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

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

CGE HEALTHCARE
中国远大 健康

Annual Report 2014

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr. Liu Chengwei
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

WEBSITE

www.chinagrandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

HSBC
China Construction Bank
China Merchants Bank
Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

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

Business Review

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") are mainly engaged in research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialised pharmaceutical raw materials and healthcare products. The core products of pharmaceutical preparations include cerebro-cardiovascular medicines, ENT products such as ophthalmic medicines, medicines for anti-bacterial and antibiotics, antipyretic and analgesic, etc. The major products of pharmaceutical intermediates and specialized raw materials include steroid hormones, amino acids and anti-bacterial and antibiotics products, etc., and healthcare core products include taurine, etc.

Target to be one of the largest pharmaceutical and health products enterprises in China, the Group has always committed to maintain the production quality and sales growth of its existing products. Meanwhile, the Group continuously endeavor to develop new medicines as well as through acquiring other potential pharmaceutical manufacturers to enlarge the pool of its core products and the sales segments. In addition to the acquisition of 70.84% equity interests in Beijing Rui Yao Technology Limited ("Rui Yao") in 2013 which enriched the Group's products varieties in the cerebro-cardiovascular medicines segment and expanded the sales networks, the Group has also formed Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Company Limited ("Grand Huangshi Feiyun") in the same year. The formation of Grand Huangshi Feiyun further enlarged the market segments of cerebro-cardiovascular medicines for the Group and enhanced its antibiotics products varieties, and led the Group to enter the antitumor medicines area, these two companies start to bring in the contribution to the Group.

To carry through the Group's proactive business strategies among the years, the Group entered into a sales and purchase agreement in December 2014, to acquire up to 100% equity interests of Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming"). Tianjin Jingming mainly engages in research and development, manufacture and sales of ophthalmic medical devices and surgical products, some of its products are exclusive in the PRC market and has a great sales potential. Furthermore, the ophthalmic products and techniques of Tianjin Jingming together with the Group's existing products will create a significant synergy effect, hence, the directors of the Company (the "Director(s)") believed upon the completion of the acquisition, Tianjin Jingming will provide significant assist to the Group in developing the ophthalmic medical device market. The Group has completed part of the acquisition by acquiring 73.3% equity interests of Tianjin Jingming in January 2015.

In addition, the Group entered into a purchase and subscription of registered capital agreement in June 2014, proposed to acquire 52.25% equity interests of Shanghai Weicon Optical Co., Ltd. ("Shanghai Weicon") at a consideration of USD57,750,000. It will further invest USD11,000,000 in Shanghai Weicon after the completion of the said acquisition and thus it will finally hold 55% equity interests of Shanghai Weicon. Shanghai Weicon is a leading contact lenses and solutions manufacturer in PRC, and this acquisition will allow the Group to continue to pursue its long-term diversified business strategy. The Directors believed that upon the completion of the transaction, Shanghai Weicon will further strengthen and enlarge the Group's revenue sources as well as to bring in positive return to the Shareholders. Up to the date of this report, this transaction has not yet completed.

To cope with the needs of daily working capital of the Group and meet the financing needs of above purchase and subscription of registered capital agreement, the Group entered into convertible bonds subscription agreements with 2 investors in June 2014. In October 2014, the issuance of convertible bonds had been completed, the proceed of the aggregated principal amount in total was HK$330,000,000.

Management Discussion and Analysis

In addition to the above acquisitions, to tie with the sustainable demand of research and development of the Group, the Group entered into a cooperative agreement with the well-known Institute of Materia Medica, Chinese Academy of Medical Sciences ("CAMS") in September 2014. Both parties will join together in participating in the research and development, production and supply of orphan diseases medication, aimed to provide a timely opportunity for those rare diseases patients to receive a proper treatment who temporarily do not have a suitable cure. Meanwhile, it will also enable the Group to have a timely introduction of competitive and leadership products so that the Group will become a pioneer of orphan diseases medications and secured the market position.

The Group continuously focuses on its self-business in term of improving the production technology and modulating the production structure more effectively to encourage the production growth and enlarge the sales networks so as to achieve a sustainable business growth. In 2014, the Group's two new production plants located in Jiangsu and Wuhan commerce commercial operations and the production volume recorded a certain degree increase, the Directors believed that this will further strengthen the quality and supply of the Group's products in the coming years.

Turnover

For the year ended 31 December 2014, the Group recorded a turnover amount of approximately HK$3,122.12 million, which increased by approximately 17.4% in compare with the same period of last year. The average gross profit margin of the Group was approximately 38.2%, which increased by approximately 4.9% comparing with 2013.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products are cerebro-cardiovascular, ophthalmic, antibacterial and analgesic and antipyretic. For the year ended 31 December 2014, the turnover amount of pharmaceutical preparations was approximately RMB966.77 million and was increased by approximately by 30.4% in compare with same period of last year.

– Cerebro-cardiovascular medicines

The cerebro-cardiovascular medicines are the core products and the business growth engine of the Group. In addition to the expansion of the new markets, the Group launched a technical training campaign in the key regional hospitals during the year which strengthened the proper prescription of dosage to the market. For the year ended 31 December 2014, the turnover of the cerebro-cardiovascular medicines of the Group recorded approximately RMB394.41 million and was increased by approximately 39.5% compared with the same period in 2013. In which, the turnover amount of the Noradrenaline Bitartrate Injection and Adrenaline Hydrochloride Injection which mainly used for the emergency purpose, was approximately RMB158.17 million, increased by approximately 30.0%; and the Simvastatin Capsules contributed approximately RMB32.7 million to the Group's revenue, increased by approximately 16.7%.

– **Ophthalmic medicines and other pharmaceutical preparations**

During the financial year, ophthalmic medicine recorded a turnover amount of approximately RMB212.84 million, which increased by approximately 19.9% in compare with 2013. The non-prescription ophthalmic medicine, Polyvinyl Alcohol Eyedrops, recorded turnover amount of approximately RMB63.97 million and increased by approximately 28.4% in compare with same period of last year. This is mainly due to the reinforcement of media promotions and branding including the traditional TV advertising, vehicles advertisements and the e-commerce involvement, the sales places have covered most of the first-tier cities such as Shanghai and Guangdong, etc. The Group's products of Levofloxacin Hydrochloride Eye Gel and Bing Zhen Qing Mu Eyedrops also recorded a turnover amount of approximately RMB38.52 million and RMB14.93 million respectively, increased by approximately 28.7% and 65.7% respectively in compare with the same period of last year. In which, Bing Zhen Qing Mu eyedrops targeted to the young pseudo myopia symptoms which is a great potential segment and will become one of the Group core developing products. The Anti-viral Oral Solutions, a product of Grand Huangshi Feiyun, and the antitumor products Hydroxyl Camptothecine Injection also recorded a turnover amount of approximately RMB36.97 million and RMB21.33 million respectively.

Pharmaceutical Intermediates

The pharmaceutical intermediates are also major products of the Group which include pharmaceutical raw materials such as Analgin, Metronidazole and Chloramphenicol and other amino acid products. For the year ended 31 December 2014, the turnover amount of pharmaceutical intermediates was approximately RMB658.22 million, while it was approximately RMB580.86 million in the same period of 2013, increased by approximately 13.3% in compare with the same period of last year.

– **Pharmaceutical raw materials**

During the year ended 31 December 2014, the turnover amount of pharmaceutical raw materials was approximately RMB349.52 million, while it was approximately RMB326.62 million in the same period of last year. The Metronidazole recorded an increment of approximately 39.2% to a turnover amount of approximately RMB51.83 million, while the turnover amount of a raw material of antibiotics, Chloramphenicol, recorded approximately RMB77.68 million, increased approximately 18.5% in compare with the same period of last year.

– **Amino acids products**

The Group is one of China's largest manufacturers of amino acids products. During this financial year, the turnover amount of the amino acids products was approximately RMB308.70 million, which increased by approximately 21.4% in compare with the same period of last year. The major products such as N-acetyl-L-Cysteine recorded the turnover amount of approximately RMB45.93 million, increased approximately 9.8%. In addition to the increment of export sales, the enhancement of production capacity in the new plant and the production technology resulted to the provision of our products to high-end market. Due to the market demand increment of L-cysteine Hydrochloride and L-cysteine Hydrochloride Anhydrate, the recorded turnover amount during this year increased approximately RMB25.58 million to approximately RMB107.62 million.

Management Discussion and Analysis

Steroid Hormones and its Intermediates

The Group is one of the few steroid hormones raw materials manufacturers in the PRC, and our products quality has been accepted by the PRC and overseas customers. Some of the products passed quality inspection of European EDQM and certified by COS. In 2014, the newly constructed production facilities in Jiangsu was completed and gradually commence production, which will enhance the steroid hormones intermediates production capacities of the Group and enhance the production technologies in order to cope with the market needs. During the current review period, the turnover amount of steroid pharmaceutical intermediates was approximately RMB267.96 million, which increased by approximately 4.4% in comparison with the same period of last year.

– Glucocorticoid and sex hormones

In 2014, the Glucocorticoid of the Group including Betamethasone and Dexamethasone, recorded a turnover amount of approximately RMB160.91 million, which was increased by approximately 12.5% in compare with the same period of last year. The reason of such increment was mainly due to new customer pitching efforts in the targeting Indian market, encouraged the sales growth in these areas. The turnover amount of sex hormones was approximately RMB37.85 million.

– Prednisone series

Prednisone series, a product of the Group newly launched at the end of 2013, was produced at the new production facility in Jiangsu. For the year ended 31 December 2014, the turnover amount of the Prednisone was approximately RMB53.75 million and mainly exported to the Indian market. Currently, the Group is under the progress of application of international certifications, and expanding footprint to the international market and gain market share by adding various sales channels.

Healthcare and Chemical Products

The healthcare and chemical products manufactured and sold by the Group include Taurine, Calcium Superphosphate and Dimethyl Sulfate and the bio-pesticides and bio-feed additives products which already have certain market shares and are well recognized by customers. In 2014, the turnover amount of the relevant products was approximately RMB587.68 million, while the turnover amount of the relevant products in same period of last year was approximately RMB527.71 million with an increment of 11.4%.

– Taurine

As one of China's largest exporters of Taurine, to tie with the business development and maintains the leading position of the Group, apart from carried out a number of technical and production improvements to enhance the products quality and efficiency, the Group introduced B2B sales model in 2014 and has now gains a number of foreign brand customers, partnership covered India, Russia and South Korea, etc. For the year 2014, the turnover of Taurine was approximately RMB190.64 million, besides benefiting from international sales and attracting new customers abroad, the purchase quantity of existing customers maintained stable.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the year were approximately HK$608.16 million and HK$372.44 million respectively, while it was approximately HK$456.61 million and HK$315.54 million respectively in the same period of last year. The increment of these two expenses were mainly due to the execution of the strategy in related to the expansion of market share and resulted from an approximately 17.4% increment of turnover amount. It is also contributed by the reallocation of the production plant.

