board diversity policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit and contribution that the selected candidate will bring to the Board.

Audit Committee

Due to Mr. FANG Shuting's resignation with effect from 25 November 2014, the number of members of the Audit Committee decreased from three to two, below the minimum number required under Rule 3.21 of the Listing Rules. In compliance with the requirements of the Listing Rules, the Board appointed Mr. LO Wing Yat as an independent non-executive Director of the Company to fill the vacancy on 27 January 2015. As at the date of this report, the Audit Committee comprises of the three independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Board approved the adoption of the Audit Committee's revised terms of reference, with effect from 1 April 2012. The revised written terms of reference are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system and internal control procedures; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Members of the Audit Committee	**Attendance in Person/Number of Meetings**
Independent Non-executive Directors:	
Mr. XIE Rong *Chairman*	2/2
Mr. ZHOU Bajun	2/2
Mr. FANG Shuting *(resigned on 25 November 2014)*	1/2

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2013 and the interim results and the interim report of the Group for the year 2014, as well as the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

The Remuneration Committee was established in 2005. Due to Mr. FANG Shuting's resignation with effect from 25 November 2014, the number of members of the Remuneration Committee decreased from four to three, below the minimum number required under the terms of reference of the Remuneration Committee. With the fulfillment of the requirements of the terms of reference of the Remuneration Committee, the Board appointed Mr. LO Wing Yat as an independent non-executive Director of the Company to fill the vacancy on 27 January 2015. As at the date of this report, the Remuneration Committee comprises of the one non-executive Director and three independent non-executive Directors.

The main roles and functions of the Remuneration Committee are as follows:

(a) making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) either: (i) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or (ii) making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

(d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(f) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(g) making recommendations to the Board on the remuneration of non-executive Directors.

The Company has adopted the model whereby the Remuneration Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

The Board approved the adoption of the Remuneration Committee's revised terms of reference, with effect from 1 April 2012. The revised written terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

In determining the emolument payable to the Directors, the Remuneration Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing basic remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

During the year, two Remuneration Committee meetings were held and the individual attendance of each member is set out below:

Members of the Remuneration Committee	**Attendance in Person/Number of Meetings**
Non-Executive Director:	
Mr. LIU Cunzhou	2/2
Independent Non-executive Directors:	
Mr. ZHOU Bajun *Chairman*	2/2
Mr. XIE Rong	2/2
Mr. FANG Shuting *(resigned on 25 November 2014)*	1/2

Note: Pursuant to Article 93 of the Articles of Association of the Company, an alternate Director shall be entitled and attend and vote as a Director at any meeting of the Directors at which the Director appointing him is not personally present or any meeting of any committee of the Directors which his appointor is a member.

During the year, the Remuneration Committee determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

Strategic Committee

The Board set up a strategic committee ("Strategic Committee") in January 2014, which comprises of the six Directors including Mr. WU Xian, Mr. YANG Bin, Mr. WANG Xiaochun, Mr. LIU Cunzhou, Mr. ZHOU Bajun and Mr. YU Tze Shan Hailson. Mr. LIU Cunzhou was appointed as the chairman.

Strategic Committee is a specific working body set up by the Board. Its main responsibilities are to conduct researches and submit proposals to the Board in respect of medium-to-long term development strategies and material investment decisions of the Group. The Board considers that the proposals submitted by Strategic Committee will strengthen the core competitiveness of the Group, determine its development plans as well as improve its procedures of making investment decisions, so as to enhance the effectiveness and quality of material investment decisions and perfect its corporate governance structure.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the reporting year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. In addition, the Board has adopted the provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in securities of the Company. Such relevant employees who may possess or have access to inside information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at board meetings for approval.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2014, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 52 to 53 of this report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit and non-audit service are set out below:

Services rendered	Fee paid/payable in 2014 RMB'000
Audit service	2,461
Non-audit services *(Note)*	3,796
Total	6,257

Note: Non-audit services include reviewing interim financial report of the Group, due diligence on potential acquisition targets, tax services and special audit services during the year.

COMPANY SECRETARY

The Company engages a representative of an external service provider, Mr. HUEN Po Wah, as its Company secretary, and the Company secretary may contact Mr. CHEN Yan, the Chief Financial Officer of the Company pursuant to code provision F.1.1 of the Code. Mr. HUEN confirmed that he had taken not less than 15 hours' relevant professional training during the year.

INTERNAL CONTROLS

The Board has an overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual review of the effectiveness of system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework. The annual review also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the Audit Committee to ensure appropriate remedial measures have been implemented.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.china-tcm.com.cn as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email:	publicrelation@china-tcm.com.cn
Telephone:	(852) 2854 3393
Fax:	(852) 2544 1269
Address:	Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision D.3.1 of the Code. The Board review the compliance of the Code and disclosure in this Corporate Governance Report from time to time. The Board also reviewed the training and continuous professional development of Directors and senior management.

ARTICLES OF ASSOCIATION

During the reporting year, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) came into operation on 3 March 2014, to replace the old Companies Ordinance. In order to bring the Articles of Association in line with the statutory changes, the Company adopted new Articles of Association to replace the existing Articles of Association. Save for the above-mentioned, the Articles of Association of the Company did not have any other material changes. For regulation in relation to the new Articles of Association of the Company, please refer to the HKExnews website at "www.hkexnews.hk", and the Company's website at "www.china-tcm.com.cn".

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Pursuant to the Listing Rules, any resolution put forward at shareholders' meetings will be voted by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on a show of hands and the poll results will be posted on the websites of the Stock Exchange at "www.hkexnews.hk" and the Company at "www.china-tcm.com.cn" after the relevant shareholders' meetings.

Convening of General Meeting on Request

Shareholder(s) may request the Directors to convene an extraordinary general meeting pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) before 3 March 2014 and to call a general meeting pursuant to Section 566 to 568 of the New Companies Ordinance ("New CO") from 3 March 2014 and onwards.

In accordance with Section 566 of the New CO, the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); and must be authenticated by the person or persons making it. In accordance with Section 567 of the New CO, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the New CO and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at Annual General Meeting

To put forward a resolution at an annual general meeting, shareholders are requested to follow the requirements and procedures set out in Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) before 3 March 2014 and Sections 615 and 616 of the New CO from 3 March 2014 and onwards.

Section 615 of the New CO provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the New CO provides that the Company that is required under Section 615 of the New CO to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to article 105 of the articles of association of the Company, no person, other than a retiring director, shall, unless recommended by the Directors for election, be eligible for election to the office of director at any general meeting, unless notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 54, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 28 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He has been the director, general manager and deputy secretary to the Party Committee of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since August 2010.

Mr. YANG Bin, aged 47, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company since 11 February 2009. Mr. YANG graduated from中央民族大學 (Minzu University of China*) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation*), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.*), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory*) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.*). Mr. YANG has over 20 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr. YANG is currently the Chairman and a director of Guangdong Medi-World and a director of 山東魯亞製藥有限公司 (Shandong Luya Pharmaceutical Co., Ltd.*).

Mr. WANG Xiaochun, aged 47, was appointed to the Board on 23 October 2013. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008, a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005 and the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989.

NON-EXECUTIVE DIRECTORS

Mr. LIU Cunzhou, aged 70, was appointed to the Board on 5 February 2013. Mr. LIU completed a master's course in management engineering from Harbin University of Science and Technology in March 1997. Mr. LIU has over 35 years of management experience in pharmaceutical equipment, pharmaceutical and healthcare products industry. Mr. LIU is currently the chief expert of CNPGC. Mr. LIU was the head of equipment department and engineer of Harbin Pharmaceutical Factory from January 1976 to March 1983, and the deputy plant manager for production and plant manager of Harbin Pharmaceutical Factory from April 1984 to April 1989. From April 1989 to July 1997, Mr. LIU was the deputy general manager of Harbin Pharmaceutical Group Co., Ltd. and plant manager of Harbin Pharmaceutical Factory. He was the chairman and general manager of Harbin Pharmaceutical Group Co., Ltd. from August 1997 to October 2004. Mr. LIU was also a director of CNPGC from December 2005 to October 2011, and had served as the chairman from August 2007 to May 2009. Mr. LIU is also a director of Jihua Group Corporation Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., both of which are listed on the Shanghai Stock Exchange ("SSE").

Mr. ZHANG Jianhui, aged 70, was appointed to the Board on 30 August 2014. Mr. ZHANG was the independent non-executive Director of the Company from June 2009 to February 2013. Mr. ZHANG graduated from Institute of Chemical Engineering, Faculty of Biochemistry of Zhejiang University. Mr. ZHANG is a senior engineer and licensed pharmacist. Mr. ZHANG has 40 years of experience in management of pharmaceutical manufacturing and has obtained the National Technological Advancement Third Class Award. Mr. ZHANG is entitled to the Special Allowance from State Council and is an Excellent Talent of the Professional Technique in the Shandong Province. Mr. ZHANG had been Chairman of Shandong Lukang Pharmaceutical Group and Chairman of Shandong Lukang Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600789). Mr. ZHANG is currently appointed as Deputy Director of the 中國化學制藥工業協會專家委員會 (Specialist Committee of China Pharmaceutical Industry Association) and Consultant of 山東省醫藥工業協會顧問 (Shandong Pharmaceutical Industry Association). Mr. ZHANG is the director of China National Pharmaceutical Group Corporation, the controlling shareholder of the Company, since December 2011.

