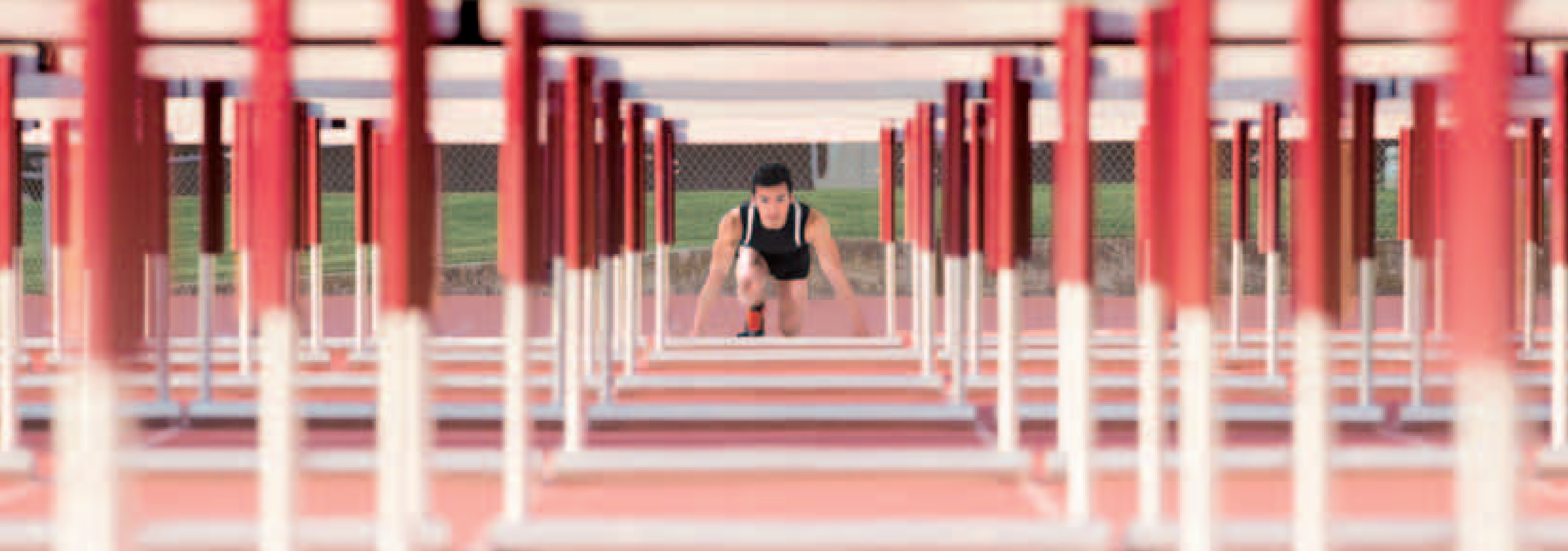
LEE'S PHARM.
李氏大藥廠

Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 950)

Annual Report 2015

* For identification purpose only



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee *(Managing Director)*
Dr. Li Xiaoyi *(Chief Executive Officer)*

Non-executive Director

Dr. Marco Maria Brughera

Independent Non-executive Directors

Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

COMPANY SECRETARY

Mr. Chow Yiu Ming

AUDIT COMMITTEE

Dr. Chan Yau Ching, Bob *(Chairman)*
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

REMUNERATION COMMITTEE

Dr. Tsim Wah Keung, Karl *(Chairman)*
Ms. Leelalertsuphakun Wanee
Dr. Chan Yau Ching, Bob

AUDITOR

HLM CPA LIMITED
Certified Public Accountants

LEGAL ADVISERS

King & Wood Mallesons *(Hong Kong law)*
Beijing Wuhuan Law Firm *(PRC law)*

REGISTERED OFFICE

P.O. Box 309 GT, Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands

PLACE OF BUSINESS IN HONG KONG

Units 110-111, Bio-Informatics Centre
No. 2 Science Park West Avenue
Hong Kong Science Park, Shatin
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUTHORISED REPRESENTATIVES

Ms. Lee Siu Fong
Dr. Li Xiaoyi

WEBSITE

www.leespharm.com

STOCK CODE

950

CORPORATE PROFILE

Lee's Pharmaceutical Holdings Limited (the "Company", together with its subsidiaries, the "Group", Hong Kong stock code: 950) is a research-driven and market-oriented biopharmaceutical company with more than 20 years of operation in the pharmaceutical industry in the People's Republic of China (the "PRC" or "China").

The Group is fully integrated with solid infrastructures in drug development, clinical development, regulatory, manufacturing, sales and marketing in China with global perspectives. The Group has established extensive partnerships with over 20 international companies and currently markets 15 proprietary and licensed-in pharmaceutical products in the PRC.

The Company focuses on several key disease areas such as cardiovascular, oncology, gynecology, urology, dermatology and ophthalmology. It has more than 40 products under different development stages stemming from both internal research and development as well as from the recent acquisition of licensing and distribution rights from various United States, European and Japanese companies.

The Group carries out its sales and distribution activities in Hong Kong and China through branch offices in Guangzhou, Shanghai and Beijing with network covering most of the provinces and cities in the PRC, marketing both self-developed products and licensed-in products from abroad. Zhaoke Pharmaceutical (Hefei) Company Limited, a subsidiary of the Group, is currently operating the manufacturing plant of the Group located in Hefei, Anhui Province of the PRC, comprising four GMP-compliant workshops for the production of topical gel, lyophilised powder for injection, small volume parenteral solutions and eye gel. Zhaoke Pharmaceutical (Guangzhou) Limited, a subsidiary of the Group, is currently developing the new manufacturing site in Nansha District, Guangzhou of the PRC which will enable the Group's expansion into solid-dose products such as tablets and capsules as well as ophthalmic products in the near future.

The mission of the Company is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

CORPORATE PROFILE

Currently, the Group has the following products in the market:

	Country of origin	Market PRC	Market Hong Kong	Medical application
Proprietary products:				
*Livaracine®	PRC	✓		Heart and other cardiovascular diseases
Yallaferon®	PRC	✓		Viral-infected venereal diseases
*Slounase®	PRC	✓		Reduction of bleeding
*Eyprotor®	PRC	✓		Cornea ulcer
Licensed-in products:				
*Carnitene®	Italy	✓		Cardiac diseases
Ferplex®	Spain	✓		Treatment of Sideropenic Anaemias
*Zanidip®	Italy	✓	✓	Hypertension
Aloxi®	France		✓	Prevention of nausea and vomiting associated with emetogenic cancer chemotherapy
Dafnegin®	Italy	✓		Candidiasis
Veloderm®	Italy	✓		Burns and wounds healing
Gaslon N®	Japan	✓		Gastric Ulcer and Gastritis
Hyalofamme®	Italy	✓		Vaginal dryness of various origin
UNIDROX®	Italy		✓	Treatment of urinary tract infections and respiratory tract infections
Levocarnitine oral solution	Italy	✓		Primary and secondary carnitine deficiency
Remodulin®	USA	✓		Treatment of pulmonary arterial hypertension and to diminish symptoms associated with exercise

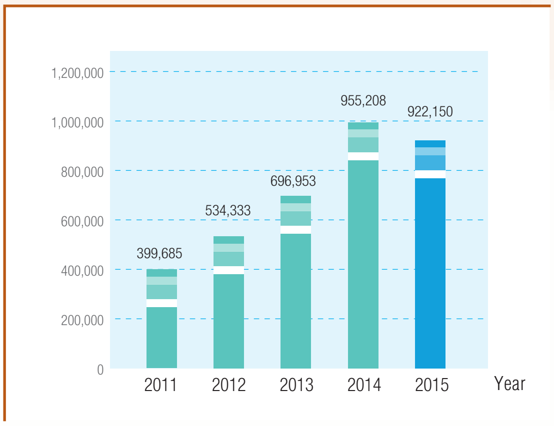
* *In the National Drug Reimbursement List of the PRC*

FINANCIAL HIGHLIGHTS

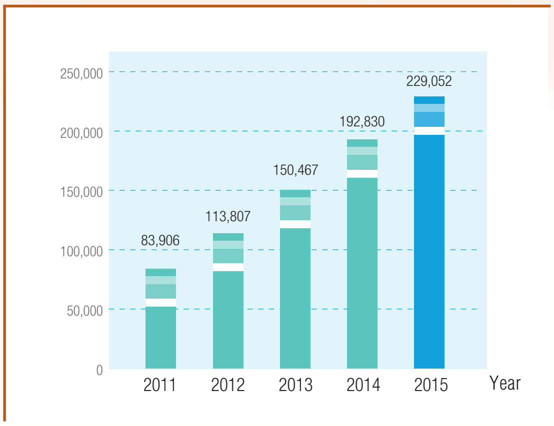
	2015 HK$'000	2014 HK$'000	Change
Revenue	**922,150**	955,208	–3.5%
Profit attributable to the owners of the Company	**229,052**	192,830	+18.8%
Total equity attributable to the owners of the Company	**1,467,438**	934,341	+57.1%
	HK cents	HK cents	
Earnings per share			
Basic	**39.77**	35.52	+12.0%
Diluted	**39.29**	34.47	+14.0%
Dividend per share			
Interim	**3.0**	2.7	
Final	**7.4**	6.6	
Total	**10.4**	9.3	+11.8%
Dividend payout ratio	**26.2%**	26.2%	

FINANCIAL HIGHLIGHTS

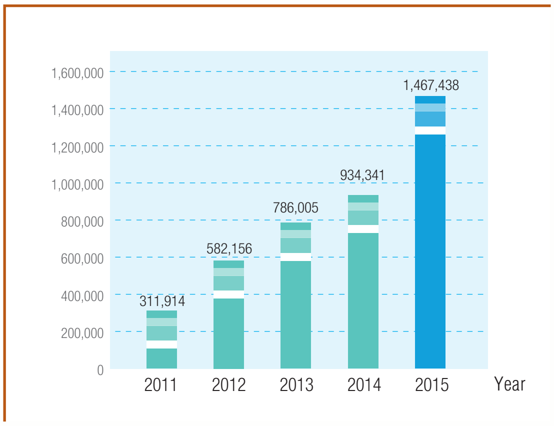
Revenue (HK$'000)



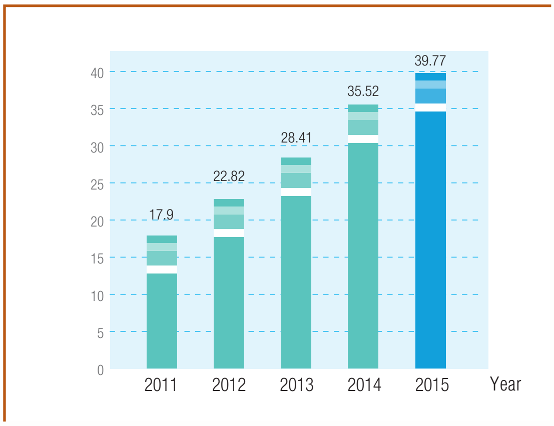
Profit Attributable to the Owners of the Company (HK$'000)



Equity Attributable to the Owners of the Company (HK$'000)



Basic Earnings Per Share (HK cents)



FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**922,150**	955,208	696,953	534,333	399,685
Cost of sales	**(273,986)**	(284,685)	(193,700)	(153,498)	(107,852)
Gross profit	**648,164**	670,523	503,253	380,835	291,833
Other revenue	**12,194**	17,572	10,731	12,385	12,322
Gain on deemed disposal of interest in an associate	**31,825**	–	–	–	–
Fair value changes of derivative financial instruments	**10,092**	(10,092)	–	–	–
Selling and distribution expenses	**(256,465)**	(309,202)	(222,850)	(179,512)	(156,437)
Research and development expenses	**(47,075)**	(37,964)	(32,262)	(16,304)	(11,835)
Administrative expenses	**(112,310)**	(99,345)	(78,511)	(63,042)	(37,090)
Profit from operations	**286,425**	231,492	180,361	134,362	98,793
Finance costs	**(3,040)**	(2,671)	(1,853)	(1,192)	(768)
Share of results of associates	**(29,450)**	(668)	(2,418)	–	(273)
Profit before taxation	**253,935**	228,153	176,090	133,170	97,752
Taxation	**(40,938)**	(41,368)	(27,087)	(20,104)	(13,728)
Profit for the year	**212,997**	186,785	149,003	113,066	84,024
Attributable to:					
Owners of the Company	**229,052**	192,830	150,467	113,807	83,906
Non-controlling interests	**(16,055)**	(6,045)	(1,464)	(741)	118
Profit for the year	**212,997**	186,785	149,003	113,066	84,024

FINANCIAL POSITION

	As at 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,009,659**	639,392	523,884	284,687	154,179
Current assets	**841,469**	729,988	641,771	511,844	255,897
Current liabilities	**(281,956)**	(308,179)	(272,157)	(172,689)	(83,497)
Net current assets	**559,513**	421,809	369,614	339,155	172,400
Non-current liabilities	**(52,344)**	(62,334)	(41,440)	(30,563)	(14,248)
Net assets	**1,516,828**	998,867	852,058	593,279	312,331
Total equity attributable to the owners of the Company	**1,467,438**	934,341	786,005	582,156	311,914
Non-controlling interests	**49,390**	64,526	66,053	11,123	417
Total equity	**1,516,828**	998,867	852,058	593,279	312,331

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Lee's Pharmaceutical Holdings Limited and its board ("Board") of directors ("Directors"), I would like to take this opportunity to thank you for the trust and support you have given us during 2015. In spite of a challenging operating and regulatory environment last year, we continued to consolidate our position in China pharmaceutical market, to stay focused on our research and development of our pipeline products, and to strive for the best to deliver profitable growth in a sustainable manner.

In 2015, the global economic outlook was becoming less optimistic as the year unfolded. It started with the Greek default that brought the Euro zone to the brink of collapse. The mid-year crash of China's stock market shifted the spotlight to the health of China's economy. China had recorded an economic growth rate of 6.9% in 2015, a 25-year low though still respectable by global standards. Pharmaceutical industry was impacted by the general slowdown that was compounded by tightening government policy such as price cuts, provincial centralised bidding and stringent medical cost control policy. As a result, the uncertainties and challenges in the marketplace in the short run had hindered our revenue growth, especially on our licensed-in products.