Finance Costs

For the year ended 31 December 2014, the finance costs of the Group were approximately HK$114.09 million, while they were approximately HK$77.63 million during the same period of 2013. The increment was mainly due to the increase of bank loans to cope with the short term working capital need for production capacity expansion and the production plants relocation. It is also contributed by the interest expenses incurred for the issuance of convertible bonds to cope with the financing needs of the projects in place and operating expenses.

Outlook and Future Prospects

The development model of the PRC's macroeconomic is currently under deep and substantial changes. The new economic development model gradually focus on the quality and structure of GDP, while previously only focused on the extrinsic value of GDP by overusing the resources for future development. A recent statistics from The National Bureau of Statistics of the People's Republic of China showed that the revenue and profit of the PRC pharmaceutical industry in 2014 was RMB2,332.56 billion and RMB232.22 billion respectively, with an increment of 12.9% and 12.1% in compare with 2013. Although the growth rate recorded a slightly return in compare with 18.0% and 12.8% in 2013, it was still much higher than the 7.4% of 2014 GDP growth rate in the PRC.

In the recent years, the global and the PRC pharmaceutical markets are undergoing critical changes and the development pattern is currently under an important transformation process. Firstly, in terms of the new drug registration, the China Food and Drug Administration ("CFDA") has approved 501 new drug applications in 2014, increased by approximately 20% in compare with 416 cases in 2013. This implied that both medical authorities and pharmaceutical enterprises are attempted to develop pharmaceutical innovations. Secondly, in terms of the development of bio-medicines, the global pharmaceutical industry is currently under the challenge of transforming into bio-medicines. Many well-known international pharmaceutical enterprises have already obtained the pioneer advantages in this field. Comparing with developed countries, bio-medicines in the PRC only occupied a small segment in the whole pharmaceutical industry, which represents there will have a huge room for development. Thirdly, in terms of the medical devices, according to the statistics of China Association for Medical Devices Industry, there are about 14,900 medical devices manufacturers in the PRC and the market scale is over RMB300 billion, however, 70% of the market shares are occupied by foreign brands. In February 2014, CFDA issued "Special Review and Approval Procedure for Innovative Medical Devices" to encourage innovation of medical devices by setting up special approval channel to speed up the product launch to the market. Fourthly, in terms of orphan drugs, in certain countries like United States, Europe and Japan, etc. started research and development in an earlier stage, especially in recent years, many multi-national pharmaceutical enterprises switched their core business strategies to orphan drugs. Orphan drugs suddenly become one of the hottest segments in the market, some of these potential medicines might have a "deep impact" to the future pharmaceutical market. Fifthly, in terms of the investment of pharmaceutical industry, a new trend occurs in the global pharmaceutical industry, which are the costs of research and development increase continuously, the expiry of patent drugs and the competitiveness of generic drugs, and thus resulted in massive acquisitions with USD multi-billions in the pharmaceutical market and triggered the following 3 acquisition trends: (1) pharmaceutical companies enlarge their product lines by merge and acquisitions in order to expand the market share of their strength field; (2) pharmaceutical companies increase their product varieties through merge and acquisitions in order to enhance their competitiveness and complement products in different areas to ensure the newly merged company has a stronger bargaining power in the market; (3) pharmaceutical companies remove non-core business segments and put more efforts on the core field to enhance research efficiency, and thus allowing both parties of the merger and acquisitions could use their own strengths to obtain economic of scale.

In view of the revolution of the norm of the PRC pharmaceutical market, with reference to the global pharmaceutical market development experiences, the Group will proactively explore and take action in the following directions to ensure a high speed growth. First of all, by fully utilization of the advantage of new production facilities which obtained new version of GMP, the Group can strengthen the quality control of pharmaceutical medicines and ability of product combination, highlight the synergy effects of industrial chain and product pools of the Group, ensure the steady growth of revenue. Secondly, explore new products in medical devices market, vigorously develop core pharmaceutical segments and high value disposable products, in order to provide a highlight for the product variety and earnings growth. Thirdly, in September 2014, the Group and the Institute of Materia Medica, Chinese Academy of Medical Sciences entered into a cooperative agreement in related to the research and development agreement of orphan drugs, and it is planned to launch important orphan drugs in the most shorten period of time with an aim to become the pioneer of the orphan drug field and bring social benefits and economic benefits for the Group. Fourthly, expand product pipelines through merger and acquisitions, especially focus on the core therapeutic areas, such as cerebro-cardiovascular, ENT (including ophthalmology), and obtain breakthrough of innovative drugs and powerful medicines in the area of bio-medicines and genetic technologies, in order to build a platform for the supreme products of the Group in the forthcoming 10 years. Fifthly, the Group will co-operate with well-known venture capital institutes to extend the asset acquisition vision to the international market, to lay a solid foundation of becoming an international pharmaceutical enterprise in the future.

In conclusion, the Group will continuously uphold the basic strategy of maintaining quality in the first place and then following by steadily development. The Group will put effort in seeking for the deep potential in the core product areas and take full advantage of the PRC's national development policies related to the pharmaceutical industry, make innovative breakthroughs, accelerate the pace of enterprises to become bigger and stronger. It is our objective to become one of the famous PRC pharmaceutical enterprises with competitiveness in the international market within a short period of time, and provide fruitful return to the shareholders of the Group.

Financial Resources and Liquidity

As at 31 December 2014, the Group had current assets of HK$2,133,234,000 (31 December 2013: HK$1,871,743,000) and current liabilities of HK$2,272,806,000 (31 December 2013: HK$2,614,229,000). The current ratio was 0.94 at 31 December 2014 as compared with 0.72 at 31 December 2013.

The Group's cash and cash equivalents as at 31 December 2014 amounted to HK$460,401,000 (31 December 2013: HK$249,765,000), of which approximately 5% were denominated in Hong Kong and United States Dollars and 95% in Renminbi.

As at 31 December 2014, the Group had outstanding bank loans of approximately HK$1,503,584,000 (31 December 2013: HK$1,658,035,000) and bank overdraft of approximately HK$12,457,000 (31 December 2013: Nil). Included in the bank loans, there were bank loans of approximately HK$441,584,000 were denominated in USD. All other bank loans are denominated in RMB and granted by banks in the PRC and Hong Kong. The interest rates charged by banks ranged from 1.9% to 7.8% (31 December 2013: 1.0% to 7.8%) per annum, in which approximately HK$691,626,000 bank loans were charged at fixed interest rates. These bank loans were pledged by assets of the Group with a net book value of HK$118,443,000 (31 December 2013: HK$314,862,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 135% at 31 December 2014 as compared with 189% at 31 December 2013.

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

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2014, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Employees and Remuneration Policy

As at 31 December 2014, the Group employed about 5,400 staff and workers in Hong Kong and the PRC (31 December 2013: about 5,400). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Material Acquisitions and Disposals

On 23 June 2014, Grand Pharm (China) entered into a purchase and subscription of registered capital agreement with AIM Global Holdings Limited, pursuant to which Grand Pharm (China) agreed to acquire 52.25% equity interest of Shanghai Weicon Optical Co., Ltd. at a consideration of USD57,750,000 and acquire addition registered capital at a consideration of USD11,000,000. Up to the date of this report, this transaction has not yet completed.

On 22 December 2014, Grand Pharm (China) entered into an acquisition agreement with Wu Liang and Fan Li Jin, pursuant to which Grand Pharm (China) agreed to acquire up to 100% equity interest of Tianjin Jingming New Technology Development Co. Ltd. at a consideration of RMB141,300,000. The Group has completed part of the acquisition by acquiring 73.3% equity interest of Tianjin Jingming in January 2015.

Future Plans For Material Investments

Except for those set out in the "Events after the Reporting Period" in this report, the Group had authorised but not provided for capital expenditure commitments of approximately HK$27 million in respect of acquisition of non-current assets as at 31 December 2014.

Significant Investment

There was no other significant investment during the year.

Events after the Reporting Period

On 3 March 2015, Grand Pharm (China), being an indirect non wholly owned subsidiary of the Company, has entered into the financial lease arrangement with Wuhan Guanggu Finance Lease Limited (the "Wuhan Guanggu") in related to: (i) sale the medical equipment to Wuhan Guanggu at consideration of RMB200,000,000 (equivalent to approximately HK$250,000,000); and (ii) Wuhan Guanggu agree to lease the medical equipment back to Ground Pharm (China) for a period five years at the total lease payment of approximately RMB237,714,820 (equivalently to approximately HK$297,144,000). For the detail, please refer to the Company announcement dated 3 March 2015.

Contingent Liabilities

As at 31 December 2014, the Directors were not aware of any material contingent liabilities.

Management Discussion and Analysis

Appreciation

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

Liu Chengwei
Chairman

Hong Kong, 24 March 2015

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Liu Chengwei, aged 41, was appointed as executive Director in July 2008. Mr. Liu is the Chairman of the Company and is a director of Grand Pharm (China), the principal subsidiary of the Company. Mr. Liu is also a director of Huadong Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. Mr. Liu has over 10 years of financial and management experience in the PRC. Mr. Liu is currently the General Manager of the Pharmaceutical Industry Division of China Grand Enterprises Incorporation ("China Grand") and a director of China Grand. Mr. Liu worked for General Electric Company's China subsidiaries for 5 years before joining China Grand in 2001. Mr. Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr. Hu Bo, aged 30, was appointed as executive Director in July 2008. Mr. Hu has over 10 years of experience in network project management and property management. Mr. Hu is currently the deputy general manager of a real estate company in the PRC. Mr. Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr. Hu is a nephew of Mr. Hu Kaijun, the beneficial owner of Outwit, which is the controlling shareholder of the Company.

Dr. Shao Yan, aged 52, was appointed as executive Director in October 2008. Dr. Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr. Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr. Shao has over 20 years of experience in corporate management and venture capital investment. Dr. Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr. Zhang Ji, aged 53, was appointed as non-executive Director in November 2008 and was redesignated as executive Director in February 2010. Dr. Zhang has over 17 years of experience in conducting drug discovery, research and development in the US pharmaceutical industry. Dr. Zhang is currently the president of the China Grand Wuhan General Pharmaceutical Research Institute. Dr. Zhang had worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years. Dr. Zhang holds both a bachelor degree in Microbiology and a master degree in Virology from Wuhan University, and a doctor degree (PhD) in Pharmacology and Molecular Biology from Chicago Medical School.

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie, aged 52, was appointed as independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Lo Kai, Lawrence, aged 58, was appointed as independent non-executive Director in June 2008. Mr. Lo has over 25 years of experience in wealth and asset management business. Currently, he is the CEO of UBP Asia Limited. Prior to that, he was the CEO of BSI-Generali Asia ("BSI") and was responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr. Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Dr. Pei Geng, aged 55, was appointed as independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Foo Tin Chung, Victor, aged 46, joined the Company in September 2011 as the company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited and Ngai Shun Holdings Limited, which both companies are listed on the Stock Exchange. Mr. Foo was an executive director of Jinheng Automotive Safety Technology Holdings Limited but already resigned in September 2014.