Mr. DONG Zenghe, aged 49, was appointed to the Board on 6 March 2013. Mr. DONG graduated from East China Institute of Chemical Technology (華東化工學院) (currently known as East China University of Science and Technology (華東理工大學)) with a bachelor's degree in engineering in 1989 and obtained a master's degree of business administration in 2011 from the School of Economics and Management of Tsinghua University, majoring in Senior Business Administration. Mr. DONG is also a senior engineer. Mr. DONG has over 24 years of experience in the pharmaceutical production and management industry. Mr. DONG had been the chief of 東北製藥總廠 ("Northeast General Pharmaceutical Factory"), the chairman of the board of 東北製藥集團股份有限公司 ("Northeast Pharmaceutical Group Co., Ltd.") (a company listed on the Shenzhen Stock Exchange, stock code: 000597), as well as the chairman of the board and general manager of 東北製藥有限責任公司 (Northeast Pharmaceutical Group Co., Ltd.*) from February 2005 to January 2007. Mr. DONG had also been the deputy general engineer of CNPGC from January 2007 to September 2007 and has been the deputy general manager of CNPGC since September 2007 as well as the chairman of the board of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since June 2012.

Mr. ZHAO Dongji, aged 47, was appointed to the Board on 5 February 2013. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 25 years of related working experience, including over 15 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since 2011. Mr. ZHAO is the deputy general manager of China National Traditional Chinese Medicine Corporation since November 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHOU Bajun, aged 66, was appointed to the Board on 5 February 2013. Mr. ZHOU obtained a doctorate degree in economics from East China Normal University in October 1988. Mr. ZHOU has over 29 years of working experience, including over 12 years working experiences in China's securities market. Mr. ZHOU worked in Sun Hung Kai Financial Group as head of China Business and Director of China Studies from November 1990 to November 1998. Mr. ZHOU worked as deputy general manager of the China Business Department of Hong Kong Construction (Hong Kong) Limited from March 1999 to February 2000, and has been a director of China Everbright Research Limited since March 2000 to June 2014. Since February 2002 to present, he has been senior research fellow of China Everbright Holdings Company Limited. Mr. ZHOU was a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region from November 2005 to June 2012. He was a visiting professor of School of Business, Hong Kong Baptist University from October 2007 to August 2009. He has been a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science since March 2007. Mr. ZHOU has served as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since August 2009 to September 2014.

Mr. XIE Rong, aged 63, was appointed to the Board on 5 February 2013. Mr. XIE has over 44 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the SSE) since April 2003 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the SSE), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the SSE), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the SSE), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the SSE) and Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014 and from August 2007 to September 2014 respectively. Mr. XIE has been an independent non-executive director of each of Shanghai Baosight Software Co. Ltd. (a company listed on the SSE), China Everbright Bank Company Limited (a company listed on the SSE) and Shenwan Hongyuan Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since April 2010, January 2013 and January 2015, respectively. Mr. XIE was the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012 and is currently a professor of the Shanghai National Accounting Institute, a member of the Master of Accounting Professional Education Guidance Committee of the State Department Degree Committee.

Mr. YU Tze Shan Hailson, aged 58, was appointed to the Board on 25 November 2013. Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. In 1998, Mr. YU was a deputy managing director of Versitech Limited (港大科橋有限公司), a technology transfer and commercial company of the The University of Hong Kong which mainly commercializes and transfers achievements in scientific research to the business sectors. Additional, Mr. YU has been an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since September 2014.

Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a fellow of Hong Kong Institution of Engineers, Engineering Council in United Kingdom, Hong Kong Institute of Arbitrators and the Institute of Arbitrators of the United Kingdom.

Mr. LO Wing Yat, aged 56, was appointed to the Board on 27 January 2015. Mr. LO was an independent non-executive director of the Company from February 2009 to February 2013. Mr. LO is the Executive Vice Chairman and Chief Executive Officer of CIAM Group Limited (Stock Code: 378) and an executive director of FDG Electric Vehicles Limited (Stock Code: 729), both shares are listed on The Stock Exchange of Hong Kong Limited. He is also the Chief Executive Officer of CITIC International Assets Management Limited and the Managing Director of CITIC International Financial Holdings Limited. Mr. LO graduated from the University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. During his legal career, Mr. LO was specialized in banking project financing primarily in the PRC.

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
China Traditional Chinese Medicine Co. Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Traditional Chinese Medicine Co. Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 54 to 132, which comprise the consolidated and company statements of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the 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 Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Turnover	*3(a)*	**2,690,173**	1,394,613
Cost of sales		**(1,035,850)**	(568,834)
Gross profit		**1,654,323**	825,779
Other revenue	*4*	**38,413**	15,769
Other net (expenses)/income	*4*	**(3,516)**	8,146
Selling and distribution costs		**(903,493)**	(404,629)
Administrative expenses		**(240,337)**	(172,308)
Profit from operations		**545,390**	272,757
Finance costs	*5(a)*	**(64,217)**	(35,182)
Profit before taxation	*5*	**481,173**	237,575
Income tax	*6*	**(69,627)**	(38,218)
Profit for the year		**411,546**	199,357
Attributable to:			
Equity shareholders of the Company		**413,090**	198,463
Non-controlling interests		**(1,544)**	894
Profit for the year		**411,546**	199,357
Earnings per share			
Basic and diluted	*10*	**16.30 cent**	9.68 cent

The notes on pages 62 to 132 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	**2014 RMB'000**	2013 RMB'000
Profit for the year		**411,546**	199,357
Other comprehensive income for the year (after tax)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")		**(687)**	(1,149)
Other comprehensive income for the year		**(687)**	(1,149)
Total comprehensive income for the year		**410,859**	198,208
Attributable to:			
Equity shareholders of the Company		**412,403**	197,314
Non-controlling interests		**(1,544)**	894
Total comprehensive income for the year		**410,859**	198,208

The notes on pages 62 to 132 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Fixed assets			
– Investment properties	*11*	**2,651**	2,813
– Other property, plant and equipment	*11*	**674,696**	636,429
– Interests in leasehold land held for own use under operating leases	*11*	**282,893**	156,450
Construction in progress	*12*	**76,074**	89,245
Other receivables	*19*	**12,569**	161,464
		1,048,883	1,046,401
Intangible assets	*13*	**948,005**	997,351
Goodwill	*14*	**1,191,052**	1,191,052
Other financial assets	*17*	**1,010**	1,010
Deferred tax assets	*25(b)*	**48,424**	52,506
		3,237,374	3,288,320
Current assets			
Other financial assets	*17*	**662**	6,164
Inventories	*18*	**417,695**	405,504
Trade and other receivables	*19*	**1,236,400**	1,016,832
Deposits with banks	*20*	**305**	4,239
Cash and cash equivalents	*20*	**439,416**	345,411
		2,094,478	1,778,150
Current liabilities			
Trade and other payables	*21*	**540,113**	595,763
Bank and other loans	*22*	**501,648**	583,626
Current taxation	*25(a)*	**47,743**	50,469
Current portion of deferred government grants	*23*	**44,337**	34,530
		1,133,841	1,264,388
Net current assets		**960,637**	513,762
Total assets less current liabilities		**4,198,011**	3,802,082

At 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Deferred tax liabilities	*25(b)*	**245,022**	269,600
Deferred government grants	*23*	**25,302**	29,449
Bank loans	*22*	**670,565**	668,270
		940,889	967,319
NET ASSETS		**3,257,122**	2,834,763
CAPITAL AND RESERVES			
Share capital: nominal value	*26(c)*	**–**	235,087
Other statuary capital reserves		**–**	2,307,159
Share capital and other statuary capital reserves		**2,542,246**	2,542,246
Other reserves		**641,510**	217,607
Total equity attributable to equity shareholders of the Company		**3,183,756**	2,759,853
Non-controlling interests		**73,366**	74,910
TOTAL EQUITY		**3,257,122**	2,834,763

Approved and authorised for issue by the board of directors on 16 March 2015.

YANG Bin
Director

WANG Xiaochun
Director

The notes on pages 62 to 132 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in Renminbi)

	Note	**2014** **RMB'000**	2013 RMB'000
Non-current assets			
Investments in subsidiaries	*15*	**3,178,121**	3,167,243
Other receivables	*19*	**1,483**	3,243
		3,179,604	3,170,486
Current assets			
Other receivables	*19*	**22,714**	21,570
Deposits with banks	*20*	**–**	4,000
Cash and cash equivalents	*20*	**10,432**	41,801
		33,146	67,371
Current liabilities			
Trade and other payables	*21*	**288,359**	288,892
		288,359	288,892
Net current liabilities		**(255,213)**	(221,521)
Total assets less current liabilities		**2,924,391**	2,948,965
Non-current liabilities			
Bank loans	*22*	**670,565**	668,270
NET ASSETS		**2,253,826**	2,280,695
CAPITAL AND RESERVES			
Share capital: nominal value	*26(c)*	**–**	235,087
Other statuary capital reserves		**–**	2,307,159
Share capital and other statuary capital reserves		**2,542,246**	2,542,246
Other reserves		**(288,420)**	(261,551)
TOTAL EQUITY		**2,253,826**	2,280,695

Approved and authorised for issue by the board of directors on 16 March 2015.