Despite this tough operating environment, we consistently applied ourselves diligently throughout the year to further enhance our efficiency. With the Company's resilient business model and the management team's financial discipline, we are able to offset the impact of the adverse operating climate and drive our bottom line growth amid a hiatus in revenue growth during the year under review.

CHAIRMAN'S STATEMENT

Significant progress continues at the manufacturing site in Nansha District, Guangzhou. The solid dose production facility is currently in the process of completing installation qualification, operational qualification and performance qualification on the equipment required for the manufacturing process, and has been scheduled for its manufacturing test runs by April 2016 under the Good Manufacturing Practice. In addition, the design work of our next production facility, the ophthalmic drug production facility, is close to completion and is expected to commence the construction in June 2016.

Good progress had been made in research & development during the year under review. In March 2015, first patient has been enrolled for its phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris. The Phase IIa component of the study has since been completed. Phase I study of Tafoxiparin for the treatment and prevention of protracted labor was initiated during the second quarter of 2015 in Taiwan that had also been completed. During the fourth quarter of 2015, Anfibatide (an anti-platelet agent for thrombosis prevention) and Rostafuroxin (for genotyping-specific hypertension), both are first-in-class drugs, have successfully enrolled their first patients for phase IIb clinical trial while the Italian arm of Rostafuroxin had since been completed. The enrolment of patients for the phase IIb clinical trial of Istaroxime (for acute heart failure), another first-in-class drug, will be commenced soon. In addition, the Group has also made advancement in the development of certain oncology drugs, such as PD-L1 monoclonal antibody, Pexa-Vec (formerly JX-594) and Gimatecan, during the year under review.

We continued to build partnership in the year 2015 which aims at enriching our product portfolio at different stages. During the year under review and up to date, six new licensing agreements have been concluded for the development and/or marketing of pharmaceutical products in various aspects with partners in the European countries, United States, Japan and mainland China. Considering certain investment opportunities which may worth exploring in the course of the product licensing negotiations, we have committed to invest up to US$8.5 million in Lee's Healthcare Industry Fund L.P. in August 2015 so as to build up financial resources to capture investment opportunities especially those with near term listing potentials.

To strengthen our balance sheet, there was a share placement made in April 2015 with net proceeds of HK$384 million and has been utilised for our manufacturing facilities expansion, research and development, general working capital and investment purposes.

CHAIRMAN'S STATEMENT

In order to expand further our income sources, we are actively seeking new business opportunities. In May 2015, we have invested 33% interest in a project for the building up and operating a central pharmacy for compounding radiopharmaceuticals for domestic supply and the construction work for the laboratory has just commenced. We are also considering the expansion of our businesses into hospital operations, and therefore, we have acquired the land use right of a piece a land specifically for medical and sanitary use in Nansha District, Guangzhou in September 2015. Discussions with overseas hospital operators and potential investors are currently in progress.

Powder Pharmaceuticals Incorporated, an associated company of the Group, has also made progress on the development of continuous blood glucose monitoring system for diabetes patients in China after its fund raising of US$12 million made in June 2015. Design prototype of the device has been developed and is currently undergoing testing and calibration.

2015 was a year of consolidation for the Group. Having faced a new norm as the economy in China adjusting to slower pace of growth and the pharmaceutical industry adapting to a more price-sensitive environment, the Group worked on the fundamentals of its business during the year to improve agility and resiliency. With the implementation of a slew of new regulations that favours innovation and ingenuity, China's pharmaceutical industry is ushered into a new and exciting era in which the Company can accelerate its development. The improvement in balance sheet, expansion in manufacturing capability, investment in product development and partnership, strengthening in regulatory ability and enhancement in sales & marketing efficiency have set the stage for the Group to return to its growth trajectory and deliver decent return to its shareholders in the years to come.

I would also like to take this opportunity to thank to the Board, all our business partners, management and every member of staff for their continual support. The Group will spare no effort to seek new growth opportunities and to enhance our shareholders' value.

Lee Siu Fong
Chairman

Hong Kong, 23 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Year 2015 was proved to be tough and challenging for the Group.

The more price-sensitive environment and arduous conditions in tender process for pharmaceuticals created strong headwinds for revenue growth during the year under review. However, in view of such a cost-constrained environment, the Group has taken this opportunity to streamline its cost structure and expenses related to selling, marketing and promotion that had resulted in achieving a healthy profit growth for 2015. In addition, efforts were made during the year under review for expansion in manufacturing capability, investment in product development and partnership, strengthening in regulatory ability and improvement in balance sheet.

Turnover and profit

In the financial year of 2015, the Group recorded sales revenue of HK$922,150,000, representing a slight decrease of 3.5% compared to the same period last year. Sales of licensed-in products was HK$503,361,000 (2014: HK$568,950,000) and accounted for 54.6% (2014: 59.6%) of the Group's revenue while sales of proprietary products was HK$418,789,000 (2014: HK$386,258,000) and contributed 45.4% (2014: 40.4%) of the Group's revenue.

The overall sales growth of proprietary products was slower than expected during the year. While *Yallaferon*® and *Livaracine*® were able to manage moderate revenue growth of 24.0% and 16.0%, respectively, the sales of *Slounase*® was underperformed in the fourth quarter which in turn dragged down the annual sales growth of proprietary products to 8.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

The licensed-in products had encountered greater difficulty during the year. Although the Group's flagship product *Carnitene*® continued to lead the Group's product portfolio as the major contributor and contributed 36% revenue thereof during the year under review, the arduous conditions in the tender processes resulted in its recording a negative sales growth for the first time which in turn hindered the overall sales growth. Sales growth of *Ferplex*® was also negatively impact by the prolonged delay of license renewal process which has only been resolved in early 2016. Sales growth of *Zanidip*® was flat during the year under review, being the short-term negative impact derived from the transformation of the direct sales team and its sales strategies.

Overall gross margin was quite stable in the year under review and reached 70.3% in 2015 (2014: 70.2%), slightly increased by 0.1 percentage point during the year. The Group has made significant improvements on the sales and marketing efficiency during the year and selling expenses to revenue ratio has substantially lowered to 27.8% (2014: 32.4%). The Group has invested profoundly in the research and development during the year under review and has made noteworthy progress in various pipeline products especially in cardiovascular and oncology disease areas. Research and development expenses during the years under review was HK$47,075,000, increased by 24.0% from HK$37,964,000 of the previous year.

The savings on sales and marketing expenses contributed to maintain a moderate profit growth for the Group during the year. In addition, a one-time net positive impact of approximately HK$13,033,000 was recorded during the year which comprised the gain on deemed disposal of interest in Powder Pharmaceuticals Incorporated, an associated company of the Group, of HK$31,825,000 and the written off of certain intangible assets of HK$18,792,000 therein, net profit attributable to the owners of the Company was HK$229,052,000, which represented an increase of 18.8% over last year, and recorded an improved net profit margin of 24.8% (2014: 20.2%).

MANAGEMENT DISCUSSION AND ANALYSIS

Quality System, Production and Manufacturing Facilities

The Group has invested approximately HK$80,000,000 in the solid dose production facility located on the sixth floor of the factory building in its manufacturing site in Nansha District, Guangzhou, and has reached its final stage of construction and equipment installation. The capacity of this facility is estimated at up to 1 billion tablet/capsule units per year and is expected to be fully operational in the second quarter of 2016. It is targeted that the first registration batches, along with preparatory work for obtaining Good Manufacturing Practice ("GMP") certification, will be ready by the end of 2016. The commercial production will commence in 2017, after all necessary testings, including stability registration of the product and GMP certification have been completed.

The design work of the Group's second production facility in its manufacturing site in Nansha for the manufacturing of ophthalmic drugs is close to completion and is expected to commence the construction in June 2016. The facility will be equipped with a state-of-the-art blow-fill-seal line and a multi-dose line and will adhere to the strictest quality standards. The total cost to construct and outfit is estimated at HK$80,000,000.

In the Hefei site, a prefilled syringe line is under design and the upgrade of the small volume injection line is on the way. Upon completion, it will meet all the needs for injection products. Together with works in the Nansha site, those efforts significantly enhance the Group's manufacturing capability, enabling it to much broader product development possibility. It resolves one of the bottlenecks that had constrained the Group's product reach.

A new quality control laboratory has just been come into operation in the Hefei site. The new facility is fitted with state-of-the-art equipment that provide more guarantee for product quality. The quality control laboratory in the Nansha site is near completion and it will come into operation together with the solid dose production facility. Taking together, it reinforces the Group's commitment to product quality and safety.

Drug Development

Since the first enrollment in March 2015, the Group's phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris has progressed on schedule, and the drug has been shown so far in the study with good safety and tolerability profile. The phase IIa component of the study has since been completed. The remaining phase Ib study is expected to be completed by June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Phase I study of Tafoxiparin, a proprietary drug for labor inducement, was initiated during the second quarter of the year in Taiwan. The safety and pharmacokinetic study in healthy women is has now been completed with all three cohorts enrolled in both subcutaneous and intravenous injection. The safety profile so far is consistent with the observation in Caucasian women.

The tolerability study of Istaroxime has completed all three cohorts' enrollment. The safety profile of the drug is consistent with results obtained in Caucasian. It provides a green light for phase IIb study that will have the first patient enrolled soon.

For *Natulan*® registration study, the Group has worked together with the principle investigator in developing the study protocol that has been confirmed by the China Food and Drug Administration ("CFDA"). The preparation for the study is underway and first enrollment is expected in June 2016.

In October 2015, the first patient for the phase IIb study of Anfibatide has been successfully enrolled in the Xiangya Hospital of Central South University. This is a phase IIb multi-centers, double-blinded, paralleled group, placebo controlled clinical study (clinicaltrial.gov registration No.: NCT02495012), led by the Peking University First Hospital. The study aims to evaluate the safety, efficacy, tolerability of Anfibatide in ST-segment elevation myocardial infarction (STEMI) patients who undergo PCI treatment after coronary angiography. This proof of concept study plans to enroll a total of 240 patients and standard dual antiplatelet strategy is employed with or without Anfibatide. The study involved a total of 12 centers across China.

Besides acute ischemia myocardial syndrome, subsequent to the year-end date, Anfibatide has reached a significant milestone in its other indication of Thrombotic Thrombocytopenic Purpura (TTP). TTP is a severe disease that there are no drugs specifically approved for the treatment thereof and currently, plasma exchange is the only remedy for alleviation of condition. Study by our collaborator in United States has shown that Anfibatide is effective in treating TTP in animal model. Anfibatide could provide those patients an alternative that is less costly and help to improve the quality of life. In March 2016, the Group's application to the US FDA for orphan drug designation for Anfibatide on TTP has been approved.

MANAGEMENT DISCUSSION AND ANALYSIS

Three other clinical studies, namely, hypertension drug Azilsartan registration enabling study, a glaucoma drug registration study and an ear infection drug phase I study, have all obtained the approval from the ethic committee from the principle investigators site. Respective studies are expected to start enrollment soon.

In August 2015, CVie Therapeutics Limited ("CVie"), the Group's subsidiary has successfully obtained the approval for a Phase IIb clinical study (Protocol No. CVT-CV-001) in Taiwan for one of its portfolio products Rostafuroxin capsule 50, 500ug with antihypertensive effect. Rostafuroxin is a digitoxygenin derivative that selectively disrupts the mutant adducin and the ouabain-activated Na(+)/K(+)-pump binding to Src-SH2 domain without affecting the binding of normal proteins. It is indicated for treatment of newly diagnosed hypertension patients who carry certain genetic profiles representative of adducin and Endogenous Ouabain-hypertensive mechanisms. The personalized treatment of hypertension could signify a shift of paradigm in hypertension treatment. This is a Phase IIb multi-centers, randomised, comparator-controlled, dose-finding clinical study and the study aims to evaluate the anti-hypertensive effects indifferent doses of Rostafuroxin in comparison with *Losartan*®, assessed by office and ambulatory blood pressure monitoring in a hypertensive population selected according to specific genetic profiles. The study involved a total of 17 centers and 18 centers respectively across Italy and Taiwan. The total targeted enrollment is 320 patients from both Italy and Taiwan. Currently, the Italian arm of the study is still ongoing and has completed its targeted enrollment of 160 patients in November 2015. The Taiwan study (MOHW's Approval Notice No. 1046044455) has successfully enrolled its first patient at the Chi-Mei Medical Center in Tainan in December 2015, and plans to enroll a total of 160 patients and to complete in June 2016.

The Group is one of the regional partners of SillaJen, Inc., a South Korean based biotechnology company headquartered in Busan South Korea, for Pexa-Vec (formerly JX-594). The investigational therapy, Pexa-Vec, is an attenuated vaccinia virus engineered to stimulate anti-tumor immunity and directly lyse tumor cells. Pexa-Vec has enhanced cancer selectivity through the deactivation of its thymidine kinase (TK) gene, and it has been engineered to ex-press the granulocyte-macrophage colony stimulating factor (GM-CSF) gene to stimulate a systemic anti-tumor immune response. The first patient for the multinational randomised Phase 3 open-label study of Pexa-Vec, in patients with advanced liver cancer, also known as hepatocellular carcinoma (HCC) has just been enrolled in January 2016. The clinical trial certificate from China CFDA is expected in the second quarter of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the pharmacokinetic study for Propionyl L-Carnitine was completed which is the condition for IDL approval. The report has just been submitted to CFDA and IDL approval is expected before end of 2016.

With three new clinical trial certificates obtained during the year under review, the Group has more than 13 clinical studies in either operational or preparatory stage. It further demonstrates the Group's investment and commitment in new drug development as the engine for sustainable growth.

International Partnerships

During the year and up-to-date, the Group has made great strike in partnership. We have concluded six licensing agreements with United States, European, Chinese and Japanese companies to license or acquire assets that represent near or medium term opportunity. Most of the agreements involve manufacturing right for the asset, a reflection of the Group's strategy to exert better control over its assets by leveraging on its expanding manufacturing capability.