Mr. Xie Guofan, aged 64, was appointed as the director of the principal subsidiary Grand Pharm (China) since 1994. Mr. Xie is responsible for overseeing entire operations and management of Grand Pharm (China), and has over 30 years of experience in corporate management and pharmaceutical manufacturing. Mr. Xie holds a practicing pharmacist license in the PRC.

Mr. Shi Xiaofeng, aged 48, was appointed as a director and a general manager of the principal subsidiary Grand Pharm (China). Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA degree at China Europe International Business School.

Mr. Zhang Bangguo, aged 47, used to work for Grand Pharm (China) as senior management, was currently appointed as director of Zhejiang Xianle, has over 20 years of experience in pharmaceutical industry and sales and marketing. Mr. Zhang is responsible for overseeing the entire operation and management of Zhejiang Xianle. Mr. Zhang holds a MBA degree at Huazhong University of Science & Technology and holds a practicing pharmacist license in the PRC.

Mr. Feng Yonghua, aged 47, was appointed as the general manager of Zhejiang Xianle. Mr. Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr. Feng holds a practicing pharmacist license in the PRC.

Corporate Governance Practices

During the year ended 31 December 2014, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited.

Corporate Governance Report

This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as follows:

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2014.

Board of Directors

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

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

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

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

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

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

Training, Induction and Continuing Development of Directors

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

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

Audit Committee

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

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

The audit committee held two meetings during the year ended 31 December 2014 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

Remuneration Committee

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

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

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2014 are set out in note 15 to the consolidated financial statements.

Nomination Committee

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

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

The nomination committee held a meeting in 2014 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

Attendance Record at Meetings

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2014 are set out as below:

	Meetings Attended/Held				
Directors	Annual General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Liu Chengwei	1/1	12/12	N/A	1/1	N/A
Mr. Hu Bo	1/1	12/12	N/A	N/A	N/A
Dr. Shao Yan	1/1	12/12	N/A	N/A	1/1
Dr. Zhang Ji	1/1	12/12	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	1/1	12/12	2/2	1/1	1/1
Mr. Lo Kai, Lawrence	1/1	11/12	1/2	1/1	1/1
Dr. Pei Geng	1/1	12/12	2/2	N/A	N/A

Auditors' Remuneration

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

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

Audit fees and fees for non-audit services for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$1,200,000, and HK$250,000 respectively.

Financial Reporting

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently. Save as the conditions as disclosed on page 41 of this report, the Directors are not aware of any other material undertainities relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

Internal Control

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

The work performed by the Board on corporate governance functions during the year ended 31 December 2014 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

Communication with Shareholders and Investors

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

Shareholders' Rights

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

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

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

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

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

Constitutional Documents

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

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

Principal Activities

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

Results

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out on pages 27 to 109.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil). No interim dividend was declared during the year (2013: Nil).

Reserves

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 42 to the consolidated financial statements respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 41 to the consolidated financial statements.

Pre-emptive Rights

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

Subsidiaries and Associate

Particulars of the Company's subsidiaries and associate at 31 December 2014 are set out in notes 22 and 18 to the consolidated financial statements respectively.

Property, Plant and Equipment

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

Bank Borrowings

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

Report of the Directors

Directors

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

Executive Directors

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

Independent Non-executive Directors

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

Pursuant to bye-law 87(1), Mr. Liu Chengwei, Ms. So Tosi Wan, Winnie and Dr. Pei Geng will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

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

Directors' Rights to Acquire Shares or Debentures

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

Directors' Interests in Contracts

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

Competing Interest

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

Related Party Transactions

For the year ended 31 December 2014, the related party transactions entered by the Group are all disclosed note 44 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 44 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

Continuing Connected Transactions

For the year ended 31 December 2014, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

1) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm R&D Agreement I") with Yuan Chuang Yi Cheng Pharmaceutical Technology Limited (the "Yuan Chuang Yi Cheng"). Pursuant to the Grand Pharm R&D Agreement I, Yuan Chuang Yi Cheng shall provide research and development services for Bosentan to Grand Pharm (China) or its related companies and the maximum annual amount to be paid by the Group to Yuan Chuang Yi Cheng for the two years ending 31 December 2014 are RMB3.6 million and RMB1.5 million respectively (the "Grand Pharm First R&D Caps"). In 2014, Grand Pharm (China) did not engage in transaction under Grand Pharm R&D Agreement I.

2) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm R&D Agreement II") with Yuan Chuang Yi Cheng. Pursuant to the Grand Pharm R&D Agreement II, Yuan Chuang Yi Cheng shall provide research and development services for Trimetazidine to Grand Pharm (China) or its related companies and the maximum annual amount to be paid by the Group to Yuan Chuang Yi Cheng for the two years ending 31 December 2014 are RMB1.0 million and RMB1.0 million respectively (the "Grand Pharm Second R&D Caps"). In 2014, Grand Pharm (China) did not engage in transaction under Grand Pharm R&D Agreement II.

3) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm R&D Agreement III") with Yuan Nuo Wei Sheng Pharmaceutical Technology Limited (the "Yuan Nuo Wei Sheng"). Pursuant to the Grand Pharm R&D Agreement III, Yuan Nuo Wei Sheng shall provide research and development services for Bimatoprost pharmaceutical raw material and Bimatoprost eyedrops to Grand Pharm (China) or its related companies and the maximum annual amount to be paid by the Group to Yuan Nuo Wei Sheng for the two years ending 31 December 2014 are RMB3.5 million and RMB3.5 million respectively (the "Grand Pharm Second R&D Caps"). In 2014, Grand Pharm (China) did not engage in transaction under Grand Pharm R&D Agreement III.

4) On 28 November 2012, Grand Pharm (China) has entered into an agreement (the "Grand Pharm Supply Agreement") with Huadong Medicine Co., Ltd (the "Huadong Medicine"). Pursuant to the Grand Pharm Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and technologies to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for the two years ending 31 December 2014 are RMB18.0 million and RMB20.0 million respectively (the "Grand Pharm Supply Caps"). In 2014, the transaction amount under Grand Pharm Supply Agreement is approximately RMB11.7 million.

5) On 28 November 2012, Zhejiang Xianju Xianle Pharmaceutical Company Limited (the "Zhejiang Xianle") has entered into an agreement (the "Xianle Purchase Agreement I") with 保定九孚生化有限公司 (Bao Ding Jiu Fu Bio-chemical Limited (the "Bao Ding Jiu Fu"). Pursuant to the Xianle Purchase Agreement I, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Bao Ding Jiu Fu or its related companies and the maximum annual amount of products to be purchased by the Group from Bao Ding Jiu Fu for the two years ending 31 December 2014 are RMB80.0 million and RMB146.0 million respectively (the "Xianle First Purchase Caps"). On 17 November 2013, Zhejiang Xianle has entered into another agreement (the "Second Supplemental CCT Agreement"), pursuant to which the Xianle First Purchase Caps for the year ending 31 December 2013 are revised to RMB160.0 million. In 2014, the transaction amount under Xianle Purchase Agreement I and Second Supplemental CCT Agreement is approximately RMB23.2 million.

6) On 28 November 2012, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement II") with 鹽城信誼醫藥化工有限公司 (Yan Cheng Xin Yi Pharmaceutical Chemical Limited#) (the "Yan Cheng Xin Yi"). Pursuant to the Xianle Purchase Agreement II, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Yan Cheng Xin Yi or its related companies and the maximum annual amount of products to be purchased by the Group from Yan Cheng Xin Yi for the two years ending 31 December 2014 are RMB60.0 million and RMB80.0 million respectively (the "Xianle Second Purchase Caps"). In 2014, the transaction amount under Xianle Purchase Agreement II is approximately RMB28.2 million.

7) On 28 November 2012, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement III") with Grand Group Corporation Limited (the "Grand Group Corporation"). Pursuant to the Xianle Purchase Agreement III, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Grand Group Corporation or its related companies and the maximum annual amount of products to be purchased by the Group from Grand Group Corporation for the two years ending 31 December 2014 are RMB5.0 million and RMB8.0 million respectively (the "Xianle Third Purchase Caps"). In 2014, the transaction amount under Xianle Purchase Agreement III is approximately RMB3.8 million.

As Yuan Chuang Yi Cheng, Yuan Nuo Wei Sheng, Huadong Medicine, Bao Ding Jiu Fu, Yan Cheng Xin Yi and Grand Group Corporation are regarded as connected persons of the Company since they are associates of the China Grand Enterprises Incorporation (which is a connected person of the Company since it is controlled and ultimately and beneficially owned by Mr. Hu Kaijun, who is the sole shareholder of Outwit Investments Limited which is the substantial shareholder of the Company holding approximately 62.60% of the total issued Shares), and the subject matters of each of the Grand Pharm R&D Agreement I, Grand Pharm R&D Agreement II, Grand Pharm R&D Agreement III, Grand Pharm Supply Agreement, Xianle Purchase Agreement I, Xianle Purchase Agreement II, Xianle Purchase Agreement III and Second Supplemental CCT Agreement (collectively known as "Continuing Connected Transaction Agreements") are similar in nature, under Chapter 14A of the Listing Rules the transactions between the Group and each of these companies should be aggregated together. As the applicable percentage ratios in connection with the service fees payable for the transactions contemplated respectively under the Continuing Connected Transaction Agreements on an aggregated basis are less than 25% and do not exceed HK$10,000,000, the Continuing Connected Transaction Agreements constitute connected transactions on the part of the Company and are not subject to the independent Shareholder's approval but the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to the Listing Rules in respect of the Continuing Connected Transaction Agreements for the two financial year ending 31 December 2014.

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

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

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

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

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

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

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

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

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 28 November 2012, 21 December 2012 and 17 November 2013 made by the Company in respect of each of the continuing connected transactions.

Share Option Scheme

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

No share options were granted or exercised under any share option scheme during the year ended 31 December 2014 and 2013 and there were no outstanding share options as at 31 December 2014 and 2013.

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

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

Long positions in the shares of the Company:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	3,440,000	0.18%

Note: Dr. Shao Yan, a Director, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr. Shao Yan shall be deemed to be interested in such 3,440,000 shares.

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

Substantial Shareholders

As at 31 December 2014, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	1,228,275,094	62.60%
Mr. Hu Kaijun (Note)	1,228,275,094	62.60%

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

Save as disclosed above, as at 31 December 2014, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Management Contracts

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

Major Customers and Suppliers

For the year ended 31 December 2014, the five largest customers of the Group accounted for less than 30% of the Group's total turnover while the five largest suppliers accounted for less than 30% the Group's total purchases.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

Report of the Directors

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2014.

Corporate Governance

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

Auditors

On 19 February 2013, the shareholders of the Company approved to appoint HLB Hodgson Impey Cheng Limited as auditors of the Company in the special general meeting to fill the casual vacancy created by SHINEWING (HK) CPA Limited. Apart from the foregoing, there were no other changes in auditors of the Company in any of the proceeding three years.