YANG Bin
Director

WANG Xiaochun
Director

The notes on pages 62 to 132 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital *(note 26(c))* RMB'000	Share premium *(note 26(d))* RMB'000	Capital redemption reserve *(note 26(d))* RMB'000	Exchange reserve *(note 26(e))* RMB'000	Reserve fund *(note 26(f))* RMB'000	Fair value reserve *(note 26(g))* RMB'000	Other reserve *(note 26(i))* RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013		175,589	625,875	319	(115,073)	89,619	6,378	(64,539)	110,286	828,454	17,317	845,771
Changes in equity for 2013:												
Profit for the year		–	–	–	–	–	–	–	198,463	198,463	894	199,357
Other comprehensive income		–	–	–	(1,149)	–	–	–	–	(1,149)	–	(1,149)
Total comprehensive income for the year		–	–	–	(1,149)	–	–	–	198,463	197,314	894	198,208
New shares issued during the year	*26(c)*	59,498	1,680,965	–	–	–	–	–	–	1,740,463	–	1,740,463
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	56,699	56,699
Derecognition of available-for-sale equity securities		–	–	–	–	–	(6,378)	–	–	(6,378)	–	(6,378)
Transfer to reserve fund		–	–	–	–	20,617	–	–	(20,617)	–	–	–
At 31 December 2013		235,087	2,306,840	319	(116,222)	110,236	–	(64,539)	288,132	2,759,853	74,910	2,834,763

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Share capital *(note 26(c))* RMB'000	Share premium *(note 26(d))* RMB'000	Capital redemption reserve *(note 26(d))* RMB'000	Exchange reserve *(note 26(e))* RMB'000	Reserve fund *(note 26(f))* RMB'000	Other reserve *(note 26(i))* RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		235,087	2,306,840	319	(116,222)	110,236	(64,539)	288,132	2,759,853	74,910	2,834,763
Changes in equity for 2014:											
Profit for the year		–	–	–	–	–	–	413,090	413,090	(1,544)	411,546
Other comprehensive income		–	–	–	(687)	–	–	–	(687)	–	(687)
Total comprehensive income for the year		–	–	–	(687)	–	–	413,090	412,403	(1,544)	410,859
Waiver of amount due to a non-controlling shareholder	*26(i)*	–	–	–	–	–	11,500	–	11,500	–	11,500
Transition to no-par value regime on 3 March 2014	*26(c)*	2,307,159	(2,306,840)	(319)	–	–	–	–	–	–	–
Transfer to reserve fund		–	–	–	–	47,710	–	(47,710)	–	–	–
At 31 December 2014		2,542,246	–	–	(116,909)	157,946	(53,039)	653,512	3,183,756	73,366	3,257,122

The notes on pages 62 to 132 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations	*20(b)*	**417,843**	135,611
PRC enterprise income tax paid	*25(a)*	**(92,844)**	(50,752)
Net cash generated from operating activities		**324,999**	84,859
Investing activities			
Payment for the purchase of property, plant and equipment		**(28,778)**	(50,299)
Payment for the purchase of intangible assets		**(644)**	(588)
Payment for the purchase of leasehold land held for own use under operating leases		**(11,174)**	(25,959)
Proceeds from disposal of fixed assets		**14,572**	16
Payment for construction in progress		**(65,826)**	(17,227)
Decrease in deposits with banks		**3,934**	83,386
Payment for purchase of available-for-sale securities		**(5,000)**	(5,000)
Proceeds from disposal of available-for-sale securities		**10,000**	9,733
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired		**–**	(1,429,817)
Interest received		**1,694**	3,765
Net cash used in investing activities		**(81,222)**	(1,431,990)
Financing activities			
Proceeds from new bank and other loans		**749,648**	1,247,777
Proceeds from shares issued	*26(c)*	**–**	1,016,335
Proceeds from a related party		**–**	5,000
Repayment of proceeds from a related party		**(5,000)**	–
Repayment of bank loans		**(821,884)**	(577,301)
Interest paid		**(64,217)**	(35,182)
Other borrowing costs paid		**(8,231)**	(7,683)
Net cash (used in)/generated from financing activities		**(149,684)**	1,648,946
Net increase in cash and cash equivalents		**94,093**	301,815
Cash and cash equivalents at 1 January		**345,411**	46,258
Effect of foreign exchange rate changes		**(88)**	(2,662)
Cash and cash equivalents at 31 December		**439,416**	345,411

The notes on pages 62 to 132 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set at below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value as explained in accounting policy set out in note 1(h).

The functional currency of the Company is Hong Kong Dollars ("HKD"). These consolidated financial statements are presented in Renminbi ("RMB") as the functional currency of the Group's major operating subsidiaries is RMB. These consolidated financial statements presented in RMB have been rounded to the nearest thousand.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(z)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *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) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements because the Group does not have any impaired non-financial assets for the years ended 31 December 2013 and 2014.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group measures any non-controlling interests at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(q) or (r) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(h)).

In the Company's statement of financial position, investment in subsidiaries are stated at cost less impairment losses (see note 1(n)).

(e) Joint arrangements

A joint arrangement is a contractual arrangement between the Group and other parties, where they have contractually agreed to share joint control, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

(f) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Joint operations (continued)

The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances. The Group recognises its interest in the joint operation from the date that joint control commences until the date on which the Group ceases to have joint control over the joint operation.

Unrealised profits and losses resulting from transactions between the Group and its joint operations are eliminated to the extent of the Group's interest in the joint operation, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over the joint operation, it is accounted for as a disposal of the entire interest in the joint operation, with a resulting gain or loss being recognised in profit or loss.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities and other financial instruments, other than investments in subsidiaries, are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows:

Investments in equity securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(w)(iii) and (iv).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(n)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in note 1(w)(iii).

When the investments are derecognised or impaired (see note 1(n)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(i) Investment property

Investment properties are property held either to earn rental income or for capital appreciation. Investment properties are measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Rental income from investment properties is accounted for as described in note 1(w)(ii).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(n)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Plant, machinery and equipment	3-15 years
– Motor vehicles	4-10 years
– Others	2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Construction in progress

Construction in progress represents buildings and, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(n)). Cost comprises direct costs of construction as well as borrowing cost, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to borrowing costs, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Intangible assets (other than goodwill)

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(n)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Product protection rights	over their expected useful life
– Trademarks with finite useful life	10-50 years
– Distribution network	10 years
– Customer relationship	3-10 years
– Software	3-10 years

The period and method of amortisation are reviewed by the Group annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(i)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of assets (continued)

(i) Impairment of investments in equity securities and trade and other receivables (continued)

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment properties;

– interests in leasehold land classified as being held under an operating lease;

– construction in progress;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(n)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(o) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(t) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(v)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue recognition (continued)

(iii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Translation of foreign currencies (continued)

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Non-current assets held for sale and discontinued operations (continued)

(i) Non-current assets held for sale (continued)

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

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

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

- the post-tax profit or loss of the discontinued operation; and

- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

(bb) Segment reporting

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(bb) Segment reporting (continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Notes 11(b), 14 and 27 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(a) Impairment

If circumstances indicate that the net book value of property, plant and equipment, goodwill, intangible assets and interests in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price, material costs and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, expected changes to selling prices and operating costs, and discount rate.

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

(b) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	2014	2013
	RMB'000	RMB'000
Sales of pharmaceutical products		
– Pills and tablets	**1,781,062**	800,851
– Granules	**494,005**	287,594
– Injections	**155,082**	118,896
– Medicine wine	**81,585**	85,102
– Others	**178,439**	102,170
	2,690,173	1,394,613

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenues (2013: Nil).

Further details regarding the Group's principal activities are described below:

(b) Segment reporting

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following eleven reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Guizhou Tongjitang Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical")

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

- Anhui Jingfang Pharmaceutical Co., Ltd. ("Jingfang")
- Guizhou Longlife Pharmaceutical Co., Ltd. ("Guizhou LLF")
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")
- Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai")

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payables, and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Year ended 31 December 2014

	Dezhong RMB'000	Feng Liao Xing RMB'000	Guangdong Medi-World (note) RMB'000	Luya RMB'000	Feng Liao Xing Material & Slices RMB'000	Winteam Sales RMB'000	Tongjitang Pharmaceutical RMB'000	Jingfang RMB'000	Guizhou LLF RMB'000	Pulante RMB'000	Guizhou Zhongtai RMB'000	Total RMB'000
Revenue from external customers	6,183	26,756	19,886	36,321	35,424	1,046,716	1,150,884	259,100	48,455	20,729	39,719	2,690,173
Inter-segment revenue	277,272	171,637	324,344	35,220	52,621	90	1,312	-	31	6,232	-	868,759
Reportable segment revenue	**283,455**	**198,393**	**344,230**	**71,541**	**88,045**	**1,046,806**	**1,152,196**	**259,100**	**48,486**	**26,961**	**39,719**	**3,558,932**
Reportable segment profit (adjusted EBITDA)	94,953	30,088	67,815	27,316	3,078	45,225	352,464	60,713	8,691	8,817	4,169	703,329
Interest income	143	151	34	10	15	149	251	387	164	76	314	1,694
Interest expenses	9,886	5,393	8,427	-	540	743	37,588	-	-	-	1,640	64,217
Depreciation and amortisation for the year	17,571	5,815	18,485	5,505	419	576	53,141	4,358	140	1,278	11,810	119,098
Reportable segment assets	1,024,135	370,105	530,795	175,780	232,043	433,783	3,053,801	300,378	52,062	66,225	244,334	6,483,441
Additions to non-current assets during the year	9,068	841	19,104	999	1,723	457	60,711	6,656	69	303	683	100,614
Reportable segment liabilities	478,881	94,233	611,032	17,993	211,627	425,937	399,701	120,855	17,077	14,922	36,475	2,428,733