In August 2015, the Group entered into a Development, Supply and Commercialisation Agreement to market a pharmaceutical product dispenser which may be pre-filled with a pharmaceutical agent and used to infuse the pharmaceutical agent for use in Ropivacaine Product Field and/or Propofol Product Field in China, Hong Kong, Macau, Taiwan and Thailand. This unique formulation provides a local alternative to systemic anesthetic for management of post-surgery pain.

In August 2015, the Group entered into an agreement with a company in China and acquired the rights to manufacture and market sodium phenylbutyrate (苯丁酸鈉) tablet in China which has already received approval by CFDA. The sodium phenylbutyrate tablet will be manufactured in the Group's Guangzhou Nansha manufacturing site and launched into the market in 2017. Sodium phenylbutyrate is for adjunctive therapy in the chronic management of hyperammonemia due to Urea Cycle Disorder, a genetic rare disease with prevalence of one in every 8,000 new born. The disease causes severe morbidity in children with highly unmet medical need.

In September 2015, the Group entered into a License, Development and Commercialisation Agreement with Armetheon, Inc. ("Armetheon"), a specialty pharmaceutical company developing novel small molecule drugs for cardiovascular diseases, in which Armetheon grants to China Cardiovascular Focus Limited, a subsidiary of the Group, the exclusive license to manufacture, develop and commercialise Tecarfarin, an anticoagulant agent for the prevention of thrombosis, in China, Hong Kong, Macau, Taiwan and Thailand.

MANAGEMENT DISCUSSION AND ANALYSIS

In November 2015, the Group entered into a License and Development Agreement with Tragara Pharmaceuticals, Inc. ("Tragara"), a US biotech company based in San Diego, California, in which Tragara grants to China Oncology Focus Limited, a subsidiary of the Group, the exclusive license to manufacture, develop and commercialise TG02 for the treatment of both hematologic and solid tumors in China, Hong Kong, Macau and Taiwan. TG02 is a unique, oral multi-kinase inhibitor which combines the benefits of inhibiting important cyclin dependent kinases (CDK's) equipotently with JAK2, FLT3, and ERK5 inhibition. TG02 development will initially focus on the treatment of hematologic malignancies, including multiple myeloma (MM) and chronic lymphocytic leukemia (CLL), based on the consistent anti-tumor activity that has been observed across a broad spectrum of hematologic cancer models, including those resistant to currently available therapies. Adding this targeted therapy agent into the Group's pipeline, together with a PD-L1 monoclonal antibody, an oncolytic virus and a proprietary chemo agent under development, will well position the Group in the oncology space and making in-house combination treatment possible.

In November 2015, the Group entered into a License, Promotional and Supply Agreement with Solasia Pharma K.K. ("Solasia"), in which Solasia grants to Lee's Pharmaceutical (HK) Limited, a subsidiary of the Group, the exclusive license to promote, offer for sale, sell, market, distribute and deliver *Sancuso®* in China (excluding Taiwan, Hong Kong, Macau, Beijing, Shanghai and Guangzhou). *Sancuso®* is in the form of patch and provides an alternative to taking pills for the continuous control of chemotherapy induced nausea and vomiting.

In December 2015, the Group entered into a License and Supply Agreement with Laboratorios Salvat, S.A. ("Salvat"), in which Salvat grants to Lee's Pharmaceutical (HK) Limited for the marketing and distribution of *Duoxal®* ear drops (patented combination solution of Ciprofloxacin and Fluocinolone Acetonide) in China, Hong Kong, Macau, and Taiwan and an option to add Thailand to the contractual territory. *Duoxal®* ear drops is a prescription medicine used to treat acute otitis media in patients with tympanostomy tubes and acute otitis externa (swimmer's ear) in adults and children older than 6 months of age.

Expansion of new business opportunities

In order to better capture the business opportunity in the pharmaceutical industry, on 21 August 2015, the Company has committed to invest up to US$8.5 million (approximately HK$66.3 million) into an investment fund, namely, Lee's Healthcare Industry Fund L.P. (the "Fund"). The Fund has been established in the Cayman Islands as an exempted limited partnership and with the investment from other investors, the size of the Fund could be up to US$20.2 million (approximately HK$157.6 million). The principal objective of the Fund

MANAGEMENT DISCUSSION AND ANALYSIS

is to generate attractive financial returns through investing in privately held companies with listing potentials in the biomedical sectors in the United States of America, Europe and Asia, including but not limited to the areas of pharmaceuticals, biologics, diagnostics and medical devices. The Group believes that the investment in the Fund will create synergies to the Group's growth strategy by means of partnership establishments while enhancing the Group's risk mitigated ability on the investment side.

In August 2015, the Company has completed the investment of HK$10,000,000 for 33% equity interest in a private company in Hong Kong which intends to establish and operate a project for the building up and operating a central pharmacy for compounding radio-pharmaceuticals for domestic supply. The design work thereof has been completed during the year under review and the construction work has just commenced in February 2016 and is expected to be completed by end of June 2016.

In September 2015, the Group won the bid for the land use right in respect of the land parcel at RMB111,500,000 (approximately HK$136,030,000) through the public listing-for-sale processes. The land parcel is specifically for medical and sanitary use and is located at Huangge Da Dao West, Huangge Zhen, Nansha District, Guangzhou, the People's Republic of China (中國廣州南沙區黃閣鎮黃閣大道西地塊). The total site area of the land parcel is approximately 36,656 square meters with a total planned gross floor area of approximately 65,981 square meters. The Group planned to build and operate a new private hospital in the land parcel which will consist of specialty centers such as rehab center through partnership with experienced operators and the management is currently in active discussions with potential partners.

Sales and Marketing

During the year under review, the Group continued its effort in knowledge-based promotion and leverage on new media to support physician education and to disseminate scientific information for its products.

The Group's fully sponsored China-Europe Echocardiography CME Project (中歐超聲心動圖繼續教育項目) comprised of fifty online echocardiography lessons and is highly acclaimed in the cardiologist community in China. To date, the project has more than 8,400 medical practitioners/physicians registered and gained access thereto. The project reinforces the Group's commitment to brand building and science-based promotion. In addition, the WeChat marketing platform has proved to be extremely valuable in disseminating scientific and educational information pertained to the Group's products, greatly enhancing the Group's knowledge-based marketing strategy and promotion coverage of its products in a cost effective way.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has determined on transforming its sales and marketing organisation during the year. The aim is to not only improve its operation efficiency, but also placed greater efforts on extracting more value from existing assets, expanding the base of revenue to mitigate market risk through creation of focused units. As a result, the operating profit of the group has maintained positive growth during current difficult environment.

Corporate Development

In the corporate development front, the Group had reached an important milestone. On 14 April 2015, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and the placing of 30,000,000 new shares of the Company pursuant to the placing agreement was completed on 22 April 2015. Net proceeds of approximately HK$384 million were planned to be used for manufacturing facilities expansion, R&D and general working capital of the Group to improve the existing business of the Group and future investment purposes of the Group and was fully utilised as intended as at end of the year under review.

In June 2015, Powder Pharmaceuticals Incorporated ("PPI"), an associated company of the Group, had successfully attracted strong interest from certain investors and had successfully raised additional funding of approximately US$12 million (approximately HK$93 million) in aggregate by mean of the issuance of new shares of PPI to support its development of *Zingo*® and continuous blood glucose monitoring system. With respect to the abovementioned fund raising, the Group recorded a one-time gain of HK$31,825,000 which was arising from the deemed disposal of the Group's partial interests in PPI. After the completion on 24 June 2015, the interests in PPI held by the Group has been decreased to 33.92% and PPI remains an associated company of the Group. The aforesaid one-time gain was partially offset by the share of loss of an associate arising from the one-time provision for the termination of the development of glucose meter and glucose patch resulting in a net positive impact of approximately HK$13,033,000 on the net result during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Net Profit Attributable to the Owners of the Company

The Group's revenue slightly decreased year-on-year by HK$33,058,000 or 3.5%, from HK$955,208,000 in 2014 to HK$922,150,000 in 2015. During the year, the overall sales growth of proprietary products was slower than expected, while the sales of licensed-in products were facing greater challenges.

Revenue	**2015**	**2014**	**Change**
	HK$'000	HK$'000	
Proprietary Products	418,789	386,258	+8.4%
Licensed-in Products	503,361	568,950	-11.5%
Total	922,150	955,208	-3.5%

Net profit attributable to the owners of the Company maintained a decent growth of 18.8% and reached HK$229,052,000 in 2015 as compared to HK$192,830,000 in 2014.

Gross Profit Margin

Gross profit margin for the financial year 2015 was 70.3% (2014: 70.2%), remained stable as compared with the corresponding period of last year.

Gain on deemed disposal of interest in an associate

Powder Pharmaceuticals Incorporated, an associated company of the Group, raised capital by placement of its new shares in June 2015 at a price higher than net asset value per share, and the Group received a gain on deemed disposal of interest in an associate of HK$31,825,000.

Fair value changes of derivative financial instruments

The positive impact on fair value changes of derivative financial instruments of HK$10,092,000 (2014: loss of HK$10,092,000) was derived from the write-back of the provision of the net depreciation of forward-looking rates for the Euros and relative to the fixed United States dollar conversion rate under the terms of certain short term derivative financial instruments recorded in the financial year 2014 upon the maturity of such contracts in the financial year 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

The selling and distribution expenses for the year ended 31 December 2015 significantly decreased by HK$52,737,000 as compared with the corresponding period of last year to HK$256,465,000, accounting for 27.8% of the Group's revenue, as compared with 32.4% for last year. The decrease in expenses was primarily attributable to the improved operation efficiency arising from the transformation of sales and marketing organisation of the Group during the year.

Administrative Expenses

The administrative expenses for the year ended 31 December 2015 increased by HK$12,965,000 as compared with the corresponding period of last year to HK$112,310,000. It accounted for 12.2% of the Group's revenue during the year under review, as compared with 10.4% for last year. The increase in expenses was mainly attributable to the expansion of the business of CVie Therapeutics Limited in Taiwan and expenses incurred for its restructuring.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2015 increased by HK$9,111,000 as compared with the corresponding period of last year to HK$47,075,000. It accounted for 5.1% of the Group's revenue during the year under review, as compared with 4.0% for last year. The increase in expenditure was attributable to the Group's continuous investment in new drug development activities for long-term sustainable growth.

Taxation

The income tax expense for the year ended 31 December 2015 slightly decreased by HK$430,000 as compared with the corresponding period of last year to HK$40,938,000. The Group's effective tax rate was approximately 16.1% during the year under review, improved by 2 percentage points as compared with 18.1% for last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group's principal sources of working capital in the current year mainly included cash flow from operating activities, bank borrowings, and the proceeds from the placing of new shares of the Company.

As at 31 December 2015, the Group's current ratio (current assets divided by current liabilities) was 2.98 (2014: 2.37). As at 31 December 2015, the Group had net cash position of HK$327,378,000 (2014: net cash of HK$340,643,000) which represented cash and bank balances of HK$278,244,000 (2014: HK$268,560,000), time deposits of HK$115,903,000 (2014: HK$124,352,000), and short term bank borrowings of HK$66,769,000 (2014: HK$52,269,000).

The calculation of Group's gearing ratio based on the net borrowings (after deducting cash and bank balances) to equity attributable to the shareholders of the Company was nil as at 31 December 2015 (2014: nil).

Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in the future.

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro, Japanese Yen, New Taiwan dollars and United States dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group will continue to monitor closely its foreign currency exposure and to consider hedging significant foreign currency exposure when necessary.

Charges on Group Assets

The Group's obligations under finance lease in the financial year 2015 were secured by the lessors' title to the motor vehicle with the carrying amount of HK$1,321,000 as at 31 December 2015. The Group had no obligations under finance lease as at 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

Details of the contingent liabilities of the Group as at 31 December 2015 are set out in note 46 to the consolidated financial statements.

Employee Information

As at 31 December 2015, the Group had 780 employees (2014: 718 employees) working in Hong Kong, Taiwan and mainland China.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme, retirement benefit scheme and medical insurance, employees share options may also award to employees according to the assessment of individual performance.

PROSPECTS

The more price-sensitive environment and arduous conditions for tender process for pharmaceuticals is expected to continue in 2016. However, the implementation of a slew of new regulations that favour innovation and ingenuity has ushered China's pharmaceutical industry into a new era in which the Group can accelerate its growth.

In February 2016, CFDA announced that it would speed up approvals of new drugs, and it would prioritise the approval of drugs with clear clinical value, including those that use advanced technology or innovative methods. CFDA has especially emphasise that priority will be granted to certain categories of drugs including those for children and the elderly, rare diseases, AIDS, malignant tumors and viral hepatitis. The Group's recent focuses on oncology, rare diseases and pediatric products fit perfectly to the direction of the CFDA. As a result, the visibility of the Group's pipeline will be enhanced significantly.

With expansion in manufacturing capability, investment in product development and partnership, enhancement in sales and marketing efficiency, strengthening in regulatory ability and improvement in balance sheet, the Group is well positioned to face the coming challenging year. The sales of six major products will be benefited from the transformation of its sales organisation and strategy. Remodulin, oral Carnitine and Gaslon N is expected to commence contribution to the revenue growth. Last, but not least, two new products are expected to be launched in 2016. Although it may not have an immediate boost on revenue growth, it will generate excitement in the market place that could be catalyst for sales growth of the existing products.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, aged 59

Ms. Lee Siu Fong joined the Group in April 1997 and has since been responsible for the Group's financial affairs. She is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. She is the sister of Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi.

Leelalertsuphakun Wanee

Managing Director, Chief Marketing & Sales Officer & member of remuneration committee, aged 62

Ms. Leelalertsuphakun Wanee joined the Group in April 1997. She was appointed the Chief Marketing & Sales Officer in September 2003 and has been responsible for the Group's sales and marketing activities since then. She is the sister of Ms. Lee Siu Fong and Dr. Li Xiaoyi.