HLB Hodgson Impey Cheng Limited will retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 24 March 2015

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

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

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

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 109, which comprise the consolidated and the Company statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Independent Auditors' Report

Opinion

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

Material uncertainty concerning going concern basis of accounting

Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicate that the Group had net current liabilities of approximately HK$139,572,000 at 31 December 2014. These conditions, along with other matters as set forth in note 3 to the consolidated financial statements, indicate that existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 24 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	7	**3,122,116**	2,658,282
Cost of sales		**(1,928,469)**	(1,771,752)
Gross profit		**1,193,647**	886,530
Other revenue and income	8	**117,192**	97,616
Distribution costs		**(608,155)**	(456,608)
Administrative expenses		**(372,436)**	(315,536)
Other operating expenses	9	**(13,804)**	(2,390)
Share of results of an associate	18	**569**	301
Finance costs	10	**(114,092)**	(77,633)
Profit before tax		**202,921**	132,280
Income tax expense	11	**(27,198)**	(26,994)
Profit for the year	12	**175,723**	105,286
Other comprehensive (loss)/income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(12,020)**	28,606
Change in fair value of available-for-sale financial assets, after tax		**–**	2,892
Reclassification adjustments relating to available-for-sale financial assets disposed during the year		**–**	(6,724)
Other comprehensive (loss)/income for the year, net of income tax		**(12,020)**	24,774
Total comprehensive income for the year, net of income tax		**163,703**	130,060
Profit for the year attributable to:			
– Owners of the Company		**175,208**	99,658
– Non-controlling interests		**515**	5,628
		175,723	105,286
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**164,025**	123,609
– Non-controlling interests		**(322)**	6,451
		163,703	130,060
Earnings per share			
Basic (HK cents)	14	**8.93**	5.08
Diluted (HK cents)	14	**8.86**	5.08

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

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,291,205**	2,095,369
Prepaid lease payments	17	**272,010**	287,539
Interests in an associate	18	**6,332**	6,297
Available-for-sale financial assets	19	**39,844**	43,387
Deposits for acquisition of non-current assets	20	**5,018**	13,969
Goodwill	21	**124,682**	124,777
Intangible assets	23	**68,454**	82,782
Deferred tax assets	24	**1,294**	1,362
Prepayments	25	**22,358**	17,631
Loan receivables	26	**26,250**	20,493
		2,857,447	2,693,606
Current assets			
Financial asset at fair value through profit or loss	27	**50,000**	–
Inventories	28	**516,565**	562,283
Trade and other receivables	29	**981,749**	892,610
Loan receivables	26	**23,750**	33,301
Prepaid lease payments	17	**6,631**	4,761
Pledged bank deposits	30	**94,138**	129,023
Cash and cash equivalents	30	**460,401**	249,765
		2,133,234	1,871,743
Current liabilities			
Trade and other payables	31	**1,121,522**	1,306,257
Bank borrowings	32	**1,083,584**	1,262,267
Bank overdraft	30	**12,457**	–
Obligations under finance leases	34	**5,733**	5,516
Derivative financial instrument	36	**–**	1,310
Income tax payable		**49,510**	38,879
		2,272,806	2,614,229
Net current liabilities		**(139,572)**	(742,486)
Total assets less current liabilities		**2,717,875**	1,951,120

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Bank borrowings	32	**420,000**	395,768
Convertible bonds	37	**245,659**	–
Deferred tax liabilities	38	**58,976**	50,200
Amount due to holding company	39	**21,866**	21,401
Deferred income	40	**661,014**	385,046
Obligations under finance leases	34	**1,993**	7,916
		1,409,508	860,331
Net assets		**1,308,367**	1,090,789
Capital and reserves attributable to owners of the Company			
Share capital	41	**19,620**	19,620
Reserves	42	**1,093,791**	857,263
Equity attributable to owners of the Company		**1,113,411**	876,883
Non-controlling interests		**194,956**	213,906
Total equity		**1,308,367**	1,090,789

The consolidated financial statements on pages 27 to 109 were approved and authorised for issue by the board of directors of the Company on 24 March 2015 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

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

Statement of Financial Position

As at 31 December 2014

	Notes	**2014 HK$'000**	2013 HK$'000
Non-current assets			
Property, plant and equipment	16	**–**	–
Interests in subsidiaries	22	**694,535**	419,132
		694,535	419,132
Current assets			
Other receivables	29	**734**	790
Pledged bank deposits	30	**–**	1,198
Cash and cash equivalents	30	**1,238**	1
		1,972	1,989
Current liabilities			
Other payables	31	**1,284**	2,092
Bonds issued	33	**–**	41,000
Amount due to a subsidiary	35	**1,560**	1,560
		2,844	44,652
Net current liabilities		**(872)**	(42,663)
Total assets less current liabilities		**693,663**	376,469
Non-current liabilities			
Amount due to holding company	39	**21,866**	21,401
Deferred tax liabilities	38	**13,575**	–
Convertible bonds	37	**245,659**	–
		281,100	21,401
Net assets		**412,563**	355,068
Capital and reserves attributable to owners of the Company			
Share capital	41	**19,620**	19,620
Reserves	42	**392,943**	335,448
Total equity		**412,563**	355,068

The accompanying notes from an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

		Attributable to owners of the Company												
	Notes	Share capital HK$'000	Share premium HK$'000	Contribution surplus reserve HK$'000 (Note a)	Statutory reserve HK$'000 (Note b)	Safety fund reserve HK$'000	Translation reserve HK$'000	Available-for-sales financial assets revaluation reserve HK$'000	Other reserve HK$'000 (Note c)	Convertible bonds reserve HK$'000 (Note d)	Retained profits HK$'000	Equity attributable to owner of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013		19,620	281,949	121,273	46,637	8,164	46,471	3,228	25,997	–	199,935	753,274	126,455	879,729
Profit for the year		–	–	–	–	–	–	–	–	–	99,658	99,658	5,628	105,286
Other comprehensive income for the year, net of income tax:														
Exchange difference on translation of foreign operations		–	–	–	–	–	27,712	–	–	–	–	27,712	894	28,606
Change in fair value of available-for-sale financial assets		–	–	–	–	–	–	2,892	–	–	–	2,892	–	2,892
Income tax relating to change in fair value of available-for-sale financial assets		–	–	–	–	–	(533)	(6,120)	–	–	–	(6,653)	(71)	(6,724)
Total comprehensive income for the year		–	–	–	–	–	27,179	(3,228)	–	–	99,658	123,609	6,451	130,060
Capital contribution from a minority shareholder		–	–	–	–	–	–	–	–	–	–	–	71,929	71,929
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(240)	(240)
Non-controlling interests arising on the acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	–	–	9,311	9,311
Transfer		–	–	–	13,477	3,471	–	–	–	–	(16,948)	–	–	–
At 31 December 2013 and at 1 January 2014		19,620	281,949	121,273	60,114	11,635	73,650	–	25,997	–	282,645	876,883	213,906	1,090,789
Profit for the year		–	–	–	–	–	–	–	–	–	175,208	175,208	515	175,723
Other comprehensive income for the year, net of income tax:														
Exchange difference on translation of foreign operations		–	–	–	–	–	(11,183)	–	–	–	–	(11,183)	(837)	(12,020)
Total comprehensive income for the year		–	–	–	–	–	(11,183)	–	–	–	175,208	164,025	(322)	163,703
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(17,285)	(17,285)
Equity component of convertible bonds	37	–	–	–	–	–	–	–	–	86,918	–	86,918	–	86,918
Deferred tax arising on issue of convertible bonds	38	–	–	–	–	–	–	–	–	(14,341)	–	(14,341)	–	(14,341)
Acquisition of additional interest in a subsidiary		–	–	–	–	–	–	–	(74)	–	–	(74)	(1,343)	(1,417)
Transfer		–	–	–	26,830	3,844	–	–	–	–	(30,674)	–	–	–
At 31 December 2014		19,620	281,949	121,273	86,944	15,479	62,467	–	25,923	72,577	427,179	1,113,411	194,956	1,308,367

Notes:

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

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

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014	2013
	HK$'000	HK$'000
Operating activities		
Profit before tax	**202,921**	132,280
Adjustments for:		
Amortisation of intangible assets	**12,422**	1,744
Amortisation of prepaid lease payments	**6,675**	10,187
Depreciation of property, plant and equipment	**158,812**	95,127
Finance costs	**114,092**	77,633
(Gain)/loss on disposal of property, plant and equipment	**(46)**	409
Write-off of property, plant and equipment	**27,052**	158,582
Write-off prepaid lease payments	**–**	188,476
Write-off of deferred tax liabilities	**–**	(42,008)
Write-off available-for-sales financial assets	**418**	–
Reversal of impairment loss on inventories	**(2,435)**	(1,422)
Impairment loss on inventories	**1,685**	496
Impairment loss on trade and other receivables	**12,166**	8,349
Interest income	**(15,425)**	(7,844)
Reversal of impairment loss on trade and other receivables	**(8,152)**	(2,527)
Share of results of an associate	**(569)**	(301)
Investment income	**–**	(6,210)
Operating cash flows before movements in working capital	**509,616**	612,971
Decrease/(increase) in inventories	**41,695**	(99,601)
Increase in trade and other receivables	**(95,440)**	(429,206)
Increase in deferred income	**288,848**	72,907
(Decrease)/increase in trade and other payables	**(186,938)**	650,815
(Decrease)/increase in derivative financial instrument	**(1,310)**	1,310
Net cash generated from operations	**556,471**	809,196
Income tax paid	**(29,171)**	(17,267)
Net cash generated from operating activities	**527,300**	791,929

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Investing activities		
Purchase of property, plant and equipment	**(428,715)**	(877,649)
Acquisition of prepaid lease payment	**–**	(28,505)
Decrease/(increase) in pledged bank deposits	**34,015**	(106,595)
(Increase)/decrease in deposits for acquisition of non-current assets	**(4,133)**	755
(Increase)/decrease in prepayments	**(4,934)**	8,508
Proceeds from disposal of property, plant and equipment	**7,977**	377
Proceeds from disposal of available-for-sale financial assets	**2,085**	9,111
Bank interest income received	**9,582**	7,844
Investment income	**–**	6,210
Increase in loan receivables	**(17,500)**	(1,572)
Repayment of loan receivables	**20,000**	–
Net cash inflow from de-recognition of an associate	**–**	1,396
Net cash outflow from acquisition of a subsidiary	**–**	(34,508)
Capital contribution from a minority shareholder	**–**	34,787
Acquisition of additional interest in a subsidiary	**(1,417)**	–
Net cash used in investing activities	**(383,040)**	(979,841)
Financing activities		
Proceed from convertible bonds	**330,000**	–
Proceed from sales and lease back transaction	**–**	10,280
Purchase of financial assets at fair value through profit or loss	**(50,000)**	–
Repayments of bank loans	**(1,348,161)**	(2,006,146)
Repayments of obligation under finance leases	**(5,432)**	(638)
Interest paid	**(111,462)**	(77,633)
Proceed from new borrowings	**1,246,041**	2,201,011
Repayment to holding company	**465**	1,752
Dividend paid to non-controlling interest	**(4,732)**	(4,995)
Net cash generated from financing activities	**56,719**	123,631
Net increase/(decrease) in cash and cash equivalents	**200,979**	(64,281)
Cash and cash equivalents at the beginning of year	**249,765**	304,588
Effect of foreign exchange rate changes	**(2,800)**	9,458
Cash and cash equivalents at the end of year		
Cash and cash equivalents	**447,944**	249,765

Analysis of balances of cash and cash equivalents	HK$'000	HK$'000
Cash and cash equivalents	**460,401**	249,765
Bank overdraft	**(12,457)**	–
	447,944	249,765

1. GENERAL INFORMATION

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

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

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

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

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

In the current year, the Group has applied for the first time, the following amendments and new interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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

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

The Investment Entities amendments apply to a particular class of business that qualify as investment entities. The term 'investment entity' refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Under HKFRS 10, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.