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Year ended 31 December 2013

	Dezhong RMB'000	Feng Liao Xing RMB'000	Guangdong Medi-World (note) RMB'000	Luya RMB'000	Feng Liao Xing Material & Slices RMB'000	Winteam Sales RMB'000	Tongjitang Pharmaceutical RMB'000	Jingfang RMB'000	Guizhou LLF RMB'000	Pulante RMB'000	Guizhou Zhongtai RMB'000	Total RMB'000
Revenue from external customers	10,303	11,226	15,432	46,614	24,281	930,859	254,872	48,946	7,492	6,107	38,481	1,394,613
Inter-segment revenue	302,569	216,479	314,691	22,230	114,388	4,803	-	-	-	-	-	975,160
Reportable segment revenue	312,872	227,705	330,123	68,844	138,669	935,662	254,872	48,946	7,492	6,107	38,481	2,369,773
Reportable segment profit (adjusted EBITDA)	95,765	44,377	99,539	21,822	5,039	10,975	74,718	12,079	2,174	2,103	12,226	380,817
Interest income	40	25	7,386	10	-	-	110	121	6	17	33	7,748
Interest expenses	11,286	5,229	9,447	-	124	1,470	7,107	-	-	-	519	35,182
Depreciation and amortisation for the year	19,542	6,310	14,225	6,473	262	339	8,918	390	24	201	11,597	68,281
Reportable segment assets	1,085,293	464,179	738,298	158,040	318,383	493,046	2,798,319	246,733	35,222	58,926	319,172	6,715,611
Additions to non-current assets during the year	19,608	2,484	146,245	3,364	37	1,615	1,126,012	105,160	2,013	32,117	129,088	1,567,743
Reportable segment liabilities	592,015	205,949	774,707	16,278	293,933	512,606	366,712	120,983	7,387	14,406	103,643	3,008,619

Note: The reportable segment assets of Guangdong Medi-World as at 31 December 2014 excluded RMB503,086,000 of investment in subsidiaries (31 December 2013: RMB503,086,000).

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2014 RMB'000	2013 RMB'000
Revenue		
Reportable segment revenue	**3,558,932**	2,369,773
Elimination of inter-segment revenue	**(868,759)**	(975,160)
Consolidated turnover	**2,690,173**	1,394,613
Profit		
Reportable segment profit	**703,329**	380,817
Elimination of inter-segment profits	**(23,971)**	(28,960)
Reportable segment profit derived from the Group's external customers	**679,358**	351,857
Other revenue and net (expenses)/income	**34,897**	23,915
Depreciation and amortisation	**(119,098)**	(68,281)
Finance costs	**(64,217)**	(35,182)
Unallocated head office and corporate expenses	**(49,767)**	(34,734)
Consolidated profit before taxation	**481,173**	237,575

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)

	At 31 December 2014 RMB'000	At 31 December 2013 RMB'000
Assets		
Reportable segment assets	**6,483,441**	6,715,611
Elimination of inter-segment receivables	**(1,318,451)**	(1,766,707)
	5,164,990	4,948,904
Non-current financial assets	**1,010**	1,010
Current financial assets	**662**	6,164
Deferred tax assets	**48,424**	52,506
Unallocated head office and corporate assets	**116,766**	57,886
Consolidated total assets	**5,331,852**	5,066,470
Liabilities		
Reportable segment liabilities	**2,428,733**	3,008,619
Elimination of inter-segment payables	**(1,318,451)**	(1,763,465)
	1,110,282	1,245,154
Current tax liabilities	**47,743**	50,469
Deferred tax liabilities	**245,022**	269,600
Unallocated head office and corporate liabilities	**671,683**	666,484
Consolidated total liabilities	**2,074,730**	2,231,707

(iii) Geographic information

Analysis of the Group's turnover and results as well as analysis of the amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

4 OTHER REVENUE AND NET (EXPENSES)/INCOME

	2014 **RMB'000**	2013 RMB'000
Other revenue		
Government grants		
– Unconditional subsidies	**30,551**	5,064
– Conditional subsidies (note 23)	**5,157**	2,326
Interest income	**1,694**	7,748
Rental income	**1,011**	631
	38,413	15,769

	2014 **RMB'000**	2013 RMB'000
Other net (expenses)/income		
Net loss on disposal of fixed assets	**(559)**	(892)
Available-for-sale securities:		
– gain on disposal reclassified from equity	**–**	9,621
Unrealised loss on equity securities (at fair value)	**(502)**	–
Exchange (loss)/gain	**(1,688)**	1,412
Others	**(767)**	(1,995)
	(3,516)	8,146

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2014 RMB'000	2013 RMB'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**64,217**	35,182
(b) Staff costs:		
Salaries, wages and other benefits	**393,615**	208,982
Contributions to defined contribution retirement plans	**21,163**	17,290
	414,778	226,272
(c) Other items		
Auditors' remuneration	**6,257**	3,967
Depreciation		
– investment properties	**162**	162
– interests in leasehold land held for own use under operating leases	**5,238**	2,566
– other property, plant and equipment	**63,708**	47,149
Amortisation		
– intangible assets	**49,990**	18,404
Impairment losses		
– trade receivables (note 19(b))	**5,627**	1,108
– other receivables	**(1,327)**	413
Operating lease charges: minimum lease payments	**4,618**	4,563
Research and development costs	**67,875**	45,947
Rentals receivable from investment properties	**(1,011)**	(631)
Cost of inventories# (note 18)	**1,035,850**	568,834

Cost of inventories includes RMB200,850,000 (2013: RMB122,916,000) relating to staff cost, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2014 **RMB'000**	2013 RMB'000
Current tax		
PRC enterprise income tax for the year	**91,149**	54,769
(Over)/under-provision in respect of prior years	**(2,331)**	269
	88,818	55,038
Deferred tax		
Reversal of temporary differences	**(18,106)**	(16,820)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(1,085)**	–
Income tax expenses	**69,627**	38,218

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year (2013: Nil).

Pursuant to the Corporate Income Tax Law of the PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for: 1) Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya, which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% from 2011 to 2013 pursuant to documents issued by local government authorities. Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya are applying for the extension of "Advanced and New Technology Enterprise" and the entitlement of the preferential income tax rate for the years of 2014 to 2016. In the opinion of directors, they do not foresee any difficulties to obtain the approval of the preferential income tax rate for 2014 to 2016. The PRC income tax rate applicable to Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya was of 15% for the year ended 31 December 2014 (2013: 15%); and 2) Tongjitang Pharmaceutical, Guizhou LLF, Pulante and Guizhou Zhongtai Biological Technology Company Limited, being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% effective retroactively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents: (continued)

Pursuant to the Corporate Income Tax Law of the PRC and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group's certain Hong Kong incorporated subsidiaries, which are the qualified Hong Kong tax residents, are subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that certain of the undistributed profits of the Group's PRC subsidiaries before 1 January 2013 will not be distributed in the foreseeable future. As such, the deferred tax liabilities as at 31 December 2012 in the amount of RMB12,000,000 were reversed during the year ended 31 December 2014. In addition, the directors have also determined that the undistributed profits of the Group's PRC subsidiaries on or after 1 January 2013 will not be distributed in the foreseeable future. As such, no further deferred tax liabilities in this regard have been recognised on the undistributed profits earned by the Group's PRC subsidiaries on or after 1 January 2013 as at 31 December 2014 and 2013 (note 25(d)).

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014 **RMB'000**	2013 RMB'000
Profit before taxation	**481,173**	237,575
Notional tax on profit before taxation, calculated at rates applicable to profits in the jurisdictions concerned	**123,637**	58,505
Tax effect on non-deductible expenses	**4,012**	2,462
Income tax concessions	**(50,836)**	(27,020)
(Over)/under-provision in respect of prior years	**(2,331)**	269
Tax effect of unused tax losses not recognised	**8,763**	4,002
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(1,085)**	–
Effect of tax losses not recognised in prior years but utilised in current year	**(533)**	–
Tax effect of withholding tax on undistributed profits	**(12,000)**	–
Actual tax expense	**69,627**	38,218

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	950	–	–	950
Yang Bin	185	1,701	–	100	1,986
Wang Xiaochun	185	1,661	–	78	1,924
Non-executive directors					
Liu Cunzhou	185	–	–	–	185
She Lulin (ii)	–	–	–	–	–
Zhao Dongji	–	–	–	–	–
Dong Zenghe	–	–	–	–	–
Zhang Jianhui (iii)	–	–	–	–	–
Independent non-executive directors					
Zhou Bajun	185	–	–	–	185
Xie Rong	185	–	–	–	185
Fang Shuting (iv)	167	–	–	–	167
Yu Tze Shan Hailson	185	–	–	–	185
Lo Wing Yat (v)	–	–	–	–	–
	1,277	4,312	–	178	5,767

7 DIRECTORS' REMUNERATION (CONTINUED)

	2013				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	485	–	–	485
Yang Bin	184	1,626	–	70	1,880
Situ Min (i)	24	81	–	8	113
Xu Tiefeng (i)	24	97	–	5	126
Wang Xiaochun	36	183	–	8	227
Non-executive directors					
Du Richeng (i)	24	–	–	–	24
She Lulin (ii)	–	–	–	–	–
Liu Cunzhou	94	–	–	–	94
Zhao Dongji	–	–	–	–	–
Dong Zenghe	–	–	–	–	–
Independent non-executive directors					
Pang Fu Keung (i)	24	–	–	–	24
Lo Wing Yat (i)	24	–	–	–	24
Wang Bo (i)	24	–	–	–	24
Zhang Jianhui (i)	24	–	–	–	24
Zhou Bajun	169	–	–	–	169
Xie Rong	169	–	–	–	169
Fang Shuting (iv)	169	–	–	–	169
Yu Tze Shan Hailsan	19	–	–	–	19
	1,008	2,472	–	91	3,571

(i) Resigned on 28 February 2013.