Li Xiaoyi

Chief Executive Officer & Chief Technical Officer, aged 53, PhD

Dr. Li Xiaoyi holds a PhD of Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Warner-Lambert, a major pharmaceutical company. He is the founder of the Group and has been responsible for the daily operations and research and development of the Group since 1994. He is the brother of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

NON-EXECUTIVE DIRECTOR

Marco Maria Brughera, *aged 60, PhD*

Dr. Marco Maria Brughera joined the Group on 29 December 2014. He has more than 30 years of business and management experience within the pharmaceutical industry. He is currently the Global Head of the Sigma-Tau Rare Disease Business Unit, a position he has held since October 2012. He is also President of Sigma-Tau Pharmaceuticals Inc., President of Sigma-Tau Research Switzerland S.A. and Chief Executive Officer of Sigma-Tau Pharma Ltd. Before that, he has served as Global Head of Research and Development ("R&D") within Sigma-Tau. Previously he held leadership R&D positions with Farmitalia Carlo Erba S.p.A., Pharmacia Corporation, Pfizer, Inc. and Nerviano Medical Sciences S.r.1. both in Europe and the United States of America. From October 2013 he serves on the board of directors of Soligenix, Inc., a company listed on the United States OTC Markets. From December 2011 through January 2014, Dr. Brughera served on the board of directors of Gentium S.p.A., a then publicly traded biopharmaceutical company on the United States Nasdaq exchange. Dr. Brughera earned his degree in veterinary medicine from the University of Milan and is a European Registered Toxicologist.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Chairman of audit committee & member of remuneration committee, aged 53, PhD, MBA, BBA, CFA, MHKSI

Dr. Chan Yau Ching, Bob joined the independent Board on 14 January 2002. Dr. Chan has extensive experience in corporate development and financial management of high-growth companies. He had been a finance professor, researcher and consultant. He had also served directorship at various listed and privately held companies in Hong Kong and in the United States. Currently, he is the managing director of KBR Capital Limited, a company engaged in advising clients on management and investment activities in China and Hong Kong. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Lam Yat Cheong

Member of audit committee, aged 54, CPA (Practising), FCCA, BBA

Mr. Lam Yat Cheong joined the independent Board on 1 July 2004. Mr. Lam is a sole proprietor of an audit firm and has over 28 years of auditing and accounting experience. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also an independent non-executive director of Perfectech International Holdings Limited and Wuyi International Pharmaceutical Company Limited, both companies are listed on The Stock Exchange of Hong Kong Limited. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Tsim Wah Keung, Karl

Chairman of remuneration committee and member of audit committee, aged 57, PhD, MPhil, BSc

Dr. Tsim Wah Keung, Karl, joined the independent Board on 20 September 2004. He currently serves as Chair Professor of Life Science at the Hong Kong University of Science and Technology. He holds a Bachelor of Science degree and a Master degree in Biochemistry from the Chinese University of Hong Kong, and a Doctorate in Molecular Neurobiology from the University of Cambridge. He has published numerous articles in biological sciences and traditional Chinese medicines. He also serves in several local committees in advising the development of traditional Chinese medicine as health food products. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Chen Yueshen

Chief Operating Officer, aged 57

Mr. Chen Yueshen has been working for the Group for more than 18 years as the Director and Deputy General Manager of Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke"), a wholly-owned subsidiary of the Company. He is responsible for the daily operation of Zhaoke, including being responsible for the production and quality management of Zhaoke. He has extensive experience in quality management systems and GMP production. He has been appointed as Chief Operating Officer of the Group since 2012.

Jiao Zhongyu

Chief Officer of Enterprise Development Department of the Group, aged 46

Mr. Jiao Zhongyu is responsible for the government affair and legal affairs of the Group in the PRC. He was appointed as the legal adviser of PRC investment by the Group in 1999 in his capacity as a practising lawyer in PRC. He has been appointed as the director of Zhaoke since 2010 and has extensive experience in the government affair and legal affairs. In 2012, the Group established the Enterprise Development Department and he has been appointed as the Chief Officer thereof and responsible for the Group's strategic planning and development.

Chow Yiu Ming

Chief Financial Officer & Company Secretary, aged 42

Mr. Chow Yiu Ming holds a bachelor's degree of business administration from the University of Hong Kong, and he is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has more than 19 years of experience in finance and accounting. Prior to joining the Group in October 2014, he had held various senior positions with listed and private companies in Hong Kong.

Zhang Guohui

Director of Research and Development Centre of the Group, aged 42, MBA, BSc

Mr. Zhang Guohui has been working in Zhaoke for more than 18 years. He is responsible for the research and development of new drugs, production control and GMP management. He has extensive experience in the research and development and registration of new drugs and technology project management. The Research and Development Centre of the Group was established in 2012, and he has served as the director and is responsible for new drug pre-clinical studies and clinical research, the additional development of launched products, drug registration affairs, science and technology project reporting and monitoring work of adverse drug reactions.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Li Dingwen

Director of Human Resources in China, aged 56, MBA, MIA

Mr. Li Dingwen joined the Group in December 2012 and is responsible for the Group's human resources management in the PRC. He has extensive experience in the management of human resources and in the operational management of pharmaceutical companies. Prior to joining the Group, he had been responsible for human resource management and operational management in various sizeable PRC pharmaceutical companies for more than 33 years.

Victor Tsui

Chief Manufacturing Officer, Licensed Professional Engineer, aged 49, P.E. MSc

Mr. Victor Tsui graduated from The Hong Kong Polytechnics University and University of Wisconsin with a master degree in Engineering. Before joining the Group, he worked for various pharmaceuticals companies in the United States for over 23 years and was responsible for production management. He joined the Group in 2009 as Chief Operating Officer of Powder Pharmaceuticals Incorporated ("PPI", an associated company of the Group). He has been appointed as Chief Manufacturing Officer of the Group since 2012 to oversee the Group's manufacturing operations. He has also been appointed as director of PPI since 22 March 2013.

Lau Lit-Fui

General Manager of Shanghai branch of Zhaoke, aged 53, PhD

Dr. Lau Lit-Fui holds the PhD from the University of Connecticut Health Center. Before joining the Group, he served as the associate director for the American GlaxoSmithKline R&D China, and had been responsible for the research and development of new drugs for over 21 years. He has extensive experience in management of the research and development of new drugs. He joined the Group in 2012 as the General Manager of Shanghai branch of Zhaoke and is responsible for the business development of East China region. He also has been appointed as the senior director of Development of CVie Therapeutics Company Limited, a subsidiary of the Group, and is responsible for the management of the research and development of drugs.

Yang Zhongqiang

Director of the Quality Control Department, aged 41

Mr. Yang Zhongqiang holds a master's degree in Pharmaceutical Engineering of Shandong University and has a practicing pharmacist certification. He has been working for the Group for more than 18 years, and has been working in the Department of Research and Development of New Drugs and Quality Department of Zhaoke. He has extensive experience in the research and development of new drug, project management and quality management. He has been appointed as the quality authorised person of Zhaoke since 2012 to oversee the company's drug quality management and protection works.

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2015.

BUSINESS REVIEW AND PERFORMANCE

A review and outlook of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement and Management Discussion and Analysis respectively from pages 8 to 10 and pages 11 to 23 of this annual report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group is principally engaged in the development of, manufacturing of and sale and marketing of pharmaceutical products.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 48 to the consilidated financial statements.

ASSOCIATED COMPANIES

Particulars of the Group's principal associated companies are set out in note 20 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss on page 57.

The Board has resolved to recommend a final dividend for the year ended 31 December 2015 (the "Final Dividend") equivalent to HK$0.074 per share (2014: HK$0.066 per share) to the shareholders whose names appear on the register of members of the Company as at the close of business on 25 May 2016. Upon approval by shareholders, the final dividend will be paid on 16 June 2016.

Together with the interim dividend of HK$0.030 per share (2014: HK$0.027 per share) paid on 15 October 2015, total distribution of dividend by the Company for the year ended 31 December 2015 will be HK$0.104 per share (2014: HK$0.093 per share).

REPORT OF THE DIRECTORS

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the owners of the Company by reason of their holding of the Company's securities.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

SHARE OPTIONS

Details of movements in the share options of the Company and its subsidiaries during the year are set out in note 40 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

USE OF PROCEEDS FROM THE COMPANY'S ISSUE OF NEW SHARES

The net proceeds from the Company's issue of new shares in April 2015, after deduction of related issuance expenses, amounted to approximately HK$384 million, and were intended to be used for manufacturing facilities expansion, research and development and general working capital of the Group to improve the existing business of the Group and future investment purposes of the Group. Details of which were disclosed in the Company's announcements dated 14 April 2015 and 22 April 2015.

REPORT OF THE DIRECTORS

These proceeds were fully applied during the year ended 31 December 2015 in accordance with the proposed applications as follows:

- approximately 27% was used for the manufacturing facilities expansion purpose;
- approximately 34% was used for research and development purpose; and
- the remaining 39% was applied as additional working capital of the Group.

DONATIONS

During the year, the Group made charitable donations amounting to HK$2,148,000 (2014: HK$632,000).

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 61. Details of the movements in the reserves of the Company during the year are set out in note 49 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2015, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$851,454,000 (2014: HK$377,131,000). This includes the Company's share premium account in the amount of HK$717,925,000 (2014: HK$301,196,000) at 31 December 2015, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 17.28% in aggregate for the Group's total revenue for the year (2014: 22.89%).

Purchase from the Group's five largest suppliers accounted for approximately 86.25% in aggregate for the Group's total purchases for the year (2014: 85.52%). The largest supplier of the Group accounted for approximately 49.93% of the Group's total purchases (2014: 42.64%).

REPORT OF THE DIRECTORS

Apart from as disclosed under the paragraph headed "Connected Transactions and Continuing Connected Transactions" in this report, none of the Directors, their associates (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or any shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

DIRECTORS

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

Executive Directors

Lee Siu Fong, Chairman
Leelalertsuphakun Wanee, Managing Director
Li Xiaoyi, Chief Executive Officer

Non-executive Director

Marco Maria Brughera

Independent Non-executive Directors

Chan Yau Ching, Bob
Lam Yat Cheong
Tsim Wah Keung, Karl

In accordance with Article 112 of the Company's Articles of Association, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Mr. Lam Yat Cheong will retire at the forthcoming annual general meeting and, being eligible, have agreed to offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No Director has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Each of Ms. Lee Siu Fong ("Ms. Lee") and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun) has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing. On 1 January 2015, the monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$207,763 and HK$285,889, respectively.

REPORT OF THE DIRECTORS

Dr. Li Xiaoyi ("Dr. Li") has service contract with the Company since 1 September 2003 and after that the contract has been renewed. On 1 January 2015, the monthly salaries and allowance has been revised to HK$394,895. Both the Company and Dr. Li shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee and Ms. Leelalertsuphakun, and Dr. Li together, holding less than 30% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Ms. Lee, Ms. Leelalertsuphakun and Dr. Li are executive Directors. In accordance with supplementary agreement dated 1 January 2012 signed between the Company and each of the executive directors, employment terms of executive directors have been revised as follows:

1. Executive Directors are entitled to annual management bonus 1.5% to 3.5% (determined based on the growth in net profits of the Group) on the net profit of the Group for the preceding financial year. Such sum of the management bonus will be shared between all the executive Directors in such proportion with reference to their monthly salary in the final month of the complete financial year.

2. The annual salary increment shall be equal to official inflation rate if the growth in net profits of the Group is equal to or less than 15%, or should the growth exceed 15%, the sum of the official inflation rate and half of the positive difference between the growth in net profits and the 15% threshold.

3. Each of executive Directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Company for certain years.

Each of Mr. Lam Yat Cheong ("Mr. Lam") and Dr. Tsim Wah Keung, Karl ("Dr. Tsim") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive Director. Contract with Mr. Lam and Dr. Tsim has been renewed for three years from 1 July 2013 and 20 September 2013 respectively. Director's fees for both of Mr. Lam and Dr. Tsim are HK$96,000 per annum and bonus will not be paid.

Dr. Chan Yau Ching, Bob has a three-year service contract with the Company from 12 October 2007. The contract has been renewed for three years from 12 October 2013. Director's fee is HK$96,000 per annum and bonus will not be paid.

REPORT OF THE DIRECTORS

Dr. Marco Maria Brughera has a three-year service contract with the Company from 29 December 2014. Director's fee is HK$96,000 per annum and bonus will not be paid.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management are set out on pages 24 to 27.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has also purchased and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors.

KEY RISKS AND UNCERTAINTIES

The Board acknowledges its responsibility for the effectiveness of the internal control and risk management systems of the Group, which are designed to manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss.

Business Risk

The Group's business risks include rapid change in the general market conditions, downturn pressure on the overall economy of China and price competition from other market players. The Board is responsible for the overall management of the business and review of material business decisions involving material risks exposures from time to time.

Financial Risk

The Group adopts financial risk management policies to manage its currency risk, interest rate risk, credit risk, liquidity risk. The Board also reviews monthly management accounts, capital structure and key operating data of the Group.

Compliance Risk

The Board adopts procedures to ensure the Company is in compliance with the applicable laws, rules and regulations. The Company engages professional advisers and consultants to keep the Company abreast of the latest developments in the regulatory environment, including legal, financial, environmental and operational developments. The Company also adopts a strict policy in prohibiting any unauthorised use or dissemination of confidential or inside information.

REPORT OF THE DIRECTORS

Operational Risk

The Company adopts procedures to manage its operational risk such as inadequate management efficiency, inefficient raw material procurement and production facilities utilisation. The Board has reviewed the effectiveness of the Group's internal control and risk management systems covering business, financial, compliance and operational risks of the Group and is satisfied that such systems are effective and adequate.

SOCIAL RESPONSIBILITIES AND SERVICES AND ENVIRONMENTAL POLICY

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. The Group pursues this business approach by managing its business prudently and executing management decisions with due care and attention. Over the years, the Group has been fully committed to environmental protection. Periodic internal control meetings are held to review environmental issues in the production plants to update environmental laws and regulations and to make valuable suggestions and recommendations for improvement.

COMPLIANCE WITH REGULATIONS

The Group is not aware of any instances of material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Cap. 622), Listing Rules, and other applicable local laws and regulations in various jurisdictions during the year ended 31 December 2015 and up to the date of this annual report.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The sustainability of the Group's business relies on the growth of the Group's employees. Remuneration packages of the employees are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group.