The directors anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKFRS 27 will have no material impact on the Group's financial performance and positions.

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

Similar relief will be included in HKFRS 9.

The amendments will be effective for annual periods beginning on or after 1 January 2014 and applied retrospectively. Earlier application is permitted.

The directors anticipate that the application of these amendments to HKAS 39 will have no material impact on the Group's financial performance and positions.

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

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 is an interpretation of HKAS 37 and addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognise a liability to pay a levy. It clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. HK(IFRIC) – Int 21 is effective for annual periods beginning on or after 1 January 2014 with earlier application permitted.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an investor and its Associate or Joint Venture[3]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exemption[3]
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operation[4]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[5]
HKAS 1 (Amendments)	Disclosure Initiative[4]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[4]
HKAS 19 (2011) (Amendments)	Defined benefit plans: Employee Contributions[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statement[4]

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

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

The Directors anticipate that the adoption of HKFRS 9 in the future may have an impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) – Investment Entities: Applying the Consolidation Exception

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

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

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

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting for those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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

Amendments to HKFRS 11 – Accounting for Acquisition of Interests in Joint Operation

HKFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

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

HKFRS 14 Regulatory Deferral Accounts

HKFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous Generally Accepted Accounting Principles ("GAAP") requirements when they adopt HKFRS. However, to enhance comparability with entities that already apply HKFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents HKFRS financial statements is not eligible to apply the standard.

The amendments are effective for first annual HKFRS financial statements beginning on or after 1 January 2016 with earlier application permitted.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.

Amendments to HKAS 1 Disclosure Initiative

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

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

Amendments to HKAS 19 (2011) Employee Benefits

The issuance of HKAS 19 (2011) *Employee Benefits* completes improvements to the accounting requirements for pensions and other post-employment benefits and HKAS 19 (2011) makes important improvements by:

- Eliminating an option to defer the recognition of gains and losses, known as the 'corridor method', improving comparability and faithfulness of presentation.

- Streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations.

- Enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$139,572,000 (2013:HK$742,486,000) as at 31 December 2014. The directors of the Company have taken the following factors to consider the future liquidity which include, but not limited to, the followings: (i) as set out in note 5 to the financial statements, the Group has unused banking facilities of approximately HK$993,057,000 as at 31 December 2014; and (ii) Outwit Investments Limited, a shareholder of the Company, has agreed to provide continuing financial support to the Group. As such, the directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

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

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

Goodwill

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

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

Revenue recognition

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

Sale of goods

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

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

Dividend income

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

Interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Rental income

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

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on the transactions entered into in order to hedge certain foreign currency riskes (see the accounting policies below); and
- exchange differences on monetary items receivable form or payable to a foreign operation for which settlement is nether planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax (Continued)

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

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

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

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

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

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Intangible assets

Intangible assets acquired separately

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

Research and development expenditure

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

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

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

Intangible assets acquired in a business combination

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

Provision

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

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

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

Employee benefit

Retirement benefit costs and termination benefits

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Retirement benefit costs and termination benefits (Continued)

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

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

Short-term and other long-term employee benefits

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

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

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

Convertible bonds

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds *(Continued)*

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Held-to-maturity investments

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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

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

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

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

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

Loans and receivables

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

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

Impairment on financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment on financial assets (Continued)

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivative is initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are no measured at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognizes a collateralised borrowing for the proceeds received.

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

Segment reporting

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Revenue recognition

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

Valuation of inventories

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

Key source of estimation uncertainty

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

Impairment of goodwill

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

The carrying amount of goodwill as at 31 December 2014 was HK$124,682,000 (2013: HK$124,777,000). Details of the recoverable amount calculation are disclosed in note 21.

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

Key source of estimation uncertainty *(Continued)*

Impairment of trade and other receivables

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

Income tax and deferred tax

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

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

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

During the year ended 31 December 2014, the Group did not change the estimated useful lives of property, plant and equipment and intangible assets.

Fair value measurements and valuation processes

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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 5 and 37 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2014 HK$'000	2013 HK$'000
Financial assets		
AFS financial assets	**39,844**	43,387
Loans and receivables (including cash and cash equivalents)		
– Financial asset at FVTPL	**50,000**	–
– Loan receivables	**50,000**	53,794
– Trade and other receivables	**801,582**	721,835
– Pledged bank deposits	**94,138**	129,023
– Cash and cash equivalents	**460,401**	249,765
	1,456,121	1,154,417
Financial liabilities		
Derivative instruments	**–**	1,310
At amortised costs		
– Trade and other payables	**1,073,267**	1,247,841
– Bank borrowings	**1,503,584**	1,658,035
– Bank overdraft	**12,457**	–
– Convertible bonds	**245,659**	–
– Amount due to holding company	**21,866**	21,401
	2,856,833	2,927,277

5. FINANCIAL INSTRUMENTS *(Continued)*

(a) Categories of financial instruments *(Continued)*

The Company

	2014 **HK$'000**	2013 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
– Amounts due from subsidiaries	**386,508**	111,105
– Other receivables	**480**	420
– Pledged bank deposit	**–**	1,198
– Cash and cash equivalents	**1,238**	1
	388,226	112,724
Financial liabilities		
At amortised costs		
– Other payables	**1,284**	2,092
– Bonds issued	**–**	41,000
– Convertible bonds	**245,659**	–
– Amount due to a subsidiary	**1,560**	1,560
– Amount due to holding company	**21,866**	21,400
	270,369	66,052

(b) Financial risk management objectives and policies

The Group's major financial instruments include AFS financial assets, financial asset at FVTPL, loan receivables, trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank borrowings, bank overdraft, convertible bonds and amount due to holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i. Currency risk

The Group

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

i. *Currency risk (Continued)*

The Group *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2013: 5%) in exchange rate of USD and HK$ against RMB while all other variables are held constant. 10% (2013: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at end of each reporting period for a 10% (2013: 5%) change in foreign currency rates.

	2014 **HK$'000**	2013 HK$'000
Increase/(decrease) in profit for the year		
– if USD weakens against of RMB	**27,289**	15,416
– if USD strengthens against of RMB	**(27,289)**	(15,416)
Increase/(decrease) in profit for the year		
– if HK$ weakens against of RMB	**(2)**	1,069
– if HK$ strengthens against of RMB	**2**	(1,069)

A change of 10% (2013: 5%) in exchange rate of USD and HK$ against RMB does not affect other components of equity except the translation reserve.

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

	2014 **HK$'000**	2013 HK$'000
USD		
– Trade and other receivables	**166,277**	79,106
– Cash and cash equivalents	**22,460**	32,505
– Trade and other payables	**(20,038)**	(6,883)
– Bank borrowings	**(441,584)**	(413,046)
HK$		
– Cash and cash equivalents	**15**	28
– Amount due to holding company	**–**	(21,401)

5. FINANCIAL INSTRUMENTS *(Continued)*

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

ii. Interest rate risk

The Group

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

The Company has no significant interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2013: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2013: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$4,799,000 (2013: increase/decrease by approximately HK$6,494,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings.

iii. Liquidity risk

The Group

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

At 31 December 2014, maximum banking facilities in an aggregate amount of approximately HK$2,459 million (2013: approximately HK$2,555 million) were available from the Group's principal bankers, of which approximately HK$1,466 million (2013: HK$1,506 million) has been utilised.

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iii. Liquidity risk *(Continued)*

The Group *(Continued)*

At 31 December 2014

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,085,724	1,085,724	–	–	1,085,724
Bank borrowings	5.32%	1,583,402	1,140,160	443,242	–	1,503,584
Bank overdraft	5.88%	12,457	12,457	–	–	12,457
Convertible bonds	9.29%	377,439	9,900	9,900	357,639	245,659
Amount due to holding company	5%	22,537	–	22,537	–	21,866
		3,081,559	2,248,241	475,679	357,639	2,869,290

At 31 December 2013

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,247,841	1,247,841	–	–	1,247,841
Bank borrowings	5.09%	1,742,300	1,325,960	416,340	–	1,658,035
Amount due to holding company	5%	22,010	–	22,010	–	21,401
		3,012,151	2,573,801	438,350	–	2,927,277

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iii. *Liquidity risk* *(Continued)*

The Company

At 31 December 2014

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	Carrying amount HK$'000
Other payables	–	1,284	1,284	–	–	1,284
Convertible bonds	9.29%	377,439	9,900	9,900	357,639	245,659
Amount due to a subsidiary	–	1,560	1,560	–	–	1,560
Amount due to holding company	5%	22,537	–	22,537	–	21,866
		402,820	12,744	32,437	357,639	270,369

At 31 December 2013

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	Carrying amount HK$'000
Other payables	–	2,092	2,092	–	–	2,092
Bond issued	6.56%	43,690	43,690	–	–	41,000
Amount due to a subsidiary	–	1,560	1,560	–	–	1,560
Amount due to holding company	5%	22,010	–	22,010	–	21,401
		69,352	47,342	22,010	–	66,053

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. Credit risk

The Group's maximum exposure to credit risk in the event of the counter parties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

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

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

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

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

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

v. Fair value

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

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

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

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

v. *Fair value* *(Continued)*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2014			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Financial asset through profit or loss (note 27)	**50,000**	**–**	**–**	**50,000**
Convertible bonds (note b)	**–**	**–**	**241,491**	**241,491**

	2013			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities				
Derivative financial instruments (note a)	–	–	1,310	1,310

Notes:

(a) The discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group from the derivative financial instruments, based on an discount rate of 0.25% in 2013. If the unobservable inputs to the valuation model were 10% higher/lower while all other variables were held constant, the carrying amount of the shares would increase/decrease by approximately HK$131,000 in 2013.

(b) As at 31 December 2014, the fair value of convertible bonds of approximately HK$241,191,000. The fair value of liability component of convertible bonds was valued by an independent valuer. The convertible bonds was calculated by discounting the future cash flow at market rate and including some unobservable inputs. See note 37 for the details information of convertible bonds.