(ii) Resigned on 30 August 2014.

(iii) Appointed as a non-executive director on 30 August 2014.

(iv) Resigned on 25 November 2014.

(v) Appointed as an independent non-executive director on 27 January 2015.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2013: two) are directors whose remuneration is disclosed in note 7. The aggregate of the emoluments in respect of the other two (2013: three) individual was as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries and other emoluments	**1,685**	1,983
Retirement scheme contributions	**92**	100
	1,777	2,083

The emoluments of the two (2013: three) individual with highest emoluments are within the following band:

	2014 **Number of individuals**	2013 Number of individuals
HKD		
Nil – 1,000,000	**1**	2
1,000,001 – 1,500,000	**–**	1
1,500,001 – 2,000,000	**1**	–

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB38,484,000 (2013: loss of RMB22,622,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2014 **RMB'000**	2013 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(38,484)**	(22,622)
Final dividends from subsidiaries attributable to the profits of the previous financial years, approved and paid during the year	**3,629**	19,549
Company's loss for the year (note 26(a))	**(34,855)**	(3,073)

Details of dividends paid and payable to equity shareholders of the Company are set out in note 26(b).

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB413,090,000 (2013: RMB198,463,000) and the weighted average of 2,533,899,186 ordinary shares (2013: 2,050,558,456 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2014	2013
	'000	'000
Issued ordinary shares at 1 January	**2,533,899**	1,783,411
Effect of shares issued (note 26(c))	**–**	267,147
Weighted average number of ordinary shares at 31 December	**2,533,899**	2,050,558

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted earnings per share is not presented.

11 FIXED ASSETS

	The Group							
	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2013	238,623	207,031	11,002	56,024	512,680	6,134	94,550	613,364
Additions	3,184	36,232	4,336	9,909	53,661	–	91	53,752
Acquisition of subsidiaries	134,336	73,820	15,744	10,737	234,637	–	76,120	310,757
Transfer from construction in progress (note12)	44,505	16,244	–	1,878	62,627	–	–	62,627
Transfer from fixed assets to investment properties	(1,026)	–	–	–	(1,026)	1,026	–	–
Disposals	(637)	(416)	(1,867)	(423)	(3,343)	–	–	(3,343)
Exchange adjustments	–	–	–	(52)	(52)	–	–	(52)
At 31 December 2013	418,985	332,911	29,215	78,073	859,184	7,160	170,761	1,037,105
At 1 January 2014	418,985	332,911	29,215	78,073	859,184	7,160	170,761	1,037,105
Additions	3,993	10,531	1,944	7,446	23,914	–	160,120	184,034
Transfer from construction in progress (note12)	60,918	15,378	179	2,522	78,997	–	–	78,997
Disposals	(352)	(4,903)	(764)	(882)	(6,901)	–	(28,500)	(35,401)
Exchange adjustments	5	–	1	7	13	–	–	13
At 31 December 2014	483,549	353,917	30,575	87,166	955,207	7,160	302,381	1,264,748
Accumulated depreciation and amortisation:								
At 1 January 2013	23,043	119,132	8,742	27,962	178,879	3,382	11,745	194,006
Charge for the year	16,871	20,583	1,729	7,966	47,149	162	2,566	49,877
Transfer from fixed assets to investment properties	(803)	–	–	–	(803)	803	–	–
Written back on disposals	(637)	(56)	(1,333)	(409)	(2,435)	–	–	(2,435)
Exchange adjustments	–	–	–	(35)	(35)	–	–	(35)
At 31 December 2013	38,474	139,659	9,138	35,484	222,755	4,347	14,311	241,413
At 1 January 2014	38,474	139,659	9,138	35,484	222,755	4,347	14,311	241,413
Charge for the year	24,100	24,783	4,347	10,478	63,708	162	5,238	69,108
Written back on disposals	(141)	(4,413)	(579)	(826)	(5,959)	–	(61)	(6,020)
Exchange adjustments	1	–	1	5	7	–	–	7
At 31 December 2014	62,434	160,029	12,907	45,141	280,511	4,509	19,488	304,508
Net book value:								
At 31 December 2014	421,115	193,888	17,668	42,025	674,696	2,651	282,893	960,240
At 31 December 2013	380,511	193,252	20,077	42,589	636,429	2,813	156,450	795,692

11 FIXED ASSETS (CONTINUED)

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on medium-term leases of 50 to 70 years in the PRC. At 31 December 2014, the remaining period of the land use rights ranged from 23 years to 69 years.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of five years, with an option to renew the lease after that date at which time all terms are renegotiated. One of the leases runs for twenty years with three months' notice for termination. Lease payments of this lease are gradually increased during the lease period to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2014	2013
	RMB'000	RMB'000
Within 1 year	**342**	674

All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2014 is RMB15,820,000 (2013: RMB15,820,000) by reference to net rental income allowing for reversionary income potential. The valuations of the investment properties as at 31 December 2014 and 31 December 2013 were both carried out by Asset Appraisal Limited, an independent firm of professional valuers.

(c) Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of RMB131,776,000 were pledged as securities of bank loans of the Group as at 31 December 2014 (see note 22) (2013: RMB148,825,000).

12 CONSTRUCTION IN PROGRESS

	The Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**89,245**	34,516
Acquisition of subsidiaries	**–**	85,722
Additions	**65,826**	31,634
Transfer to fixed assets (note 11)	**(78,997)**	(62,627)
At 31 December	**76,074**	89,245

Construction in progress mainly represents premises and equipments under construction as at 31 December 2014 and 2013.

13 INTANGIBLE ASSETS

	The Group					
	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2013	65,400	48,695	59,000	782	744	174,621
Additions	–	–	–	588	–	588
Acquisition of subsidiaries	582,458	251,863	818	–	106,337	941,476
Disposals	–	–	–	(138)	–	(138)
At 31 December 2013	647,858	300,558	59,818	1,232	107,081	1,116,547
At 1 January 2014	647,858	300,558	59,818	1,232	107,081	1,116,547
Additions	–	–	–	644	–	644
Disposals	–	–	–	(100)	–	(100)
At 31 December 2014	647,858	300,558	59,818	1,776	107,081	1,117,091
Accumulated amortisation and impairment loss:						
At 1 January 2013	65,400	11,765	23,108	496	161	100,930
Amortisation for the year	8,159	2,036	6,002	286	1,921	18,404
Written back on disposals	–	–	–	(138)	–	(138)
At 31 December 2013	73,559	13,801	29,110	644	2,082	119,196
At 1 January 2014	73,559	13,801	29,110	644	2,082	119,196
Amortisation for the year	31,178	1,729	6,002	298	10,783	49,990
Written back on disposals	–	–	–	(100)	–	(100)
At 31 December 2014	104,737	15,530	35,112	842	12,865	169,086
Net book value:						
At 31 December 2014	543,121	285,028	24,706	934	94,216	948,005
At 31 December 2013	574,299	286,757	30,708	588	104,999	997,351

13 INTANGIBLE ASSETS (CONTINUED)

The amortisation charge for the year is mainly included in "cost of sales" in the consolidated income statement.

Trademark with the carrying amount of RMB251,863,000, acquired through the acquisition of Tongjitang Chinese Medicines Company and its subsidiaries (the "Tongjitang Group") in 2013, are assessed to have indefinite useful lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The recoverable amount of the trademark that has indefinite useful life is estimated annually whether or not there is any indication of impairment. The amount is allocated to each CGU of the Tongjitang Group as follows:

	2014 **RMB'000**	2013 RMB'000
– Tongjitang Pharmaceutical	**198,972**	198,972
– Jingfang	**37,779**	37,779
– Guizhou LLF	**10,075**	10,075
– Pulante	**5,037**	5,037
	251,863	251,863

The recoverable amount of the trademark that has indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of the relevant CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows for the five-year period are extrapolated to cover a period of five (2013: six) more years (the "Extrapolated Period") using an estimated increased rate of 3% (2013: 3%) in selling prices and costs with no growth in sales volume. Cash flows beyond the Extrapolated Period are forecasted using an estimated selling price and cost in the last year of the Extrapolated Period with no growth in sales volume. The rates used to discount the forecast cash flows at 15.35% (pre-tax rate at 17.64%) (2013: 15.26% (pre-tax rate at 17.11%)). No impairment loss was recognised during the year ended 31 December 2014 (2013: Nil).

Certain product protection rights with carrying value of RMB4,203,000 were pledged as securities of bank loans of the Group as at 31 December 2014 (see note 22) (2013: RMB4,700,000).