Relationship is the fundamentals of business. The Group fully understand this principal and thus maintain good relationship with the customers to fulfil their immediate and long-term need.

The Group strives to maintain fair and co-operating relationship with the suppliers.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company adopted a share option scheme (the "2002 Share Option Scheme"). At the annual general meeting of the Company held on 10 May 2012, a new share option scheme of the Company (the "New Share Option Scheme") was adopted upon expiry of the 2002 Share Option Scheme.

The total number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on 10 May 2012, the date on which the New Share Option Scheme is conditionally adopted and approved by the Shareholders at the annual general meeting, which is 47,023,543 Shares. The total number of Shares available for issue under the Share Option Scheme as at 31 December 2015 was 32,780,543 Shares.

As at 31 December 2015, the number of Shares in respect of which options had been granted and remained outstanding under the 2002 Share Option Scheme and New Share Option Scheme was 14,712,000 (2014: 18,554,500) Shares, representing 2.5% (2014: 3.4%) of the Shares in issue at that date.

Details of the Company's share option schemes are set out in note 40 to the consolidated financial statements.

SHARE OPTION SCHEME OF A SUBSIDIARY

A share option scheme of a subsidiary of the Company, CVie Therapeutics Company Limited, was approved by the shareholders of the Company on 12 November 2012 ("CVie's Scheme"). Details of the CVie's Scheme are set out in note 40 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as the interests disclosed in the section headed "Directors' and Chief Executive's Interests in Securities" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2015, the Directors and the chief executives of the Company and their 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")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules:

(a) *Long position in Shares*

Name of Director	Nature of interest	Number of ordinary shares held	Total	Approximate percentage of shareholding (%)
Lee Siu Fong	Beneficial owner	224,875		
	Interest held jointly with Leelalertsuphakun Wanee	1,600,000		
	Interest of a controlled corporation *(Note 1)*	120,290,625	122,115,500	20.81%
Leelalertsuphakun Wanee	Beneficial *owner*	179,500		
	Interest held jointly with Lee Siu Fong	1,600,000		
	Interest of a controlled corporation *(Note 1)*	120,290,625	122,070,125	20.80%
Li Xiaoyi	Beneficial owner	38,282,001		
	Family interest *(Note 2)*	16,000,000	54,282,001	9.25%
Chan Yau Ching, Bob	Beneficial owner	1,040,000		0.18%
Lam Yat Cheong	Beneficial owner	300,000		0.05%
Tsim Wah Keung, Karl	Beneficial owner	300,000		0.05%

Notes:

(1) 120,290,625 Shares are held through Huby Technology Limited ("Huby Technology"). Huby Technology is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(2) These Shares are held by High Knowledge Investments Limited which is wholly owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li Xiaoyi.

REPORT OF THE DIRECTORS

(b) Long position in underlying shares – share options of the Company

Under the share option schemes of the Company, the following directors of the Company have personal interest in options to subscribe for the Shares. Details of the share options granted to them are as follows:

Name of Director	Date of grant	Exercisable period *(Note)*	Balance as at 1 January 2015	Granted during the year	Exercised during the year	Balance as at 31 December 2015	Exercise price per share HK$
Lee Siu Fong	20 December 2010	(1)	232,500	–	(232,500)	–	3.750
	20 December 2012	(2)	521,000	–	(521,000)	–	4.930
	30 December 2013	(3)	538,000	–	–	538,000	7.300
	31 March 2015	(4)	–	446,000	–	446,000	11.200
			1,291,500	446,000	(753,500)	984,000	
Leelalertsuphakun Wanee	30 December 2013	(3)	538,000	–	(200,000)	338,000	7.300
	31 March 2015	(4)	–	446,000	–	446,000	11.200
			538,000	446,000	(200,000)	784,000	
Li Xiaoyi	25 September 2009	(5)	448,000	–	(448,000)	–	1.076
	20 December 2010	(1)	465,000	–	(465,000)	–	3.750
	20 December 2011	(6)	469,000	–	(469,000)	–	2.666
	20 December 2012	(2)	521,000	–	(521,000)	–	4.930
	30 December 2013	(3)	538,000	–	(538,000)	–	7.300
	31 March 2015	(4)	–	446,000	–	446,000	11.200
			2,441,000	446,000	(2,441,000)	446,000	

REPORT OF THE DIRECTORS

Notes:

(1) Divided into 2 tranches exercisable from 20 June 2011 and 20 March 2012 respectively to 19 December 2020.

(2) Divided into 2 tranches exercisable from 20 June 2013 and 20 March 2014 respectively to 19 December 2022.

(3) Divided into 2 tranches exercisable from 30 June 2014 and 30 March 2015 respectively to 29 December 2023.

(4) Divided into 2 tranches exercisable from 30 September 2015 and 30 June 2016 respectively to 30 March 2025.

(5) Divided into 2 tranches exercisable from 25 March 2010 and 25 December 2010 respectively to 24 September 2019.

(6) Divided into 2 tranches exercisable from 20 June 2012 and 20 March 2013 respectively to 19 December 2021.

(c) As at 31 December 2015, Dr. Li Xiaoyi had beneficial interest in (a) 12,740 ordinary shares in Powder Pharmaceuticals Incorporated; and (b) 830 share options which can be converted into 830 ordinary shares of Powder Pharmaceuticals Incorporated when exercised.

(d) No interests and short positions were held or deemed to be taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares and the underlying shares of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2015, the following parties (other than a director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

(a) Long position in Shares

Name	Capacity	Number of ordinary shares held	Approximate percentage of shareholding (%)
Huby Technology Limited	Beneficial owner	120,290,625	20.50%
Sigma-Tau Finanziaria S.p.A.	Beneficial owner	142,053,333	24.21%
Cavazza Paolo	Interest of a controlled corporation	142,053,333	24.21%
Paponi Claudia	Family interest	142,053,333	24.21%
GL Trade Investment Limited	Beneficial owner	54,485,000	9.29%
Assicurazioni Generali S.p.A	Interest of a controlled corporation	54,485,000	9.29%
GL Capital Management GP L.P.	Interest of a controlled corporation	54,485,000	9.29%
GL Capital Management GP Limited	Interest of a controlled corporation	54,485,000	9.29%
GL China Opportunities Fund L.P.	Interest of a controlled corporation	54,485,000	9.29%
GL Partners Capital Management Limited	Interest of a controlled corporation	54,485,000	9.29%
Li Zhenfu	Interest of a controlled corporation	54,485,000	9.29%
Lion River I N.V.	Interest of a controlled corporation	54,485,000	9.29%
FMR LLC	Investment manager *(Note 1)*	36,102,500	6.15%
High Knowledge Investments Limited	Beneficial owner *(Note 2)*	16,000,000	2.73%
Lue Shuk Ping, Vicky	Interest of a controlled corporation *(Note 2)*	16,000,000	2.73%
	Family interest *(Note 3)*	38,282,001	6.52%

REPORT OF THE DIRECTORS

(b) Long position in underlying shares – share options of the Company

Name	Capacity	Number of underlying shares held	Approximate percentage of shareholding (%)
Lue Shuk Ping, Vicky	Family interest *(Note 3)*	446,000	0.08%

Notes:

(1) As at 31 December 2015, FMR LLC was deemed to be interested in 36,102,500 shares of the Company, of which 8,700,000 shares were held by Fidelity Management & Research (Hong Kong) Limited, 11,771,536 shares were held by FMR Co., Inc., 15,416,464 shares were held by FMR Investment Management (UK) Limited and 214,500 shares were held by Pyramis Global Advisors Trust Company.

(2) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky.

(3) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

(c) Short Position in Shares

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 31 December 2015, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2015, the Group conducted certain transactions with parties deemed as "related parties" under applicable accounting standard. The details of these transactions are set out in note 47 to the consolidated financial statements. Save for the transactions mentioned in the section headed "Connected Transactions and Continuing Connected Transactions" which are subject to announcement and disclosure requirements under Chapter 14A of the Listing Rules, certain transactions mentioned in note 47 to the consolidated financial statements also constituted connected transactions or continuing connecting transactions as defined in Chapter 14A of the Listing Rules but are exempt from the disclosure requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Connected Transactions

1. *Advance of shareholder loans to Powder Pharmaceuticals Incorporated ("PPI"), an associated company of the Group*

For the period from 1 January 2015 to 24 June 2015, the following shareholder loans were provided by the Group to PPI:

Advance Date	Term	Interest rate per annum	Loan amount Original currency	Loan amount *(HK$ equivalent)*
7 January 2015	1 year	4%	HK$8,000,000	HK$8,000,000
13 March 2015	1 year	4%	HK$2,000,000	HK$2,000,000

As at 24 June 2015, the outstanding shareholder loans in aggregate amounted to approximately HK$22,032,000.

REPORT OF THE DIRECTORS

Upon the completion of the issuance of series A preferred shares of PPI on 24 June 2015, the aggregate shareholding interest in PPI held by all connected persons of the Company under the Listing Rules at the issuer level, namely (a) Sigma-Tau Finanziaria S.p.A. which became a substantial shareholder of the Company from 19 February 2015 due to the restructuring of Sigma-Tau Group; (b) Dr. Li Xiaoyi, who is a director and a substantial shareholder of the Company; and (c) Swift Power Investments Limited which is a company wholly-owned by Dr. Li Xiaoyi, has been diluted to 9.05%. As a result, PPI is no longer a commonly held entity as defined in Rule 14A.27 of the Listing Rules, and therefore the financial assistances made by the Group to PPI were no longer constitute connected transactions pursuant to Rule 14A.26 of the Listing Rules.

As at 31 December 2015, the Group had interest in 33.92% of issued share capital of PPI.

2. *Establishment of an Investment Fund with Dr. Li Xiaoyi*

On 7 August 2015, Dr. Li Xiaoyi (the "Initial Limited Partner") and Lee's Healthcare Industry Investment Limited (the "General Partner") entered into the initial limited partnership agreement (the "Initial Limited Partnership Agreement") in relation to the establishment and management of the Lee's Healthcare Industry Fund L.P. ("Fund"). On 21 August 2015, the General Partner, the Initial Limited Partner, the Company and an individual investor who is an independent third party (the "Other Investor") entered into the limited partnership agreement (the "Limited Partnership Agreement"), which amended and restated the terms of the Initial Limited Partnership Agreement.

The maximum size of the Fund was US$20,200,000 (equivalent to approximately HK$157,560,000). Pursuant to the Limited Partnership Agreement, the General Partner has agreed to purchase a partnership interest in the Fund for the amount equal to 1% of the aggregate capital contributions made by all of the Limited Partners in the Fund during the term of the Fund.

On 21 August 2015, the Fund, the General Partner (signed on its own and on behalf of all existing Limited Partners) and the Company entered into the subscription agreement (the "Subscription Agreement"), pursuant to which the Company has agreed to invest with the capital commitment of US$8,500,000 (equivalent to approximately HK$66,300,000) in the Fund as a Limited Partner (the "Investment").

REPORT OF THE DIRECTORS

Pursuant to the Limited Partnership Agreement and another subscription agreement entered into between the Other Investor, the Fund and the General Partner (signed on its own and on behalf of all existing Limited Partners) on 21 August 2015, which is in form and substance substantially the same as the Subscription Agreement, the Other Investor (as the Limited Partner) also agrees to subscribe for and agrees to purchase a partnership interest in the Fund with the capital commitment of US$10,000,000 (equivalent to approximately HK$78,000,000).

As Dr. Li, being a connected person of the Company, holds 65% of the equity interest in the General Partner, the General Partner is an associate of Dr. Li under the Listing Rules and therefore is a connected person of the Company. As such, the Investment constitutes a connected transaction of the Company under Rule 14A.25 of the Listing Rules. As the applicable percentage ratios with respect to the Investment is less than 5%, by virtue of Rule 14A.76(2) of the Listing Rules, such transaction constitute de minimis connected transaction and is exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at 31 December 2015, the total capital commitment made by all of the existing General Partner and the Limited Partners is US$18,685,000 (equivalent to approximately HK$145,743,000).

Continuing Connected Transactions

1. *Purchase of Carnitene® and other pharmaceutical products from Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.*

Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. ("STIFR") was an associate (as defined in the Listing Rules) of a substantial shareholder of the Company, the supply of pharmaceutical products by STIFR to the Company constituted continuing connected transactions under the Listing Rules. The continuing connected transactions were approved by independent shareholders where annual cap of purchase of Carnitene® and other pharmaceutical products by the Company from STIFR for the year ended 31 December 2015 would not exceed HK$391,010,290.

For the period from 1 January 2015 to 31 May 2015, purchase of *Carnitene®* and other pharmaceutical products by the Company from STIFR amounted to HK$38,029,562.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, STIFR has ceased to be an associate of a substantial shareholder of the Company since 1 June 2015 and therefore STIFR is no longer a connected person of the Company and the transactions disclosed above no longer constituted continuing connected transactions for the Company.

REPORT OF THE DIRECTORS

2. *Acquisition of license for Gimatecan Products from STIFR*

On 23 November 2012, a licensing agreement with duration of three years was signed by Lee's Pharmaceutical (HK) Limited, a wholly-owned subsidiary of the Company, and STIFR for the acquisition of license for Gimatecan products.

For the period from 1 January 2015 to 31 May 2015, no transaction was made under this licensing agreement. The annual cap for the year ended 31 December 2015 under this licensing agreement was HK$4,900,000.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, STIFR has ceased to be an associate of a substantial shareholder of the Company since 1 June 2015 and therefore STIFR is no longer a connected person of the Company and the transactions disclosed above no longer constituted continuing connected transactions for the Company.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into

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

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

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the owners of the Company as a whole; and

(iv) have not exceeded the cap disclosed in previous announcements.

HLM CPA Limited, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. HLM CPA Limited has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

Save as disclosed above, there was no other transaction requiring disclosure of connected transactions in accordance with the requirements of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015 (2014: Nil).

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

STAFF RETIREMENT SCHEME

The Group companies operate in Hong Kong are required to participate in a defined contribution retirement scheme of the Group or the Company set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance (Cap. 485). Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,500 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,500 (the "Mandatory Contributions"), and are charged to the income statement as they become payable in accordance with the rules of the scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement at the age of 65 years old, death or total incapacity.