There were no transfers between all levels in both years.

6. CAPITAL RISK MANAGEMENT

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

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

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

Gearing ratio

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

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

	2014 **HK$'000**	2013 HK$'000
Debts (note 1)	**1,783,566**	1,679,436
Cash and cash equivalents	**(554,539)**	(378,788)
Net debt	**1,229,027**	1,300,648
Equity (note 2)	**1,113,411**	876,883
Net debt to equity ratio	**110%**	148%

Notes:

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

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

7. TURNOVER AND SEGMENT INFORMATION

For the year ended 31 December 2014, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

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

Geographical information

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

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

	Turnover from external customers		Non-current assets	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
The PRC	**2,232,025**	2,071,336	**2,816,309**	2,648,857
America	**403,456**	296,765	**–**	–
Europe	**254,107**	159,164	**–**	–
Asia other than the PRC	**232,417**	115,052	**–**	–
Others	**111**	15,965	**–**	–
Total	**3,122,116**	2,658,282	**2,816,309**	2,648,857

Note: Non-current assets excluded available-for-sale financial assets and deferred tax assets.

Information about major customers

For the years ended 31 December 2014 and 2013, none of the Group's sales to a single customer amounted to 10% or more of the Group's total turnover.

8. OTHER REVENUE AND INCOME

	2014 HK$'000	2013 HK$'000
Government grants	**74,892**	63,484
Interest income	**15,425**	7,844
Sales of raw materials, scrap and other materials, net	**13,227**	7,146
Investment income	**–**	6,210
Rental income	**11**	986
Cumulative gain on disposal of available-for-sale investment	**2,272**	6,724
Gain on disposal of property, plant and equipment	**46**	–
Reversal of impairment loss on trade and other receivables	**8,152**	2,489
Sundry incomes	**3,167**	2,733
	117,192	97,616

9. OTHER OPERATING EXPENSES

	2014 HK$'000	2013 HK$'000
Amortisation of intangible assets	**12,422**	1,746
Written-off of available-for-sale financial assets	**418**	–
Loss on sales and lease back transaction	**964**	644
	13,804	2,390

10. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on bank loans wholly repayable within five years	**108,025**	76,524
Interest on bank overdraft	**285**	–
Interest on convertible bonds (note 37)	**4,639**	–
Interest on amount due to holding company	**465**	471
Interest on finance lease	**678**	638
	114,092	77,633

11. INCOME TAX EXPENSE

	2014 **HK$'000**	2013 HK$'000
Current tax:		
The PRC Enterprise Income Tax	**31,657**	27,518
Deferred tax (note 38)	**(4,459)**	(524)
	27,198	26,994

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong Profits tax at the rate of 16.5% (2013: 16.5%). Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

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

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

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

	2014 **HK$'000**	2013 HK$'000
Profit before tax	**202,921**	132,280
Tax at the domestic income tax rate of 25% (2013: 25%)	**50,730**	33,070
Tax effect of share of profit of an associate	**(142)**	(75)
Tax effect of expenses not deductible for tax purpose	**16,284**	12,714
Tax effect of income not taxable for tax purpose	**(519)**	(1,106)
Tax effect of deductible temporary differences not recognised	**(12,934)**	(3,398)
Effect of tax exemptions granted to the PRC subsidiaries	**(11,427)**	(10,583)
Income tax on concessionary rate	**(28,271)**	(12,007)
Utilisation of tax losses previously not recognised	**(2,129)**	(1,892)
(Over)/under provision in prior year	**(435)**	907
Tax effect of tax losses not recognised	**16,041**	9,364
Tax charge for the year	**27,198**	26,994

The applicable tax rate of 25% (2013: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

12. PROFIT FOR THE YEAR

	2014 HK$'000	2013 HK$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	**371,734**	268,391
– Retirement benefits schemes contributions	**41,654**	33,420
	413,388	301,811
Depreciation of property, plant and equipment	**158,812**	95,127
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**6,675**	10,187
Amortisation of intangible assets (included in other operating expenses)	**12,422**	1,744
Total depreciation and amortisation	**177,909**	107,058
Impairment losses on financial assets		
– trade and other receivables	**12,166**	8,349
– reversal of impairment loss on trade and other receivables (included in other revenue and income)	**(8,152)**	(2,527)
Impairment losses of financial assets, net	**4,014**	5,822
Auditors' remuneration		
– audit services	**1,200**	1,200
– non-audit services	**250**	380
Share of tax of an associate	**158**	164
Cost of inventories recognised as an expense	**1,928,469**	1,771,752
Operating lease rentals in respect of land and buildings	**1,543**	1,624
Loss on sales and lease back transaction	**964**	644
Write-off of property, plant and equipment	**27,052**	158,582
Research and development expenditure	**81,833**	62,693
Cumulative gain on disposal of available-for-sale financial assets	**2,272**	6,724
(Gain)/loss on disposal of property, plant and equipment	**(46)**	409
Net foreign exchange gain	**(358)**	(1,246)

13. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2014 (2013: Nil).

14. EARNINGS PER SHARE

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

	2014 HK$'000	2013 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share calculation	175,208	99,658
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds (net of tax)	3,874	–
– Deferred tax arising from convertible bonds	(766)	–
Earnings for the purpose of diluted earnings per share calculation	178,316	99,658

	2014 '000	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	1,962,041	1,962,041
Effect of dilutive potential ordinary shares:		
– Convertible bonds	50,898	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	2,012,939	1,962,041

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2014 HK$'000	2013 HK$'000
Fees:		
Executive directors	**150**	150
Independent non-executive directors	**300**	300
	450	450
Other emoluments		
Salaries and allowances	**1,499**	1,479
Retirement benefits scheme contributions	**17**	15
	1,966	1,944

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2014 and 2013.

The emoluments paid or payable to each of the seven (2013: seven) directors for the year ended 31 December 2014 were as follows:

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

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

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2013 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	1,479	15	1,494
Dr. Zhang Ji	50	–	–	50
Independent non-executive directors:				
Ms. So Tsoi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence	60	–	–	60
Dr. Pei Geng	60	–	–	60
Total	450	1,479	15	1,944

During both years ended 31 December 2014 and 2013, no directors of the Company agreed to waive or waived any emoluments.

During both years ended 31 December 2014 and 2013, the executive director of the Company, Dr. Shao Yan, was the chief executive officer of the Company.

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

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2013: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2013: four) individuals were as follows:

	2014 **HK$'000**	2013 HK$'000
Employees		
Salaries and allowances	**4,580**	5,352
Retirement benefits schemes contributions	**51**	132
	4,631	5,484

There emoluments were within the following bands:

	2014 **No. of employees**	2013 No. of employees
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	3
HK$1,500,001 to HK$2,000,000	**1**	–
	4	4

During both years ended 31 December 2014 and 2013, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

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

	2014 **No. of employees**	2013 No. of employees
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	–
	5	5

During both years ended 31 December 2014 and 2013, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2013	401,568	1,867	489,393	21,798	44,187	412	613,732	1,572,957
Additions	25,036	–	83,052	5,505	7,528	–	762,328	883,449
Acquired on acquisition of a subsidiary	–	–	1,748	1,135	1,113	–	374	4,370
Disposals	–	–	(1,003)	(833)	(8)	–	–	(1,844)
Write-off	(113,978)	–	(123,773)	(1,270)	(7,070)	–	–	(246,091)
Transfer	559,003	–	415,528	1,514	13,217	–	(989,262)	–
Exchange realignment	9,129	55	14,538	648	1,299	–	18,233	43,902
At 31 December 2013 and at 1 January 2014	880,758	1,922	879,483	28,497	60,266	412	405,405	2,256,743
Additions	49,030	–	73,338	2,112	4,469	–	312,767	441,716
Disposals	–	–	(26,785)	(2,971)	(2,440)	–	–	(32,196)
Write-off	(7,130)	–	(67,147)	(884)	(2,878)	–	–	(78,039)
Transfer	141,701	–	98,563	–	1,336	–	(241,600)	–
Exchange realignment	(22,437)	(46)	(21,684)	(673)	(1,438)	–	(10,238)	(56,516)
At 31 December 2014	1,041,922	1,876	935,768	26,081	59,315	412	466,334	2,531,708
Accumulated depreciation and impairment								
At 1 January 2013	42,632	–	90,832	3,527	12,191	412	–	149,594
Depreciation provided for the year	21,612	–	62,417	3,108	7,990	–	–	95,127
Eliminated on disposals	–	–	(409)	(646)	(3)	–	–	(1,058)
Eliminated on write-off	(18,677)	–	(64,288)	(820)	(3,724)	–	–	(87,509)
Exchange realignment	1,313	–	2,662	131	1,114	–	–	5,220
At 31 December 2013 and at 1 January 2014	46,880	–	91,214	5,300	17,568	412	–	161,374
Depreciation provided for the year	41,073	–	104,236	3,693	9,810	–	–	158,812
Eliminated on disposals	–	–	(19,988)	(2,095)	(2,182)	–	–	(24,265)
Eliminated on write-off	(2,149)	–	(46,094)	(810)	(1,934)	–	–	(50,987)
Exchange realignment	(1,393)	–	(2,455)	(133)	(450)	–	–	(4,431)
At 31 December 2014	84,411	–	126,913	5,955	22,812	412	–	240,503
Net carrying amounts								
At 31 December 2014	**957,511**	**1,876**	**808,855**	**20,126**	**36,503**	**–**	**466,334**	**2,291,205**
At 31 December 2013	833,878	1,922	788,269	23,197	42,698	–	405,405	2,095,369

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

The Company

	Equipment HK$'000
Cost	
At 1 January 2013,	237
Write-off	(62)
At 31 December 2013, 1 January 2014 and 31 December 2014	175
Accumulated depreciation and impairment	
At 1 January 2013	150
Depreciation provided for the year	84
Write-off	(59)
At 31 December 2013, 1 January 2014 and 31 December 2014	175
Net carrying amounts	
At 31 December 2014	**–**
At 31 December 2013	–

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

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

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

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

As at 31 December 2014, an allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 45.

17. PREPAID LEASE PAYMENTS

The Group

	2014 HK$'000	2013 HK$'000
At the beginning of year	**292,300**	445,171
Additions	**–**	35,968
Written-off	**–**	(188,476)
Amortisation for the year	**(6,675)**	(10,187)
Exchange realignment	**(6,984)**	9,824
At the end of year	**278,641**	292,300
Analysed for reporting purposes as:		
Current assets	**6,631**	4,761
Non-current assets	**272,010**	287,539
	278,641	292,300

Leasehold lands are held in the PRC under medium leases.

As at 31 December 2014, certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 45.

18. INTERESTS IN AN ASSOCIATE

The Group

	2014 HK$'000	2013 HK$'000
Cost of unlisted investments	**1,740**	1,740
Share of post-acquisition profits and other comprehensive income	**5,526**	5,126
Share of net assets of an associate	**7,266**	6,866
Amount due to an associate	**(934)**	(569)
	6,332	6,297

Amount due to an associate is unsecured, interest-free and not repayable within next twelve months.