14 GOODWILL

	The Group	
	2014 **RMB'000**	2013 RMB'000
Cost and carrying amount:		
At 1 January	**1,191,052**	169,170
Addition acquired through business combination	**–**	1,021,882
At 31 December	**1,191,052**	1,191,052

14 GOODWILL (CONTINUED)

Impairment tests for cash-generating units containing goodwill

Goodwill acquired through business combination is allocated to the Group's CGU identified as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Manufacture and sale of pharmaceutical products		
– Dezhong	**100,391**	100,391
Manufacture and sale of pharmaceutical products		
– Feng Liao Xing	**23,664**	23,664
Manufacture and sale of pharmaceutical products		
– Guangdong Medi-World	**26,055**	26,055
Manufacture and sale of pharmaceutical products		
– Luya	**11,221**	11,221
Sale of pharmaceutical products		
– Feng Liao Xing Material & Slices	**2,449**	2,449
Sale of pharmaceutical products		
– Winteam Sales	**5,390**	5,390
Manufacture and sale of pharmaceutical products		
– Tongjitang Group		
– Tongjitang Pharmaceutical	**733,037**	733,037
– Jingfang	**139,184**	139,184
– Guizhou LLF	**37,116**	37,116
– Pulante	**18,558**	18,558
Manufacture and sale of pharmaceutical products		
– Guizhou Zhongtai	**93,987**	93,987
	1,191,052	1,191,052

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

14 GOODWILL (CONTINUED)

Impairment tests for cash-generating units containing goodwill (continued)

The Group determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a four-year period (2013: four). Cash flows beyond the fifth year to the sixth year period are extrapolated using an estimated increased rate of 3% (2013: 3%) in selling prices and costs with no growth in sales volume (2013: Nil). Cash flows beyond the six-year period are extrapolated using an estimated selling prices and costs in the sixth year with no growth in sales volume. The rates used to discount the forecast cash flows range from 12.84% to 18.32% (pre-tax rates range from 15.59% to 21.50%) (2013: 14.09% to 15.03% (pre-tax rates range from 18.24% to 20.31%)). The discount rates reflect specific risks related to the relevant CGUs.

15 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**3,033,096**	3,022,715
Amounts due from subsidiaries	**145,025**	144,528
	3,178,121	3,167,243

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be recoverable within twelve months from the Company's date of financial position and are therefore shown in the Company's statement of financial position as non-current assets.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2014.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the Group's financial statements.

(Expressed in Renminbi unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Dezhong (note (i))	The PRC 1 November 1998	USD6,460,000	–	96.94%	Manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing (note (i))	The PRC 16 March 2000	USD7,526,100	–	98.00%	Manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World (note (ii))	The PRC 13 November 1992	USD27,340,000	–	100%	Manufacture and sale of pharmaceutical products and investment holding
Luya (note (iii))	The PRC 6 November 2000	RMB24,529,300	–	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices (note (iv))	The PRC 6 March 1982	RMB5,500,000	–	100%	Trading of pharmaceutical products
Winteam Sales (note(iv))	The PRC 1 August 2002	RMB10,000,000	–	100%	Trading of pharmaceutical products
Tongjitang Pharmaceutical (note (vi))	The PRC 29 June 2005	RMB249,759,458	–	100%	Development, manufacturing, marketing and sales of medicine products
Jingfang (note (iv))	The PRC 7 March 2000	RMB39,000,000	–	100%	Development, manufacturing, marketing and sales of medicine products
Guizhou LLF (note (iv))	The PRC 23 October 2001	RMB50,000,000	–	100%	Development, manufacturing, marketing and sales of medicine products
Pulante (note (iv))	The PRC 1 June 2000	RMB27,520,000	–	100%	Development, manufacturing, marketing and sales of medicine products
Guizhou Zhongtai Biological Technology Company Limited (note (v))	The PRC 28 June 2006	RMB16,330,000	–	51%	Development, manufacturing, marketing and sales of medicine products

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

(i) Dezhong and Feng Liao Xing are sino-foreign equity joint ventures established in the PRC pursuant to the law of the PRC on sino-foreign equity joint ventures. Dezhong and Feng Liao Xing have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

(ii) Guangdong Medi-World is a wholly foreign owned enterprise established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. Guangdong Medi-World's period of operation is 30 years expiring on 13 November 2022.

(iii) Luya is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Luya has joint venture periods of 15 years expiring on 6 November 2015. In the opinion of directors, they do not foresee any difficulties to extend the operation period of Luya when its business license expires.

(iv) Feng Liao Xing Material & Slices, Winteam Sales, Jingfang, Guizhou LLF and Pulante were established pursuant to the Company Law of the PRC.

(v) Guizhou Zhongtai Biological Technology Company Limited is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Guizhou Zhongtai has joint venture periods of 30 years expiring on 17 January 2043.

(vi) Tongjitang Pharmaceutical is wholly foreign owned enterprises established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. The period of operation for Tongjitang Pharmaceutical is 30 years expiring on 28 June 2035.

The following table lists out the information relating to Guizhou Zhongtai, the only sub-group of the Group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2014 **RMB'000**	2013 RMB'000
NCI percentage	**49%**	49%
Current assets	**44,235**	107,843
Non-current assets	**105,762**	116,691
Current liabilities	**(33,034)**	(98,643)
Non-current liabilities	**(8,469)**	(10,211)
Net assets	**108,494**	115,680
Carrying amount of NCI	**53,162**	56,683
Revenue	**39,719**	38,481
Loss for the year	**(7,187)**	(32)
Total comprehensive loss	**(7,187)**	(32)
Loss allocated to NCI	**(3,521)**	(16)
Cash flows from operating activities	**15,702**	8,984
Cash flows from investing activities	**(2,941)**	(8,495)
Cash flows from financing activities	**(1,640)**	3,563

16 INTERESTS IN A JOINT OPERATION

On 14 August 2013, Foshan Winteam Pharmaceutical Development Company Limited, a wholly-owned subsidiary of the Company, acquired a land use right in Foshan City, Guangdong Province of the PRC from the PRC government authority at a consideration of RMB234,050,000, for which the Group has paid RMB94,722,000. The Group entered into a cooperation and development agreement (the "Agreement") with an independent third party for the purpose of construction of buildings on the land. According to the Agreement, the Group and the independent third party jointly control through unanimous consent for all decisions and entitle to certain percent of buildings after completion based on their investments proportion in the construction project. As of the end of the year, the carrying amount of the land use right contributed by the Group was RMB93,294,000 (31 December 2013: Nil) and was recorded under the interests in leasehold land held for own use under operating leases in the consolidated statement of financial position.

17 OTHER FINANCIAL ASSETS

	The Group	
	2014	2013
	RMB'000	RMB'000
Non-current		
Available-for-sale equity securities		
– Unlisted equity securities, at cost	**1,010**	1,010
	1,010	1,010
Current		
Equity securities listed in HK		
(at fair value) – held for trading	**662**	1,164
Available-for-sale securities – unlisted	**–**	5,000
	662	6,164
Market value of listed securities	**662**	1,164

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

None of the available-for-sale equity securities are past due or impaired.

18 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2014 RMB'000	2013 RMB'000
Raw materials	**137,441**	168,795
Work in progress	**141,846**	124,294
Finished goods	**115,254**	89,390
	394,541	382,479
Packaging materials	**17,479**	17,465
Low value consumables	**5,675**	5,560
	417,695	405,504

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2014 RMB'000	2013 RMB'000
Carrying amount of inventories sold	**1,037,174**	564,364
Write down of inventories	**–**	4,470
Reversal of write-down of inventories	**(1,324)**	–
	1,035,850	568,834

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Current				
Trade receivables	**565,218**	415,275	**–**	–
Bills receivables	**608,653**	508,327	**–**	–
Less: allowance for doubtful debt (note 19(b))	**(20,728)**	(16,431)	**–**	–
	1,153,143	907,171	**–**	–
Other receivables	**83,257**	109,661	**22,714**	21,570
	1,236,400	1,016,832	**22,714**	21,570
Non-current				
Other receivables	**12,569**	161,464	**1,483**	3,243
	1,248,969	1,178,296	**24,197**	24,813

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

Non-current other receivables mainly represent the prepayments for construction works and equipment amounted to RMB11,086,000 (2013: RMB40,003,000) and prepayment for arrangement fees relating to a long-term loan amounted to RMB1,483,000 (2013: RMB3,243,000). The amount as of 31 December 2013 also included prepayments for leasehold land held for own use under operating leases amounting to RMB118,218,000.

Bills receivables with carrying value of RMB166,547,000 (2013: RMB35,478,000) were pledged as securities of bank loan of the Group as at 31 December 2014 (see note 22(i)).

(a) Ageing analysis

As of the end of the financial year, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date, is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 3 months of invoice date	**421,102**	320,585
3 to 6 months after invoice date	**84,433**	53,314
More than 6 months less than 12 months after invoice date	**29,453**	22,106
More than 12 months after invoice date	**30,230**	19,270
	565,218	415,275

Trade receivables are due within 30 to 90 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(n)(i)).