In addition, pursuant to the government regulations in the PRC and Taiwan, the employees of the Group companies operate in the PRC and Taiwan are members of a state-managed retirement benefit plan operated by the government of the PRC and Taiwan. Those Group companies are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement is to make the specified contributions.

Executive Directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if they have engaged in continuous service with the Company for certain years.

REPORT OF THE DIRECTORS

Particulars of the Scheme of the Group are set out in note 39 to the consolidated financial statements.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2015.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Special enquiries have been made by the Company to confirm that all Directors have been complied with the Model Code for the year ended 31 December 2015.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the corporate governance report on pages 48 to 54.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of references adopted in compliance with the Code set out in Appendix 14 of the Listing Rules. The members of the Audit Committee are the three independent non-executive Directors, and Dr. Chan Yau Ching, Bob, an independent non-executive Director, is the Chairman of the Audit Committee.

The Audit Committee is to serve as a focal point for communication between other Directors, the external auditors, the internal auditors (where an internal audit function exists) of the Company, and the management as regards their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time.

The Audit Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

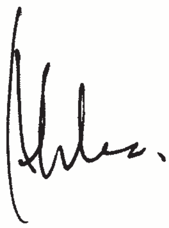
The Audit Committee has reviewed the Group's interim and annual consolidated financial statements for the year 2015, including the accounting principles and practices adopted by the Group.

REPORT OF THE DIRECTORS

AUDITOR

The consolidated financial statements of the Company have been audited by HLM CPA Limited who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board



Lee Siu Fong
Chairman

Hong Kong, 23 March 2016

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to uphold good corporate governance to safeguard the interests of our shareholders, investors, customers and staff.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2015, with deviations from provision A.5 of the Code.

Under provision A.5 of the Code, a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of directors. The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence, experience and diversity of perspectives that they can contribute to the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2015, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Main Board Listing Rules. The Company has made specific enquiries of all the Directors and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2015.

BOARD OF DIRECTORS

The non-executive Directors provide the Group with a wide range of expertise and knowledge in the pharmaceutical sector. The independent non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, financial and pharmaceutical field. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board.

CORPORATE GOVERNANCE REPORT

The list of Directors and their roles and functions is posted on the websites of the Company and the Stock Exchange.

The Chairman and Chief Executive Officer of the Company is Ms. Lee Siu Fong and Dr. Li Xiaoyi respectively. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures good corporate governance and compliance with legal and regulatory requirements. Responsibility in relation to daily operations and execution of the strategic business plans are delegated to each of the executive Directors and management.

During the year ended 31 December 2015, 15 board meetings and 1 Shareholders meeting were held and the attendance of individual Directors at these meetings is set out below:

Attendants	**Number of Board meetings attended/Total**	**Number of Shareholders meetings attended/Total**
Executive Directors		
Lee Siu Fong *(Chairman)*	15/15	1/1
Leelalertsuphakun Wanee *(Managing Director)*	14/15	1/1
Li Xiaoyi *(Chief Executive Officer)*	15/15	1/1
Non-executive Directors		
Marco Maria Brughera	9/15	0/1
Independent non-executive Directors		
Chan Yau Ching, Bob	9/15	0/1
Lam Yat Cheong	10/15	0/1
Tsim Wah Keung, Karl	12/15	0/1

The Company's auditor, HLM CPA Limited, also attended the Shareholders meeting.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

All non-executive Directors are appointed for a specific term, subject to retirement by rotation at least once every three years.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Group regularly updates Directors on the latest development regarding the Listing Rules and other applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties. In addition, the Company has been encouraging Directors to attend training courses or via online aids or reading relevant materials on the latest development of applicable laws, rules and regulations so that they can continuously update and further enhance their knowledge and skills.

Records of the Directors' training during 2015 are as follows:

Directors	**Type of continuous professional development training**
Executive Directors	
Lee Siu Fong *(Chairman)*	(i)&(ii)
Leelalertsuphakun Wanee *(Managing Director)*	(i)&(ii)
Li Xiaoyi *(Chief Executive Officer)*	(i)&(ii)
Non-executive Director	
Marco Maria Brughera	(i)&(ii)
Independent non-executive Directors	
Chan Yau Ching, Bob	(i)&(ii)
Lam Yat Cheong	(i)&(ii)
Tsim Wah Keung, Karl	(i)&(ii)

(i) Attending seminar(s) or training session(s)

(ii) Reading newspapers, journals and updates relating to the Company's business or Directors' duties and responsibilities, the latest development of the Listing Rules and other applicable regulatory requirements, etc.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis.

The Company set up an audit committee with written terms of reference in compliance with Rules 3.21 of the Main Board Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control and risks management system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (Chairman of the audit committee), Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive Directors of the Company. In the financial year ended 31 December 2015, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditors and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendants	**Number of audit committee meetings attended/Total**	**Attendance percentage**
Chan Yau Ching, Bob	4/4	100%
Lam Yat Cheong	4/4	100%
Tsim Wah Keung, Karl	4/4	100%

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

A remuneration committee has been established in February 2012 in accordance with the requirement of Appendix 14 of the Listing Rules. The Remuneration Committee of the Company comprises two independent non-executive Directors and one executive Director.

Dr. Tsim Wah Keung, Karl is the Chairman of the Remuneration Committee and Leelalertsuphakun Wanee and Dr. Chan Yau Ching, Bob are members of the Remuneration Committee. The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of individual executive Directors and senior management. The major roles and functions of the Company's Remuneration Committee are as follows:

a. Establish and apply a formal and transparent procedure for setting policy on remuneration for executive directors and senior management, and for fixing the remuneration packages for all directors and senior management; and

b. Ensure that procedures and principles for fixing packages of all directors and senior management are proper so that the levels of remuneration of directors commensurate with their qualifications and competencies, and that such remuneration is sufficient to attract and retain the directors and senior management but not excessive.

The terms of reference of the Remuneration Committee are posted on the websites of the Company and the Stock Exchange. The Remuneration Committee meets at least once a year. During the year ended 31 December 2015, 1 meeting is held by the remuneration committee and all the committee member attended the meeting to approve the annual bonus payable to executive directors for the financial year 2014 and the monthly salary of executive directors with effect from 1 January 2015.

The Board has resolved that the senior management of the Company comprises only the directors of the Company. Please refer to note 11 in the Notes to Consolidated Financial Statements for details of the remuneration payable to the Directors.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company Secretary's biography is set out in the section under "Directors and Senior Management Profiles" of this annual report. During the year ended 31 December 2015, the Company Secretary has taken no less than 15 hours of professional training to update his skills and knowledge.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control and risk management systems for the Group's asset and shareholders' interests, as well as for reviewing such systems' effectiveness. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems. The systems include a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts, ensure compliance with regulations and regulates the handling and dissemination of inside information of the Group.

For the year ended 31 December 2015, the Board has, through the Audit Committee with the Group's internal audit team and the assistance of the management, conducted a review of the Group's internal control and risk management system, including without limitation to financial control, operational control, compliance control. The Board assesses the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and auditors.

The Board is of the view that the internal control and risk management systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITOR'S REMUNERATION

For the year ended 31 December 2015, audit service fee of HK$828,000 was paid to the Company's auditor HLM CPA Limited.

CORPORATE GOVERNANCE REPORT

CONVENING OF EXTRAORDINARY GENERAL MEETINGS ON REQUISITION BY SHAREHOLDERS

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("EGM") of the Company. Two or more Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for an EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

Shareholders who wish to move a resolution at general meetings may follow the procedures set out in the preceding paragraph.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

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

Lee's Pharmaceutical Holdings Limited
Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, Hong Kong
Telephone: (852) 2314 1282
Fax: (852) 2314 1708
Email: investor@leespharm.com

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2015, there was no significant change in the Company's constitutional documents, and these documents are published on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 172, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM CPA Limited
Certified Public Accountants

Chan Lap Chi
Practising Certificate number: P04084

Hong Kong, 23 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	5	922,150	955,208
Cost of sales		(273,986)	(284,685)
Gross profit		648,164	670,523
Other revenue	8	12,194	17,572
Gain on deemed disposal of interest in an associate	20B	31,825	–
Fair value changes of derivative financial instruments		10,092	(10,092)
Selling and distribution expenses		(256,465)	(309,202)
Administrative expenses		(112,310)	(99,345)
Research and development expenses		(47,075)	(37,964)
Profit from operations	9	286,425	231,492
Finance costs	10	(3,040)	(2,671)
Share of results of associates	20	(29,450)	(668)
Profit before taxation		253,935	228,153
Taxation	13	(40,938)	(41,368)
Profit for the year		212,997	186,785
Attributable to:			
Owners of the Company		229,052	192,830
Non-controlling interests		(16,055)	(6,045)
		212,997	186,785
		HK cents	HK cents
Earnings per share			
Basic	15	39.77	35.52
Diluted	15	39.29	34.47

The notes on pages 57 to 172 form part of these consolidated financial statements. Details of dividends payable to owners of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 HK$'000	2014 HK$'000
Profit for the year	212,997	186,785
Other comprehensive (expense) income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes of available-for-sale financial assets	(4,218)	3,319
Exchange differences on translation of financial statements of overseas subsidiaries	(56,386)	(15,479)
Other comprehensive expense for the year, net of tax	(60,604)	(12,160)
Total comprehensive income for the year	152,393	174,625
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	169,501	180,658
Non-controlling interests	(17,108)	(6,033)
	152,393	174,625

The notes on pages 57 to 172 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current Assets			
Property, plant and equipment	16	355,940	302,835
Intangible assets	17	337,825	236,218
Lease premium for land	18	13,401	14,486
Goodwill	19	3,900	3,900
Interests in associates	20	58,671	33,863
Held-to-maturity financial assets	21	5,491	5,323
Available-for-sale financial assets	22	99,029	42,767
Prepayment for acquisition of a leasehold land	23	135,402	–
		1,009,659	639,392
Current Assets			
Lease premium for land	18	306	324
Inventories	24	169,878	138,889
Trade receivables	25	107,780	99,782
Other receivables, deposits and prepayments	26	108,821	77,735
Amount due from a related party	27	37,275	–
Advance to an associate	28	22,588	20,069
Tax recoverable		674	277
Time deposits	29	115,903	124,352
Cash and bank balances	29	278,244	268,560
		841,469	729,988
Current Liabilities			
Trade payables	30	37,621	42,249
Other payables	31	172,619	182,865
Obligations under license contract	32	505	3,371
Derivative financial instruments	33	–	10,092
Bank borrowings	34	66,769	52,269
Obligations under finance lease	35	303	–
Tax payables		4,139	17,333
		281,956	308,179

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

	Notes	2015 HK$'000	2014 HK$'000
Net Current Assets		559,513	421,809
Total Assets less Current Liabilities		1,569,172	1,061,201
Capital and Reserves			
Share capital	37	29,340	27,236
Reserves		1,438,098	907,105
Equity Attributable to the Owners of the Company		1,467,438	934,341
Non-controlling interests	38	49,390	64,526
Total Equity		1,516,828	998,867
Non-current Liabilities			
Deferred tax liabilities	36	18,281	15,522
Retirement benefit	39	33,195	46,812
Obligations under finance lease	35	868	–
		52,344	62,334
		1,569,172	1,061,201

The notes on pages 57 to 172 form part of these consolidated financial statements.

The consolidated financial statements on pages 59 to 60 were approved and authorised for issue by the Board of Directors on 23 March 2016 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to the Owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Investments revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	27,236	301,196	9,200	7,782	59,344	3,319	7,793	518,471	934,341	64,526	998,867
Employee share option benefits	–	–	–	3,770	–	–	–	–	3,770	–	3,770
Exercise of share options	259	22,547	–	(2,857)	–	–	–	–	19,949	–	19,949
Share of share-based compensation reserve of a subsidiary	–	–	–	23	–	–	–	–	23	18	41
Issue of shares pursuant to Placing Agreement	1,500	382,147	–	–	–	–	–	–	383,647	–	383,647
Issue of shares pursuant to Shareholders' Agreement *(Note 20A)*	345	12,035	–	–	–	–	–	–	12,380	–	12,380
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	1,954	1,954
Profit (loss) for the year	–	–	–	–	–	–	–	229,052	229,052	(16,055)	212,997
Other comprehensive expense for the year	–	–	–	–	–	(4,218)	(55,333)	–	(59,551)	(1,053)	(60,604)
Total comprehensive income (expense) for the year	–	–	–	–	–	(4,218)	(55,333)	229,052	169,501	(17,108)	152,393
2014 final dividend paid	–	–	–	–	–	–	–	(38,577)	(38,577)	–	(38,577)
2015 interim dividend paid	–	–	–	–	–	–	–	(17,596)	(17,596)	–	(17,596)
At 31 December 2015	29,340	717,925	9,200	8,718	59,344	(899)	(47,540)	691,350	1,467,438	49,390	1,516,828

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to the Owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Investments revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2014	26,912	292,326	9,200	5,392	60,312	–	23,284	368,579	786,005	66,053	852,058
Employee share option benefits	–	–	–	3,839	–	–	–	–	3,839	–	3,839
Exercise of share options	324	8,870	–	(1,472)	–	–	–	–	7,722	–	7,722
Share of share-based compensation reserve of a subsidiary	–	–	–	23	–	–	–	–	23	18	41
Acquisition of additional interests in a subsidiary	–	–	–	–	(996)	–	–	–	(996)	966	(30)
Deemed partial disposal of interests in a subsidiary	–	–	–	–	28	–	–	–	28	4	32
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	3,518	3,518
Profit (loss) for the year	–	–	–	–	–	–	–	192,830	192,830	(6,045)	186,785
Other comprehensive income (expense) for the year	–	–	–	–	–	3,319	(15,491)	–	(12,172)	12	(12,160)
Total comprehensive income (expense) for the year	–	–	–	–	–	3,319	(15,491)	192,830	180,658	(6,033)	174,625
2013 final dividend paid	–	–	–	–	–	–	–	(28,251)	(28,251)	–	(28,251)
2014 interim dividend paid	–	–	–	–	–	–	–	(14,687)	(14,687)	–	(14,687)
At 31 December 2014	27,236	301,196	9,200	7,782	59,344	3,319	7,793	518,471	934,341	64,526	998,867