18. INTERESTS IN AN ASSOCIATE *(Continued)*

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

	2014 HK$'000	2013 HK$'000
Total assets	**16,823**	15,688
Total liabilities	**(1,994)**	(1,676)
Net assets	**14,829**	14,012
Group's share of net assets of an associate	**7,266**	6,866
Turnover	**20,631**	23,483
Profit for the year	**1,153**	1,331
Share of results of an associate for the year	**569**	301

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

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2014	2013	Particulars of issued/ paid-up capital	Principal activities
Yangxin Fuxin Chemical Company Limited ("Yangxin Fuxin") (Note (a) & (b))	PRC/PRC	Limited liability company	**40.32% (indirect)**	40.22% (indirect)	Contributed capital RMB2,000,000	Production and sales fine chemicals and chemical medicine

Note:

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

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

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

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	2014 HK$'000	2013 HK$'000
Unlisted securities:		
– Unlisted equity securities, at cost	**39,844**	43,387

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

20. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

The Group

	2014 HK$'000	2013 HK$'000
Purchase of land use right (Note (a))	**4,050**	–
Purchase of plant and machineries	**968**	13,969
	5,018	13,969

Note:

(a) On 11 September 2014, Jiangsu Grand Xianle Pharmaceutical Company Limited entered into an agreement with the relevant government authority to acquire certain assets including a land use right amounted to RMB3,190,000 (equivalent to approximately HK$3,988,000) within a specified period as stipulated in the agreement. Deposits with relevant costs of RMB3,240,000 (equivalent to approximately HK$4,050,000) was paid during the year ended 31 December 2014. As at 31 December 2014, the Group was in the progress of obtaining the land use right certificate.

21. GOODWILL

The Group

	HK$'000
At 1 January 2013	97,133
Arising on acquisition of a subsidiary (Note 43)	27,644
At 31 December 2013 and 1 January 2014	124,777
Exchange realignment	(95)
At 31 December 2014	**124,682**

Impairment Tests for Cash-generating Units Containing Goodwill

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

- Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")
- Wuhan Kernel
- Hubei Wellness Pharmaceutical Co., Ltd ("Hubei Welliness")
- Beijing Rui Yao Technology Limited ("Beijing Rui Yao")

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

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

	2014 HK$'000	2013 HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**17,506**	17,093
Hubei Wellness	**25,258**	25,096
Beijing Rui Yao	**26,974**	27,644
	124,682	124,777

21. GOODWILL *(Continued)*

The Group *(Continued)*

Notes:

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2013: 12%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum (2013: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2013: 12%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum (2013: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2013: 8%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum (2013: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 15% (2013: 11%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using zero growth rate per annum (2013: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

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

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

22. INTERESTS IN SUBSIDIARIES

The Company

	2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	**308,027**	308,027
Amounts due from subsidiaries	**386,508**	111,105
	694,535	419,132

The amounts due from subsidiaries are unsecured, interest free and recoverable on demand.

Particulars of the Group's principal subsidiaries as at 31 December 2014 and 2013 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2014	2013	Particulars of issued paid-up capital	Principal activities
Grand Pharm (China) Co., Limited ("Grand Pharm (China)") (notes (iv), (vi), (vii) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.60% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	98.94% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (notes (ii) & (viii))	PRC/PRC	Limited liability company	**62.30% (indirect)**	62.15% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (note (viii))	PRC/PRC	Limited liability company	**82.29% (indirect)**	82.09% (indirect)	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.60% (indirect)	Contributed capital RMB114,000,000	Production and sales ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	**67.00% (direct)**	67.00% (direct)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2014	2013	Particulars of issued paid-up capital	Principal activities
Wuhan Kernel (notes (iii) & (viii))	PRC/PRC	Limited liability company	**80.90% (indirect)**	80.70% (indirect)	Contributed capital RMB57,368,880	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.60% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of and sale of pharmaceutical products in the PRC
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Grand Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.76% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of and sale of pharmaceutical products in the PRC
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajiin") (notes (viii) & (x))	PRC/PRC	Limited liability company	**50.92% (indirect)**	50.80% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of and sale of pharmaceutical products in the PRC
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	–	Contributed capital RMB1,000,000	Treatment of sewage in the PRC

Notes:

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

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

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

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

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

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

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

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

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB 136.397 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

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

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

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

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

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

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

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

23. INTANGIBLE ASSETS

The Group

	Acquired patent rights HK$'000
Cost	
At 1 January 2013	1,907
Acquisitions through business combinations	82,966
Exchange realignment	1,339
At 31 December 2013 and 1 January 2014	86,212
Exchange realignment	(2,073)
At 31 December 2014 (note)	84,139
Accumulated amortisation and impairment loss	
At 1 January 2013	1,609
Provided for the year	1,744
Exchange realignment	77
At 31 December 2013 and 1 January 2014	3,430
Provided for the year	12,422
Exchange realignment	(167)
At 31 December 2014	15,685
Net carrying amounts	
At 31 December 2014	**68,454**
At 31 December 2013	82,782

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

Intangible assets	**Useful economic life**
Acquired patent rights	5 years – 7 years

23. INTANGIBLE ASSETS *(Continued)*

Note:

Cost of intangible assets:

	2014 HK$'000	2013 HK$'000
Wuhan Grand Everyday Bright Eyes Company Limited	**1,916**	1,963
Grand Huangshi Feiyun	**37,500**	38,424
Beijing Rui Yao	**44,723**	45,825
	84,139	86,212

24. DEFERRED TAX ASSETS

The Group

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

	Impairment loss on trade and other receivables HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2013	1,348	2,313	3,661
Credited to profit or loss	–	(2,364)	(2,364)
Exchange realignment	14	51	65
At 31 December 2013 and 1 January 2014	1,362	–	1,362
Exchange realignment	(68)	–	(68)
At 31 December 2014	**1,294**	**–**	**1,294**

As at 31 December 2014, the Group has unused tax losses of approximately HK$62,800,000 (2013: HK$55,622,000) available to offset against future profits. No deferred tax asset has been recognised during the year (2013: Nil). No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$62,800,000 (2013: HK$55,622,000) due to the unpredictability of future profit streams. The tax losses will expire 5 years from the year of origination, the tax losses of approximately HK$1,474,000 (2013: HK$2,364,000) has been expired during the year.

25. PREPAYMENTS

The Group

The amount represented prepayment of RMB17,886,000 (equivalent to approximately HK$22,358,000) (2013: RMB13,766,000 (equivalent to approximately HK$17,631,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

26. LOAN RECEIVABLES

The Group

	2014 HK$'000	2013 HK$'000
Current portion	**23,750**	33,301
Non-current portion	**26,250**	20,493
	50,000	53,794

The amount is neither past due nor impaired for whom there was no recent history of default.

The effective interest rates on the Group's loan receivables are 5.96% (2013: 6.15%).

27. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	2014 HK$'000	2013 HK$'000
Investment at fair value	**50,000**	–

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

28. INVENTORIES

The Group

	2014 HK$'000	2013 HK$'000
Raw materials	**114,052**	161,273
Work-in-progress	**204,580**	225,043
Finished goods	**201,528**	180,312
	520,160	566,628
Less: impairment loss	**(6,030)**	(5,767)
Add: reversal of impairment loss	**2,435**	1,422
	516,565	562,283

29. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Trade receivables, net	**349,547**	321,976	**–**	–
Bills receivables	**314,940**	324,225	**–**	–
Other receivables, deposits and prepayments	**341,557**	269,515	**734**	790
Less: impairment loss on other receivables	**(24,295)**	(23,106)	**–**	–
	981,749	892,610	**734**	790

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

The Group

	2014 HK$'000	2013 HK$'000
Within 90 days	**324,148**	292,543
91 – 180 days	**28,951**	27,273
181 – 365 days	**8,305**	11,682
Over 365 days	**20,387**	21,781
	381,791	353,279
Less: accumulated impairment loss	**(32,244)**	(31,303)
	349,547	321,976

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

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

29. TRADE AND OTHER RECEIVABLES *(Continued)*

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

The Group

	2014 **HK$'000**	2013 HK$'000
Balance at the beginning of the year	**31,303**	21,659
Impairment losses recognised	**8,521**	8,317
Impairment losses reversed	**(6,042)**	(265)
Exchange realignment	**(1,538)**	1,592
Balance at the end of the year	**32,244**	31,303

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

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

The Group

	2014 **HK$'000**	2013 HK$'000
Balance at the beginning of the year	**23,106**	24,606
Impairment losses reversed	**(2,110)**	(2,262)
Impairment losses recognised on other receivables	**3,645**	32
Exchange realignment	**(346)**	730
Balance at the end of the year	**24,295**	23,106

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

Included in the Group's trade receivables balances are balances with aggregate carrying amount of HK$25,956,000 (2013: HK$39,188,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 98 days (2013: 142 days).

The Group

	2014 **HK$'000**	2013 HK$'000
Within 90 days	**22,039**	25,195
91 – 180 days	**3,917**	9,829
181 – 365 days	**–**	4,164
	25,956	39,188

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

	The Group		The Company	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Cash in banks	**460,374**	249,694	**1,238**	1
Cash on hand	**27**	71	**–**	–
	460,401	249,765	**1,238**	1

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

	The Group		The Company	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
HKD	**1,268**	28	**1,238**	1
USD	**21,889**	3,285	**–**	–
RMB	**437,244**	246,452	**–**	–
	460,401	249,765	**1,238**	1

As at 31 December 2014, bank deposits of the Group and the Company of approximately HK$94,138,000 and HK$Nil (2013: HK$129,023,000 and HK$1,198,000) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2014, the annual effective interest rate on pledged bank deposits is 4.00% (2013: 2.82%). Bank overdraft carries interest at market rate 5.88% per annum (2013: Nil).

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

31. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Trade payables	**290,609**	318,243	**–**	–
Bills payables	**364,721**	389,551	**–**	–
Accrued expenses and other payables	**466,192**	598,463	**1,284**	2,092
	1,121,522	1,306,257	**1,284**	2,092

31. TRADE AND OTHER PAYABLES *(Continued)*

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

The Group

	2014 HK$'000	2013 HK$'000
Within 90 days	**212,334**	205,376
Over 90 days	**78,275**	112,867
	290,609	318,243

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

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

32. BANK BORROWINGS

The Group

	2014 HK$'000	2013 HK$'000
Bank borrowings (secured)	**1,503,584**	1,658,035
Carrying amount repayable:		
On demand or within one year	**1,083,584**	1,262,267
More than one year but not exceeding two years	**420,000**	395,768
	1,503,584	1,658,035

As at 31 December 2014 and 2013, certain bank loans are guaranteed by 中國遠大集團有限責任公司 (China Grand Enterprises Incorporation), a related company with common director of the Company, and secured by the allocated land, buildings, prepaid lease payments and bank deposits of the Group in the PRC as detailed in note 45 and independent third parties.