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**16,431**	9,475
Acquisition of subsidiaries	**–**	5,848
Impairment loss recognised (note 5(c))	**5,627**	1,108
Uncollectible amounts written off	**(1,330)**	–
At 31 December	**20,728**	16,431

At 31 December 2014, the Group's gross trade receivables of RMB20,728,000 (2013: RMB16,431,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of RMB20,728,000 were recognised (2013: RMB16,431,000). The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 3 months of invoice date	**421,102**	320,585
3 to 6 months after invoice date	**84,433**	53,314
More than 6 months less than 12 months after invoice date	**29,453**	22,106
More than 12 months after invoice date	**9,502**	2,839
	544,490	398,844

Receivables that were neither past due nor impaired related to a wide range of 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, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks and other financial institutions	**305**	4,239	**–**	4,000
Cash at bank and in hand	**439,416**	345,411	**10,432**	41,801
Cash and cash equivalents in the statement of financial position	**439,721**	349,650	**10,432**	45,801
Less: Bank deposits	**(305)**	(4,239)	**–**	(4,000)
Cash and cash equivalents	**439,416**	345,411	**10,432**	41,801

(b) Reconciliation of profit before taxation to cash generated from operations:

		2014	2013
		RMB'000	RMB'000
Operating activities			
Profit before taxation		**481,173**	237,575
Adjustments for:			
Depreciation and amortisation		**119,098**	68,281
Impairment loss recognised on/(written back)			
– trade receivables	*5(c)*	**5,627**	1,108
– other receivables	*5(c)*	**(1,327)**	413
Finance costs	*5(a)*	**64,217**	35,182
Interest income	*4*	**(1,694)**	(7,748)
Loss on disposal of fixed assets	*4*	**559**	892
Gain from sale of available-for-sale securities	*4*	**–**	(9,621)
Unrealised loss on equity securities (at fair value)	*4*	**502**	–
Foreign exchange loss/(gain)	*4*	**1,688**	(1,412)
Increase in inventories		**(12,191)**	(64,383)
Increase in trade and other receivables		**(223,624)**	(230,729)
(Decrease)/increase in trade and other payables		**(16,185)**	106,053
Cash generated from operations		**417,843**	135,611

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**133,143**	152,364	**–**	–
Other creditors and accrued charges	**333,940**	426,258	**288,359**	288,892
Advances received from customers	**73,030**	17,141	**–**	–
	540,113	595,763	**288,359**	288,892

As of the end of the financial year, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due within 1 month or on demand	**133,143**	152,364	**–**	–

Other creditors and accrued charges mainly include accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

All of the trade and other payables are expected to be settled within one year or payable on demand.

22 BANK AND OTHER LOANS

At 31 December 2014, the Group's and the Company's bank and other loans were repayable as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**501,648**	583,626	**–**	–
After 1 year but within 3 years	**670,565**	668,270	**670,565**	668,270
	1,172,213	1,251,896	**670,565**	668,270

At 31 December 2014, the Group's and the Company's bank and other loans were secured as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– Secured	**406,547**	335,928	**–**	–
– Unsecured	**762,666**	912,968	**670,565**	668,270
	1,169,213	1,248,896	**670,565**	668,270
Other secured loan*	**3,000**	3,000	**–**	–
	1,172,213	1,251,896	**670,565**	668,270

* Other secured loan was borrowed from Foshan Shunde Industry Service Innovation Center. The loan is interest free and repayable on 18 December 2015.

22 BANK AND OTHER LOANS (CONTINUED)

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 31 December 2014 RMB'000	At 31 December 2013 RMB'000
Interests in leasehold land and buildings (note 11(c))	**131,776**	148,825
Product protection rights (note 13)	**4,203**	4,700
Bills receivables (note 19)	**166,547**	35,478
	302,526	189,003

(ii) As at 31 December 2014, other loan of RMB3,000,000 was guaranteed by Mr. Yang Bin, who is the director of the Company (31 December 2013: bank loan of RMB22,000,000 and other loan of RMB3,000,000).

(iii) Banking facilities of RMB1,904,312,000 (31 December 2013: RMB1,256,825,000) were utilised to the extent of RMB1,169,213,000 (31 December 2013: RMB1,248,896,000). The bank loans drawn were secured by assets as set out in note 22(i).

Parts of the Group's banking facilities, amounted to RMB911,665,000 (2013: RMB892,726,000) are subject to the fulfillment of covenants relating to certain of the balance sheet ratios of the subsidiaries of the Group, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). As at 31 December 2014, none of the covenants relating to drawn down facilities had been breached (2013: Nil).

23 DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under current and non-current liabilities are as follows:

	2014 RMB'000	2013 RMB'000
At the beginning of the year	**63,979**	17,462
Additions	**10,817**	5,761
Addition through acquisition	**–**	43,082
Credited to profit or loss (note 4)	**(5,157)**	(2,326)
At the end of the year	**69,639**	63,979
Representing:		
Current portion	**44,337**	34,530
Non-current portion	**25,302**	29,449
	69,639	63,979

23 DEFERRED GOVERNMENT GRANTS (CONTINUED)

As at 31 December 2014 and 2013, deferred government grants of the Group mainly includes various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of fixed assets.

Deferred government grants relating to research and development projects will be recognised as income in the same periods in which the expenses for the development project are incurred. Deferred government grants relating to purchase of fixed assets will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

24 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the contributions from employees and employers are subject to a cap of monthly relevant income of HKD20,000 for the period from 1 January 2012 to 31 May 2012. With effective from 1 June 2012, the maximum amount of monthly relevant income under the MPF scheme was changed from HKD20,000 to HKD25,000.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2014	2013
	RMB'000	RMB'000
Provision for corporate income tax for the year	**90,118**	55,401
Corporate income tax paid	**(92,844)**	(50,752)
	(2,726)	4,649
Acquisition of subsidiaries	**–**	19,737
Exchange adjustment	**–**	142
Balance of PRC corporate income tax relating to prior years	**50,469**	25,941
	47,743	50,469

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Intangible assets RMB'000	Depreciation allowances in excess of related depreciation RMB'000	Allowance for impairment of doubtful debts RMB'000	Available-for-sale securities RMB'000	Withholding tax on undistributed profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Others RMB'000	Total RMB'000
At 1 January 2013	(17,675)	(11,951)	5,455	(1,127)	(14,061)	5,317	9,188	(24,854)
Addition through acquisition	(208,195)	(16,248)	1,946	–	(8,876)	–	20,823	(210,550)
Credited/(charged) to profit or loss	6,373	670	(265)	–	–	6,582	3,460	16,820
Charged to reserves	–	–	–	1,127	–	–	–	1,127
Transferred to current tax	–	–	–	–	363	–	–	363
At 31 December 2013	(219,497)	(27,529)	7,136	–	(22,574)	11,899	33,471	(217,094)
At 1 January 2014	**(219,497)**	**(27,529)**	**7,136**	**–**	**(22,574)**	**11,899**	**33,471**	**(217,094)**
Effect of change in tax rate	**1,031**	**1,264**	**(657)**	**–**	**–**	**–**	**(553)**	**1,085**
Credited/(charged) to profit or loss	**7,812**	**1,166**	**526**	**–**	**12,000**	**(6,589)**	**3,191**	**18,106**
Transferred to current tax	**–**	**1,100**	**–**	**–**	**200**	**–**	**–**	**1,300**
Exchange adjustments	**–**	**–**	**–**	**–**	**5**	**–**	**–**	**5**
At 31 December 2014	**(210,654)**	**(23,999)**	**7,005**	**–**	**(10,369)**	**5,310**	**36,109**	**(196,598)**

Reconciliation to the consolidated statement of financial position:

	The Group 2014 RMB'000	2013 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**48,424**	52,506
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(245,022)**	(269,600)
	(196,598)	(217,094)

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses of the Company and certain PRC subsidiaries of RMB73,259,000 as at 31 December 2014 (2013: RMB20,195,000). The Group determined that it was not probable that future taxable income against which the losses could be utilised in the foreseeable future.

(d) Deferred tax liabilities not recognised

Deferred tax liabilities of RMB37,848,000 (2013: RMB14,059,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future (note 6(a)).

26 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	**Share capital** RMB'000	**Share premium** RMB'000	**Capital redemption reserve** RMB'000	**Exchange Reserve** RMB'000	**Retained profits/ (accumulated losses)** RMB'000	**Total** RMB'000
At 1 January 2013		175,589	625,875	319	(173,218)	(53,192)	575,373
New shares issued		59,498	1,680,965	–	–	–	1,740,463
Loss and other comprehensive loss for the year		–	–	–	(32,068)	(3,073)	(35,141)
At 31 December 2013		235,087	2,306,840	319	(205,286)	(56,265)	2,280,695
At 1 January 2014		235,087	2,306,840	319	(205,286)	(56,265)	2,280,695
Profit/(loss) and other comprehensive profit/(loss) for the year		–	–	–	7,986	(34,855)	(26,869)
Transition to no-par value regime on 3 March 2014	*26(c)*	2,307,159	(2,306,840)	(319)	–	–	–
At 31 December 2014		2,542,246	–	–	(197,300)	(91,120)	2,253,826

26 CAPITAL AND RESERVES (CONTINUED)

(b) Dividends

No final dividend has been proposed by the Company for the year ended 31 December 2014 (2013: Nil).

(c) Share capital

	2014 Number of shares '000	**2014** RMB'000	2013 Number of shares '000	2013 RMB'000
Authorised: (note 1)				
Ordinary shares of HKD0.10 (approximately RMB0.08) each (note 2)	**–**	**–**	3,000,000	271,732
Ordinary shares, issued and fully paid:				
At 1 January	**2,533,899**	**235,087**	1,783,411	175,589
Share issued (note 3)			750,488	59,498
Transition to no-par value regime on 3 March 2014 (note 4)	**–**	**2,307,159**	–	–
At 31 December	**2,533,899**	**2,542,246**	2,533,899	235,087

Note 1: Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

Note 2: In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

Note 3: During the year ended 31 December 2013, amounts of RMB1,680,965,000 standing to the credit of the share premium account was applied in paying up in full 750,488,000 ordinary shares of HKD0.1 (approximately RMB0.08) each of the Company, which were allotted and fully paid then held in accordance with section 48B of the predecessor Hong Kong Companies Ordinance (Cap.32).