The notes on pages 57 to 172 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 HK$'000	2014 HK$'000
Operating activities			
Profit before taxation		253,935	228,153
Adjustments for:			
Share of results of associates		29,450	668
Fair value changes of derivative financial instruments		(10,092)	10,092
Gain on deemed disposal of interests in an associate		(31,825)	–
Gain on disposal of available-for-sale financial assets		–	(1,774)
Retirement benefit		(13,617)	23,243
Depreciation of property, plant and equipment	16	33,369	19,370
Interest expenses	10	2,609	2,452
Interest income		(3,832)	(2,851)
Interest from advance to an associate	8	(865)	(484)
Interest from held-to-maturity financial assets		(168)	(167)
Amortisation of intangible assets	17	10,814	9,191
Amortisation of lease premium for land	18	319	326
Intangible assets write-off	17	8,192	5,649
Exchange difference	9	23,726	451
Share-based payments	9	3,811	3,880
Bad debt write-off		–	293
Write-off of other receivables		1,244	–
Write-back on allowance for bad and doubtful debts	9	(285)	(3,296)
Loss on disposal of property, plant & equipment		–	1,436
Provision for (written back on) slow moving stock		614	(879)
Write-off of expired stock		2,775	76
Operating cash flows before movements in working capital		310,174	295,829
Increase in inventories		(38,697)	(21,571)
Increase in trade receivables		(11,310)	(19,385)
Increase in other receivables, deposits and prepayments		(35,285)	(34,473)
(Decrease) increase in trade payables		(4,594)	5,767
(Decrease) increase in other payables		(6,568)	32,383
Cash from operations		213,720	258,550
Interest paid		(2,609)	(2,452)
Income tax refund		–	175
Income tax paid		(50,877)	(35,962)
Net cash generated from operating activities		160,234	220,311

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 HK$'000	2014 HK$'000
Investing activities		
Interest received	3,832	2,851
Purchase of plant and equipment	(17,245)	(14,172)
Payment for construction in progress	(88,155)	(53,707)
Investment in an associate	(10,000)	–
Proceed from disposal of property, plant and equipment	–	40
Increase in amount due from a related party	(37,275)	–
Additions of development cost and license fee	(129,030)	(58,923)
Prepayment for acquisition of a leasehold land	(135,402)	–
Advance to an associate	(2,000)	–
Repayment from an associate	801	802
Decrease in pledged bank deposit	–	2,000
Increase in time deposits with initial terms of over three months	(57,018)	–
Proceed from disposal of available-for-sale financial assets	–	9,656
Additions of available-for-sale financial assets	(60,480)	(39,448)
Acquisition of additional interests in a subsidiary	–	(30)
Capital contribution from non-controlling interests	1,954	3,550
Net cash used in investing activities	(530,018)	(147,381)
Financing activities		
New loans raised	33,980	–
Repayment of loans	(19,572)	(17,199)
Proceed from obligations under finance lease	1,556	–
Repayment of obligations under finance lease	(385)	(150)
Cost of issuing shares under the Shareholders' Agreement	(30)	–
Net proceeds from issue of ordinary shares upon placing	383,647	–
Net proceeds from issue of ordinary shares upon exercise of share options	19,949	7,722
Dividend paid	(56,173)	(42,938)
Net cash generated from (used in) financing activities	362,972	(52,565)
Net (decrease) increase in cash and cash equivalents	(6,812)	20,365
Cash and cash equivalents at 1 January	392,912	379,062
Effect of foreign exchange rate changes	(48,971)	(6,515)
Cash and cash equivalents at 31 December	337,129	392,912
Analysis of cash and cash equivalents		
Cash and bank balances	278,244	268,560
Time deposits	115,903	124,352
	394,147	392,912
Less: Time deposits with maturity over three months	(57,018)	–
	337,129	392,912

The notes on pages 57 to 172 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL INFORMATION

Lee's Pharmaceutical Holdings Company (the "Company") is a limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the development of, manufacturing of and sales and marketing of pharmaceutical products.

The consolidated financial statements are presented in Hong Kong dollars (HK$), which is also the functional currency of the Company.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time.

Amendments to HKAS 19 (2011) Defined Benefit Plans: Employee Contributions

The Group has applied the amendments for the first time in the current year. The amendments require the Group to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.

- Employee contributions specified in the defined benefits plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Group recognises the reduction in the service cost in the period in which the related services are rendered.

These amendments have been applied retrospectively. The application of these amendments has had no material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

Annual Improvements to HKFRSs 2010 – 2012 Cycle and 2011 – 2013 Cycle

The Group has applied the amendments to HKFRSs included in the *Annual Improvements to HKFRSs 2010 – 2012 Cycle* and *2011 – 2013 Cycle* for the first time in the current year. One of the annual improvements requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of HKFRS 8 *Operating Segments*. The application of these amendments has had no impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendment to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exemption[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted

2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

3 Effective for annual periods beginning on or after a date to be determined

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required 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 accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are generally measured at their fair value 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.

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

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 9 Financial Instruments (continued)

- 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 attributable to a financial liability's 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.

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on 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.

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

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

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

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

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

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

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Amendments to HKAS 1 Disclosure Initiative

The amendments to HKAS 1 *Presentation of Financial Statements* give some guidance on how to apply the concept of materiality in practice.

The amendments to HKAS 1 are effective for annual periods on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKAS 1 will have a material impact on the amounts recognised in the Group's consolidated financial statements.

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

The amendments to HKAS 16 *Property, Plant and Equipment* prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 *Intangible Assets* introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 41 *Agriculture* define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

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

The amendments to HKFRS 10 *Consolidated Financial Statements* and HKAS 28 *Investments in Associates and Joint Ventures* deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of 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, 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 of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value 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 anticipate that the application of these amendments to HKFRS 10 and HKAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transaction arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) Investment Entities: Consolidation Exemption

The amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 28 *Investments in Associates and Joint Ventures* clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKAS 28 will have a material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 12 *Income Taxes* regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

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

New and revised HKFRSs in issue but not yet effective *(continued)*

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations (continued)

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute business as defined in HKFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to HKFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Annual Improvements to HKFRSs 2012 – 2014 Cycle

The Annual Improvements to HKFRSs 2012 – 2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendment clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefits obligations should be determined by reference to market yield at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the amounts recognised in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In additions, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provision of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, 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 goods and services.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss 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 item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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.

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, 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 were disposed of.

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), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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 when 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is 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 associate. When the Group's share of losses of an associate exceeds the Group's 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 the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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 immediately in profit or loss in the period in which the investment is acquired.

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 associates. 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 of disposal) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate 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 at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate 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.

When the Group reduces its ownership interest in an associate 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 that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 lessee

Assets held under finance leases are 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 obligations under finance lease.

Lease payments are apportioned between finance expenses and reduction of the obligations under finance lease 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 lease, such incentives are recognised as a liability. The aggregate benefits 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)*

Leasing *(continued)*

Leasehold land for own use

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "Lease premium for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the function currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither 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 period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through 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 other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowings 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 to 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.

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 grant will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes 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.

Retirement benefit

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary with maximum amount of HK$1,500 per month for each employee.

The pension schemes covering all the Group's employees in the People's Republic of China (the "PRC") and Taiwan are defined contribution schemes at various funding rates, and are in accordance with the local practices and regulations.

Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme) are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit *(continued)*

For defined retirement benefit plan, the cost of providing benefits is determined by the valuation conducted by independent valuer at the end of the reporting period, amoritsed over the expected average remaining working lives of the participating employees.

The retirement benefit recognised in the consolidated statement of financial position represents the cost of providing benefits, based on the valuation.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered.

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.

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 40 to the consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and 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 bases 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of 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 reserve in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (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.

Current and deferred tax for the year

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

Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method, at the following rates per annum:

Buildings	5% – 20%
Leasehold improvement	20% – 33%
Plant and machinery	20% – 33%
Office and laboratory equipment and electronic equipment	20% – 50%
Motor vehicles	10% – 100%

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

License fee (intangible assets acquired separately)

License fee are consideration paid for the license contracts and are carried at cost less accumulated amortisation and impairment losses. License fee with finite useful lives are amortised from the date they are available for use over the remaining license period. The license period ranges from 3 to 10 years, with certain licenses contain renewal clause.

License fee with indefinite useful lives are carried at cost less accumulated impairment losses, if any.

Both the period and method of amortisation are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Development cost (internally-generated intangible assets – research and development expenditure)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Development cost (internally-generated intangible assets – research and development expenditure) (continued)

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 the 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. Amortisation commences when the development of products completes. Amortisation of development cost of internal projects is over the estimated useful life of 5 years, while amortisation of development cost of licensed-in products is on the same basis as license fee.

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 acquired in a business combination

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

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

Derecognition of intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are 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.

Provisions

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 that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle 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.

Financial instruments

Financial assets and financial liabilities are recognised 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 and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

Financial assets classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity financial assets, available-for-sale ("AFS") 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 costs of a debt instrument 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 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Financial assets at FVTPL *(continued)*

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, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated 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. Fair value is determined in the manner described in note 42.

Held-to-maturity financial assets

Held-to-maturity financial assets 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.

Subsequent to initial recognition, held-to-maturity financial assets 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). Gain or losses are recognised in profit or loss when the held-to-maturity financial assets are derecognised, impaired, or amortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

AFS financial assets

AFS financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair 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 or 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).

Dividend on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of 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. Subsequent to initial recognition, loans and receivables (including trade receivables, amount due from a related party, advance to an associate, other receivables, deposits and prepayment, time deposits, and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 the security below its cost is considered to be objective evidence of impairment.

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

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 of 30 to 120 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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 (see the accounting policy below).

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

When an AFS financial asset is considered to be impaired, cumulative gain or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Equity instruments *(continued)*

A financial liability other than a financial liability 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 liability 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, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 42.

Other financial liabilities

Other financial liabilities (including trade payables, other payables, obligations under license contracts, retirement benefit, bank borrowings and obligations under finance lease) are subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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 expenses is recognised on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently measured 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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract issued by the Group is initially measured at their fair values and, if not designated as at FVTPL, is subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

The Groups 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 recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risk and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirely, 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 entirely, 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 have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit of loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and time deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and the Group's parent.

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

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

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

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and 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. If the Group is itself such a plan, the sponsoring employers are also 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 members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

4. CRITICAL ACCOUNTING JUDGEMENTS 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 judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the 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 the directors have 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 statements.

Held-to-maturity investments

The directors of the Company have reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. The aggregate carrying amount of the held-to-maturity financial assets was HK$5,491,000 (31 December 2014: HK$ 5,323,000). Details of these assets are set out in note 21.

Key sources 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 may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of goodwill is HK$3,900,000 (net of impairment loss of nil). Details of the recoverable amount calculation are disclosed in note 19.

Estimated Impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of trade receivables is HK$107,780,000 (net of allowance for doubtful debts of HK$262,000) (31 December 2014: carrying amount of HK$99,782,000, net of allowance for doubtful debts of HK$564,000).

Fair value measurements and valuation process

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Certain of the fair values are determined by independent professional valuers. Such valuation was based on certain assumptions subject to uncertainty and might materially differ from the actual results.

In making the estimation, consideration has been given to assumptions that are mainly based on market condition existing at the end of the reporting period and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated impairment of intangible assets

Being part of the principal activities, the Group acquired certain license fees and capitalised development cost relating to the development of pharmaceutical products, since these costs meet the recognition criteria of HKAS 38. The Group reviews the carrying amount of all intangible assets held at the end of the reporting period and HK$8,278,000 impairment was considered necessary for these assets.

Depreciation

The Group's net carrying amount of property, plant and equipment as at 31 December 2015 was approximately HK$355,940,000 (31 December 2014: approximately HK$302,835,000). The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 100% per annum, commencing from the date the assets is placed into productive use. The estimated useful lives and dates that the Group places the assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

5. REVENUE

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

6. SEGMENT INFORMATION

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on the types of good delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

6. SEGMENT INFORMATION *(continued)*

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Proprietary products – Manufacturing and sales of self-developed pharmaceutical products

Licensed-in products – Trading of licensed-in pharmaceutical products

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Proprietary products		Licensed-in products		Consolidated	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Segment revenue	418,789	386,258	503,361	568,950	922,150	955,208
Segment results	185,379	168,785	70,316	110,057	255,695	278,842
Interest income					3,832	2,851
Gain on deemed disposal of interest in an associate					31,825	–
Unallocated expenses					(4,927)	(50,201)
Profit from operations					286,425	231,492
Finance costs					(3,040)	(2,671)
Profit before share of results of associates					283,385	228,821
Share of results of associates					(29,450)	(668)
Profit before taxation					253,935	228,153
Taxation					(40,938)	(41,368)
Profit for the year					212,997	186,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

6. SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2014: nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' emoluments, gain on deemed disposal of interest in an associate, interest income, finance costs, share of results of associates, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	Proprietary products		Licensed-in products		Consolidated	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Segment assets	260,304	236,748	942,067	685,511	1,202,371	922,259
Unallocated assets					648,757	447,121
Total assets					1,851,128	1,369,380
Segment liabilities	87,839	118,746	190,846	172,100	278,685	290,846
Unallocated liabilities					55,615	79,667
Total liabilities					334,300	370,513

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates, prepayment for acquisition of a leasehold land, advance to an associate, amount due from a related party, tax recoverable, time deposits and cash and bank balances. Goodwill is allocated to segment of proprietary products. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segment; and

- all liabilities are allocated to operating segments other than tax payables, deferred tax liabilities, and retirement benefit. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information (included in the measure of segment profit or loss or regularly provided to the chief operating decision maker)

	Proprietary products		Licensed-in products		Consolidated	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Depreciation of property, plant and equipment	30,205	17,845	3,164	1,525	33,369	19,370
Amortisation of intangible assets	–	–	10,814	9,191	10,814	9,191
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	81,480	35,918	152,950	90,884	234,430	126,802
Impairment of intangible assets	351	–	7,841	5,649	8,192	5,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

6. SEGMENT INFORMATION *(continued)*

Geographical information

During the years ended 31 December 2015 and 2014, more than 90% of the Group's revenue was derived from activities conducted in the PRC, no geographical segmental information on revenue is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong and others		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Segment assets	1,085,401	793,265	765,727	576,115	1,851,128	1,369,380
Segment liabilities	118,241	198,933	216,059	171,580	334,300	370,513

7. INFORMATION ABOUT MAJOR CUSTOMERS

Included in revenue arising from sales of licensed-in products of HK\$503.4 million (2014: HK\$569.0 million) are revenue of approximately HK\$61.5 million (2014: HK\$95.9 million) which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2015 and 2014.