As at 31 December 2014, other than the amount of HK$441,584,000 (2013: HK$413,046,000) which are denominated in USD, the Group's other bank loans are denominated in RMB.

As at 31 December 2014 and 2013, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of HK$691,626,000 (2013: HK$359,697,000) that was charged at fixed interest rate of 1.92% to 7.80% (2013: 2.52% to 7.80%) per annum, all other bank loans bear variable interest rates from 2.40% to 6.77% (2013: 1.00% to 7.80%) per annum.

33. BONDS ISSUED

The Company

During the year ended 31 December 2013, the Company has issued bonds with aggregate amount of HK$41,000,000 which are unsecured, interest-bearing at 6.56% per annum and repayable within one year to Grand Pharm (China). The bonds had been fully repaid during the reporting period 31 December 2014.

34. OBLIGATIONS UNDER FINANCE LEASES

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

As at 31 December 2014 and 2013, the Group's finance lease liabilities were repayable as follows:

The Group

	2014 HK$'000	2013 HK$'000
Amounts payable under finance leases:		
Within one year	**6,057**	6,206
In the second to fifth year	**2,019**	8,275
	8,076	14,481
Future finance charges on finance lease	**(350)**	(1,049)
Present value of finance lease liabilities	**7,726**	13,432

The present value of finance lease liabilities is as follows:

The Group

	2014 HK$'000	2013 HK$'000
Current portion	**5,733**	5,516
Non-current portion	**1,993**	7,916
	7,726	13,432

The carrying amount of the finance lease liabilities approximates their fair values. As at 31 December 2014 and 2013, The Group has lease property, plant and equipment under finance leases with net book value of HK$7,340,000 (2013: HK$10,276,000).

35. AMOUNT DUE TO A SUBSIDIARY

The Company

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

36. DERIVATIVE FINANCIAL INSTRUMENT

As at 31 December 2013, the Group had the foreign exchange forward contracts with carrying amount approximately with HK$1,310,000 in relation to foreign currency sales. The foreign exchange forward contracts were exercised during the year ended 31 December 2014.

During the 31 December 2013, fair value loss of approximately HK$1,310,000 has been recognised in profit and loss.

37. CONVERTIBLE BONDS

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

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

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

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

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

The Convertible bonds contain two components: liability and equity elements. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component on initial recognition is 9.29% per annum.

The Group and the Company

The Convertible bonds information are presented as follows:

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

37. CONVERTIBLE BONDS *(Continued)*

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

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

The imputed interest expenses on the Convertible bonds were calculated using effect interest method by using the effective interest rates of 9.29%. The valuation of Convertible bonds was performed by an independent qualified professional valuer of the Company.

38. DEFERRED TAX LIABILITIES

The Group

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

	Intangible assets HK$'000	Buildings and prepaid lease payments HK$'000	Available-for-sale financial assets HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2013	–	79,096	2,367	–	81,463
Fair value adjustment from acquisition of subsidiaries	11,456	–	–	–	11,456
Charged directly to equity	–	–	964	–	964
Written-off upon disposal	–	(38,600)	(3,408)	–	(42,008)
Credited to profit or loss (note 11)	–	(2,888)	–	–	(2,888)
Exchange realignment	–	1,136	77	–	1,213
At 31 December 2013 and 1 January 2014	11,456	38,744	–	–	50,200
Issuance of Convertible bonds	–	–	–	14,341	14,341
Credited to profit or loss (note 11)	(2,162)	(1,531)	–	(766)	(4,459)
Exchange realignment	(618)	(488)	–	–	(1,106)
At 31 December 2014	**8,676**	**36,725**	**–**	**13,575**	**58,976**

The Company

	Convertible bonds HK$'000	Total HK$'000
At 31 December 2013 and 1 January 2014	–	–
Issuance of Convertible bonds	14,341	14,341
Credited to profit or loss (note 11)	(766)	(766)
At 31 December 2014	**13,575**	**13,575**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$61,760,000 (2013: HK$21,403,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

39. AMOUNT DUE TO HOLDING COMPANY

The Group and the Company

As at 31 December 2014 and 2013, the amount is unsecured, interest bearing at 5% per annum and not repayable within next twelve months.

40. DEFERRED INCOME

The Group

The movement of deferred income is set out below:

	HK$'000
At 1 January 2013	301,012
Compensation received during the year (note (b)/(c))	357,580
Eliminated with the disposal loss of property, plant and equipment	(284,673)
Exchange realignment	11,127
At 31 December 2013 and 1 January 2014	385,046
Compensation received during the year (note (c)/(d))	288,848
Exchange realignment	(12,880)
At 31 December 2014	**661,014**

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

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

40. DEFERRED INCOME *(Continued)*

The Group *(Continued)*

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

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

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

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

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

40. DEFERRED INCOME *(Continued)*

The Group *(Continued)*

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

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

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

41. SHARE CAPITAL

The Group and the Company

	Number of shares at		Share capital at	
	31 December 2014 '000	31 December 2013 '000	**31 December 2014 HK$'000**	31 December 2013 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At 31 December 2013 and 31 December 2014 ordinary shares of HK$0.01 each	**1,962,041**	1,962,041	**19,620**	19,620

42. RESERVES

The Group

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

The Company

	Share premium HK$'000	**Contributed surplus** HK$'000	**Convertible bonds reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2013	281,949	121,273	–	(55,947)	347,275
Loss and total comprehensive loss for the year	–	–	–	(11,827)	(11,827)
At 31 December 2013 and 1 January 2014	281,949	121,273	–	(67,774)	335,448
Equity component of Convertible bonds (note 37)	–	–	86,918	–	86,918
Deferred tax arising on issue of Convertible bonds (note 38)	–	–	(14,341)	–	(14,341)
Loss and total comprehensive loss for the year	–	–	–	(15,082)	(15,082)
At 31 December 2014	**281,949**	**121,273**	**72,577**	**(82,856)**	**392,943**

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

Loss attributable to shareholders of the Company approximately HK$15,082,000 (2013: HK$11,827,000) has been dealt with in the financial statements of the Company.

43. ACQUISITION OF SUBSIDIARIES

Beijing Rui Yao

On 16 July 2013, Grand Pharm (China) has entered into an agreement to acquire 70.84% equity interest in Beijing Rui Yao Technology Limited at a total consideration of approximately RMB36 million (approximately HK$46 million). The acquisition has been completed on 16 October 2013. The aggregate consideration of approximately RMB36 million has been settled by cash.

No acquisition-related costs have been included from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

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

	Acquiree's carrying amount before combination HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000
Net assets acquired:			
Property, plant and equipment	4,370	–	4,370
Intangible assets	–	45,824	45,824
Inventories	21,042	–	21,042
Trade and bill receivables	19,549	–	19,549
Other receivables	11,598	–	11,598
Cash and cash equivalents	11,316	–	11,316
Trade and other payables	(52,970)	–	(52,970)
Bank borrowings	(21,082)	–	(21,082)
Tax liabilities	(700)	–	(700)
Deferred tax liabilities	–	(11,456)	(11,456)
	(6,877)	34,368	27,491
Non-controlling interests			(9,311)
Goodwill arising on acquisition			27,644
Total consideration			45,824
Satisfied by:			
Cash			45,824
Net cash outflow arising on acquisition:			
Consideration paid in cash			(45,824)
Less: Cash and cash equivalents acquired			11,316
			(34,508)

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Beijing Rui Yao *(Continued)*

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

Impact of acquisition on the results of the Group

Had the acquisition of Beijing Rui Yao been effected at 16 October 2013, the Group's turnover for the year ended 31 December 2013 would have been HK$2,636,438,000 and the consolidated profit for the year would have been HK$105,950,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed at 16 October 2013, nor is it intended to be a projection of future results.

In determining the pro forma turnover and profit of the Group assuming that Beijing Rui Yao had been acquire at the end of the year 2013, the directors have calculated depreciation of property, plant and equipment and amortization of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

44. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associate as disclosed in note 18 and holding company as disclosed in note 39, during the years ended 31 December 2014 and 2013, the Group entered into following transactions with its related parties:

	2014 **HK$'000**	2013 HK$'000
Interest charged to the Group by holding company (note (i))	**465**	471
Sales of goods to associate (note (ii))	**2,275**	171

Notes:

(i) Interest was charged on an amount due to the holding company as disclosed in note 39.

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

44. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2014 and 2013 are set out in note 32.

(c) Compensation of key management personnel

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

	2014 HK$'000	2013 HK$'000
Short-term benefits	7,196	7,863
Post-employment benefits	89	111
	7,285	7,974

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

45. PLEDGE OF ASSETS

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

	2014 HK$'000	2013 HK$'000
Prepaid lease payments (note 17)	6,847	81,088
Buildings (note 16)	–	27,903
Discounted bills with recourse	17,458	76,848
Pledged bank deposits (note 30)	94,138	129,023
	118,443	314,862

46. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

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

	2014 **HK$'000**	2013 HK$'000
Within one year	**1,933**	2,598
In the second to fifth year inclusive	**601**	2,059
	2,534	4,657

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

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$11,000 (2013: HK$986,000). The Group has no future minimum lease payments from tenants under non-cancellable operating lease.

(b) Capital commitment

	2014 **HK$'000**	2013 HK$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	**27,063**	163,294

47. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2013: HK$1,250) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2013: HK$1,250) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

47. RETIREMENT BENEFITS SCHEMES *(Continued)*

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

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

The total costs charged to profit or loss of approximately HK$41,671,000 (2013: HK$33,435,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

48. ACQUISITION OF ADDITIONAL EQUITY INTEREST OF A SUBSIDIARY

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

49. EVENTS AFTER THE REPORTING PERIOD

On 3 March 2015, Grand Pharm (China), being an indirect non wholly owned subsidiary of the Company, has entered into the financial lease arrangement with Wuhan Guanggu Finance Lease Limited (the "Wuhan Guanggu") in related to: (i) sale the medical equipment to Wuhan Guanggu at consideration of RMB200,000,000 (equivalent to approximately HK$250,000,000); and (ii) Wuhan Guanggu agree to lease the medical equipment back to Ground Pharm (China) for a period five years at the total lease payment of approximately RMB237,714,820 (equivalently to approximately HK$297,144,000). For the detail, please refer to the Company announcement dated 3 March 2015.

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 March 2015.

Financial Summary

Results

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**3,122,116**	2,658,282	2,059,307	1,647,576	1,054,754
Profit before tax	**202,921**	132,280	115,535	99,464	158,166
Income tax expense	**(27,198)**	(26,994)	(10,830)	(12,793)	(3,889)
Profit for the year	**175,723**	105,286	104,705	86,671	154,277

Assets and liabilities

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**4,990,681**	4,565,349	3,354,085	2,431,147	1,687,086
Total liabilities	**(3,682,314)**	(3,474,560)	(2,474,356)	(1,461,228)	(840,237)
Net assets	**1,308,367**	1,090,789	879,729	969,919	846,849