Note 4: In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

26 CAPITAL AND RESERVES (CONTINUED)

(d) Share premium and capital redemption reserve

Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital (see note 26(c)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with operations outside the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(x).

(f) Reserve fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the equity holders of the subsidiary. Reserve fund can only be used to make good losses, if any, and for increasing paid-in capital.

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held and other financial instruments at the end of the financial year, and is dealt with in accordance with the accounting policy set out in note 1(h).

(h) Distributability of reserves

At 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622), was nil (2013: Nil).

(i) Other reserve

Other reserve represented premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves as at 31 December 2013. The addition of RMB11,500,000 during 2014 represented the waiver of amount due to a non-controlling shareholder.

26 CAPITAL AND RESERVES (CONTINUED)

(j) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) plus unaccrued proposed dividends, if any, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends, if any.

During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratios at 31 December 2014 and 2013 are as follows:

	2014 **RMB'000**	2013 RMB'000
Current liabilities:		
Trade and other payables	**540,113**	595,763
Bank and other loans	**501,648**	583,626
	1,041,761	1,179,389
Non-current liabilities:		
Bank loans	**670,565**	668,270
Total debt	**1,712,326**	1,847,659
Less: Cash and cash equivalents	**(439,416)**	(345,411)
Adjusted net debt	**1,272,910**	1,502,248
Total equity	**3,257,122**	2,834,763
Adjusted equity	**3,257,122**	2,834,763
Adjusted net debt-to-equity ratio	**39%**	53%

26 CAPITAL AND RESERVES (CONTINUED)

(j) Capital management (continued)

Except for covenants relating to certain of the banking facilities of the subsidiaries of the Group as disclosed in note 22, neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practises used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2014, the Group has no concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the consolidated statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by the Company as set out in note 29, the Group does not provide any guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 29.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Group and the Company can be required to pay:

The Group

	2014					2013				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000
Trade and other payables	540,113	540,113	540,113	–	–	595,763	595,763	595,763	–	–
Bank and other loans	1,172,213	1,228,526	536,801	691,725	–	1,251,896	1,329,786	614,237	26,191	689,358
	1,712,326	1,768,639	1,076,914	691,725	–	1,847,659	1,925,549	1,210,000	26,191	689,358

The Company

	2014					2013				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000
Trade and other payables	288,359	288,359	288,359	–	–	288,892	288,892	288,892	–	–
Bank loans	670,565	718,005	26,280	691,725	–	668,270	741,743	26,194	26,191	689,358
	958,924	1,006,364	314,639	691,725	–	957,162	1,030,635	315,086	26,191	689,358

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period.

	The Group				The Company			
	2014		2013		**2014**		2013	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000	**Effective interest rate %**	**RMB'000**	Effective interest rate %	RMB'000
Net fixed rate borrowings:								
Bank loans	**6.27%**	**498,648**	6.23%	580,626	**-**	**-**	–	–
Other loan	**0%**	**3,000**	0%	3,000	**-**	**-**	–	–
		501,648		583,626		**-**		–
Variable rate borrowings:								
Bank loans	**4.11%**	**670,565**	4.25%	668,270	**4.11%**	**670,565**	4.25%	668,270
Total net borrowings		**1,172,213**		1,251,896		**670,565**		668,270
Net fixed rate borrowings as a percentage of total net borrowings		**42.8%**		46.6%		**-**		–

(ii) Sensitivity analysis

As at 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB6,705,000 (2013: RMB6,683,000). Other components of equity would not be affected by the changes in interest rates.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest risk for financial investments in existence at those dates. The analysis is preferred on the same basis for 2013.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the Company and other investment holding subsidiaries incorporated in the Cayman Islands, British Virgin Islands and Hong Kong have their functional currencies in USD or HKD, therefore any appreciation or depreciation of RMB against USD or HKD will affect the Group's financial position and be reflected in the exchange reserve.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 17), which are listed on the Stock Exchange of Shenzhen, the PRC. The available-for-sale investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in share price	**2014 Effect on equity RMB'000**	2013 Effect on equity RMB'000
Change in market price of equity investments:			
– increase	20%	**132**	233
– decrease	(20%)	**(132)**	(233)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual date of financial position. The analysis is performed on the same basis for 2013.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values

(i) Financial instruments and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2014 categorised into				Fair value measurements as at 31 December 2013 categorised into		
	Fair value at 31 December 2014	**level 1**	**level 2**	**level 3**	Fair value at 31 December 2013	level 1	level 2	level 3
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Assets								
Available-for-sale equity securities:								
– Listed in HK	**662**	**662**	**–**	**–**	1,164	1,164	–	–
Available-for-sale securities – unlisted	**–**	**–**	**–**	**–**	5,000	–	5,000	–
	622	**662**	**–**	**–**	6,164	1,164	5,000	–

During the years ended 31 December 2013 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values (continued)

(i) Financial instruments and liabilities measured at fair value (continued)

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted available-for-sale financial assets is the estimated amount that the Group would receive or pay to terminate the financial assets at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the asset counterparty.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2014.

28 COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Contracted for	**137,948**	216,165
Authorised but not contracted for	**353,073**	7,591
	491,021	223,756

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 1 year	**2,394**	3,878
After 1 year but within 5 years	**–**	1,797
	2,394	5,675

Operating lease payments represent rentals payable by the Group for its office premises. The lease was negotiated for an average term of two to five years with fixed rental. The lease did not include any contingent rentals.

29 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2014 (2013: Nil).

At the end of the reporting period, contingent liabilities of the Company were as follows:

	The Company	
	2014	2013
	RMB'000	RMB'000
Guarantees given to a bank by the Company in respect of banking facilities utilised by certain subsidiaries	**90,000**	82,824

As at 31 December 2014, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	**7,274**	5,463
Post-employments benefits	**270**	191
	7,544	5,654

Total remuneration is included in "staff costs" (see note 5(b)).

(Expressed in Renminbi unless otherwise indicated)

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions

During the year ended 31 December 2014 and 2013, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship
Mr. Yang Bin	Executive director and a shareholder of the Company
Mr. Wu Xian	Executive director of the Company with effect from 5 February 2013
Mr. Xu Tiefeng	Executive director and controlling shareholder of the Company till 28 February 2013
Mr. Wang Xiaochun	Executive director of the Company with effect from 23 October 2013
Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical")	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng
Kimlong Technology Limited ("Kimlong")	Effectively 100% owned by Mr. Yang Bin
China National Pharmaceutical Group Corporation ("CNPGC")	Ultimate controlling shareholder with effect from 28 February 2013
CNPGC's subsidiaries	Fellow subsidiaries of the Group with effect from 28 February 2013
Hanmax Investment Limited	Effectively owned by Mr. Wang Xiaochun

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions (continued)

Particulars of significant transactions between the Group and the related parties are as follows:

(i) Sales of finished goods to:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
CNPGC's subsidiaries	**387,664**	123,695

(ii) Purchase of raw materials from:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
CNPGC's subsidiaries	**20,120**	13,107

(iii) Research and development services provided by:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
CNPGC's subsidiaries	10,012	–

(iv) Loan from related party:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Hanyu Pharmaceutical *	**–**	5,000

* The loan from related party is unsecured, interest free and repayable on 20 March 2014.

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions (continued)

(iv) Loan from related party (continued):

The above related party transactions (i), (ii) and (iii) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Continuing connected transactions" of the section headed "Report of the Directors" of this annual report.

Particulars of significant balance between the Group and the related parties are as follows:

(v) Trade and other receivable balances due from related parties:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
CNPGC's subsidiaries	**101,206**	76,312

(vi) Trade and other payable balances due to related parties:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Hanyu Pharmaceutical	**–**	5,000
CNPGC's subsidiaries	**9,626**	2,038
	9,626	7,038

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

1) On 27 January 2015, the Group agreed with a fellow subsidiary, China Biotechnology Co., Ltd. （中國生物技術股份有限公司）, which is a wholly-owned subsidiary of CNPGC, that the Group shall conditionally sell 31% of equity interest in Guizhou Zhongtai at a consideration of RMB139,500,000. Up to the date of this report, the transaction has not yet been completed.

2) On 31 December 2014 and 15 January 2015, the Group agreed with several independent third parties that the Group shall conditionally purchase up to 81.48% of equity interest in Jiangyin Tianjiang Pharmaceutical Co. Ltd. and its subsidiaries, which are established and operated in the PRC. The total consideration shall be not less than RMB7,595,900,000 and not more than RMB8,346,000,000. Jiangyin Tianjiang Pharmaceutical Co. Ltd. and its subsidiaries will become the subsidiaries of the Group upon the completion of the transaction above. Up to the date of this report, the transaction has not yet been completed.

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate controlling party as at 31 December 2014 to be Sinopharm Group Hongkong Co., Limited, while the ultimate controlling party of the Company as at 31 December 2014 to be China National Pharmaceutical Group Corporation.

(Expressed in Renminbi unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Annual improvements to HKFRSs 2012-2014 cycle	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 16 and HKAS38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.