8. OTHER REVENUE

	2015 HK\$'000	2014 HK\$'000
Interest income on:		
Bank deposits	3,832	2,851
Held-to-maturity financial assets	168	167
Advance to an associate	865	484
Total interest income	4,865	3,502
Development grants	6,616	8,714
Gain on disposal of available-for-sale financial assets	–	1,774
Other income	713	3,582
	12,194	17,572

The Group received the development grants from the local government in the PRC as recognition of the Group's performance and development of high-technology pharmaceutical products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

9. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	2015 HK$'000	2014 HK$'000
Depreciation of property, plant and equipment	33,369	19,370
Amortisation of intangible assets (included in Cost of sales)	10,814	9,191
Total depreciation and amortisation	44,183	28,561
Auditors' remuneration	1,353	879
Net foreign exchange losses (gains)	23,726	(451)
Listing costs	630	745
Staff costs	130,659	149,087
Share-based payments	3,811	3,880
Research and development costs	47,075	37,964
Operating lease payments in respect of rented premises	7,885	6,526
Write-back of allowance for bad and doubtful debts	(285)	(3,296)
Loss on disposal of property, plant and equipment	–	1,436
Cost of inventory charged to profit or loss	244,184	264,967
Fair value changes of derivative financial instruments	(10,092)	10,092

10. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank loans and other borrowings	2,538	2,448
Finance lease	71	4
Total interest expenses for financial liabilities not classified as FVTPL	2,609	2,452
Bank charges	431	219
	3,040	2,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance is as follows:

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Discretionary bonus HK$'000	Employer's contributions to pension schemes HK$'000	Sub-total HK$'000	Retirement benefit HK$'000	Equity-settled share option expense HK$'000	2015 Total emoluments HK$'000
Executive Directors								
Lee Siu Fong*	–	2,493	810	18	3,321	(4,322)	382	(619)
Leelalertsuphakun Wanee*	–	3,431	1,115	18	4,564	(9,845)	267	(5,014)
Li Xiaoyi (CEO)*	–	4,739	1,540	18	6,297	550	205	7,052
Non-executive Director								
Marco Maria Brughera	96	–	–	–	96	–	–	96
Independent Non-executive Directors								
Chan Yau Ching, Bob	96	–	–	–	96	–	–	96
Lam Yat Cheong	96	–	–	–	96	–	–	96
Tsim Wah Keung, Karl	96	–	–	–	96	–	–	96
Total	384	10,663	3,465	54	14,566	(13,617)	854	1,803

* The terms of retirement benefit were revised in 2015 and led to a reversal of provision in prior years and a relatively small amount of provision in current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Discretionary bonus HK$'000	Employer's contributions to pension schemes HK$'000	Sub-total HK$'000	Retirement benefits HK$'000	Equity-settled share option expense HK$'000	2014 Total emoluments HK$'000
Executive Directors								
Lee Siu Fong	–	2,285	942	17	3,244	6,832	362	10,438
Leelalertsuphakun Wanee	–	3,144	1,296	17	4,457	12,961	213	17,631
Li Xiaoyi (CEO)	–	4,343	1,790	17	6,150	3,450	490	10,090
Non-executive Directors								
Mauro Bove	34	–	–	–	34	–	139	173
Marco Maria Brughera	–	–	–	–	–	–	–	–
Independent Non-executive Directors								
Chan Yau Ching, Bob	96	–	–	–	96	–	–	96
Lam Yat Cheong	96	–	–	–	96	–	–	96
Tsim Wah Keung, Karl	94	–	–	–	94	–	–	94
Total	320	9,772	4,028	51	14,171	23,243	1,204	38,618

The directors' and chief executive's emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (31 December 2014: one of the directors waived emoluments HK$66,000).

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share options scheme are set out in note 40 to the Group's consolidated financial statements.

Transaction, arrangements or contracts in which directors of the Company have material interests

No transactions, arrangements and contracts of significance to which the Company or its subsidiaries as a party and in which a director of the Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2014: nil).

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

Loans, quasi-loans and other dealings in favour of directors

No loans, quasi-loans and other dealings in favour of directors of the Company or body corporate controlled by such directors, or entities connected with such directors, subsisted at the end of the year or at any time during the year (2014: nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2014: three directors), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining two (2014: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 HK$'000	2014 HK$'000
Salaries and other benefits	5,679	2,752
Contributions to retirement benefit schemes	36	17
Equity-settled share option expense	333	–
	6,048	2,769

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands:

	2015 Number of employees	2014 Number of employees
HK$1,000,001 to HK$2,000,000	1	2
HK$4,000,001 to HK$5,000,000	1	–
	2	2

During the year, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

13. TAXATION

	2015 HK$'000	2014 HK$'000
Current tax		
Hong Kong Profits Tax	25,300	25,875
PRC Enterprise Income Tax	12,161	13,153
Underprovision in prior year	142	1,233
	37,603	40,261
Deferred tax		
Origination and reversal of temporary differences	3,335	1,107
	40,938	41,368

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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 rates of the PRC subsidiaries range from 15% to 25% (2014: 15% to 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

13. TAXATION *(continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2015 HK$'000	2014 HK$'000
Profit before taxation	253,935	228,153
Notional tax at the rates applicable to results in regions concern	37,235	32,495
Tax effect of share of results of associates	4,859	110
Tax effect of expenses not deductible for tax purpose	9,653	6,554
Tax effect of income not taxable for tax purpose	(20,793)	(3,460)
Underprovision in prior year	142	1,233
Tax effect on temporary differences not recognised	(2,187)	(7,218)
Tax effect of tax losses not recognised	17,085	14,681
Tax effect of PRC preferential tax allowance	(5,559)	(3,146)
Tax at other jurisdictions	503	119
Tax charge for the year	40,938	41,368

At 31 December 2015, the Group has estimated unused tax losses of approximately HK$89 million (2014: HK$64 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profits streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

14. DIVIDENDS

	2015 HK$'000	2014 HK$'000
Interim dividend paid – HK$0.030 (2014: HK$0.027) per share	17,596	14,687
Final dividend proposed – HK$0.074 (2014: HK$0.066) per share	43,423	35,952
	61,019	50,639

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2015 of HK7.4 cents per share (2014: HK6.6 cents per share in respect of the year ended 31 December 2014) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting, and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2015.

15. EARNINGS PER SHARE

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

	2015 HK$'000	2014 HK$'000
Earnings:		
Net profit attributable to owners of the Company for the purpose of basic earnings per share	229,052	192,830
Effect of dilutive potential ordinary shares:		
Adjustment in relation to contingent share arrangement	–	41
Net profit attributable to owners of the Company for the purpose of diluted earnings per share	229,052	192,871

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

15. EARNINGS PER SHARE *(continued)*

	2015 Share(s) '000	2014 Share(s) '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	575,986	542,871
Effect of dilutive potential ordinary shares:		
Options	7,026	9,780
Contingent share arrangement *(Note)*	–	6,905
Weighted average number of ordinary shares for the purposes of diluted earnings per share	583,012	559,556

Note:

As per Shareholders' agreement (the "Agreement") of Powder Pharmaceutical Incorporated ("PPI") signed on 8 January 2010, the shareholders (except Lee's Pharmaceutical International Limited, a subsidiary of the Group as described in note 48) of PPI shall be entitled to exercise the rights to convert, (and not parts) of its shares free from encumbrances to shares of the Company. The shareholders can convert the shares at valuation of HK$1.80 per share, subject to adjustments, starting from the day after the 3rd anniversary and ending on the day immediately before the 5th anniversary of the date of agreement, i.e. from 8 January 2013 to 7 January 2015 ("the conversion period").

The contingent share arrangement has expired on 7 January 2015.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment and electronic equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2014	26,771	2,912	62,544	20,150	6,530	183,167	302,074
Exchange rate adjustments	(787)	(1)	(1,836)	(385)	(131)	(4,994)	(8,134)
Reclassification	–	(38)	140	(102)	–	–	–
Additions	–	250	5,526	7,132	1,264	53,707	67,879
Transfer in (out)	12,439	–	24,776	66	–	(37,281)	–
Disposals	(2,921)	–	(8,548)	(5,175)	–	(276)	(16,920)
At 31 December 2014 and 1 January 2015	35,502	3,123	82,602	21,686	7,663	194,323	344,899
Exchange rate adjustments	(2,802)	(2)	(3,647)	(1,263)	(352)	(13,707)	(21,773)
Reclassification	20,187	–	(29,326)	9,139	–	–	–
Additions	699	235	4,407	9,277	2,627	88,155	105,400
Transfer in (out)	1,498	–	5,015	–	–	(6,513)	–
Disposals	–	–	–	(5,725)	–	–	(5,725)
At 31 December 2015	55,084	3,356	59,051	33,114	9,938	262,258	422,801
DEPRECIATION AND IMPAIRMENT							
At 1 January 2014	7,438	2,509	15,856	10,521	2,677	–	39,001
Exchange rate adjustments	(192)	(1)	(452)	(156)	(62)	–	(863)
Reclassification	–	(23)	–	23	–	–	–
Charge for the year	1,776	233	11,781	4,408	1,172	–	19,370
Write-off upon disposal	(2,348)	–	(7,967)	(5,129)	–	–	(15,444)
At 31 December 2014 and 1 January 2015	6,674	2,718	19,218	9,667	3,787	–	42,064
Exchange rate adjustments	(718)	(1)	(1,234)	(657)	(237)	–	(2,847)
Reclassification	1,822	–	(7,618)	5,796	–	–	–
Charge for the year	7,170	182	12,648	11,063	2,306	–	33,369
Write-off upon disposal	–	–	–	(5,725)	–	–	(5,725)
At 31 December 2015	14,948	2,899	23,014	20,144	5,856	–	66,861
CARRYING AMOUNTS							
At 31 December 2015	40,136	457	36,037	12,970	4,082	262,258	355,940
At 31 December 2014	28,828	405	63,384	12,019	3,876	194,323	302,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

The buildings are situated in the PRC under medium-term leases.

The net book value of motor vehicles of HK$4,082,000 includes an amount of HK$1,321,000 (31 December 2014: nil) in respect of assets held under finance lease.

17. INTANGIBLE ASSETS

	License fee HK$'000	Development cost HK$'000	Total HK$'000
COST			
At 1 January 2014	101,985	108,482	210,467
Exchange rate adjustments	(62)	(2,139)	(2,201)
Additions	20,753	38,170	58,923
Impairment	–	(5,649)	(5,649)
At 31 December 2014 and 1 January 2015	122,676	138,864	261,540
Exchange rate adjustments	(1,346)	(7,641)	(8,987)
Additions	34,898	94,132	129,030
Impairment	(901)	(7,377)	(8,278)
At 31 December 2015	155,327	217,978	373,305
AMORTISATION AND IMPAIRMENT			
At 1 January 2014	9,200	7,138	16,338
Exchange rate adjustments	–	(207)	(207)
Charge for the year	6,984	2,207	9,191
At 31 December 2014 and 1 January 2015	16,184	9,138	25,322
Exchange rate adjustments	–	(570)	(570)
Charge for the year	9,241	1,573	10,814
Write-off upon impairment	(86)	–	(86)
At 31 December 2015	25,339	10,141	35,480
CARRYING AMOUNTS			
At 31 December 2015	129,988	207,837	337,825
At 31 December 2014	106,492	129,726	236,218

18. LEASE PREMIUM FOR LAND

	2015 HK$'000	2014 HK$'000
Carrying amounts at 1 January	14,810	15,546
Exchange rate adjustments	(784)	(410)
	14,026	15,136
Amortisation for the year	(319)	(326)
Carrying amounts at 31 December	13,707	14,810
Current portion of non-current assets	(306)	(324)
Non-current portion	13,401	14,486

The leasehold land is held under medium-term lease and situated in the PRC.

19. GOODWILL

	2015 HK$'000	2014 HK$'000
At Cost		
Balance at beginning and at the end of the year	3,900	3,900

The goodwill tested for impairment is allocated to the CGU that constitutes Proprietary Products Business. The recoverable amount of proprietary products unit is determined based on a value in use calculated and represented by the management using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 10% per annum (2014: 10% per annum).

The value calculated by using the discount rate is higher than the carrying amount of the CGU; accordingly, the management of the Group determined that there is no impairment of the goodwill.

20. INTERESTS IN ASSOCIATES

Details of the Group's interests in associates are as follows:

	2015 HK$'000	2014 HK$'000
Cost of investment, unlisted	91,208	36,949
Share of post-acquisition loss and other comprehensive income, net of dividends received	(32,537)	(3,086)
	58,671	33,863

Details of the Group's associates at the end of the reporting period are as follow:

Name of associate	Place of incorporation/ operations	Proportion of ownership interest held by the Group 2015	Proportion of ownership interest held by the Group 2014	Proportion of voting rights held by the Group 2015	Proportion of voting rights held by the Group 2014	Principal activities
Powder Pharmaceuticals Incorporated	British Virgin Islands/Hong Kong	33.92%	39.65%	33.92%	39.65%	Manufacture and sale of pharmaceutical products
Powder Pharmaceuticals (HK) Co. Limited	Hong Kong	33.92%	–	33.92%	–	Not yet commenced business
RIT Biotech (Holding) Company Limited	British Virgin Islands/Hong Kong	33.33%	–	33.33%	–	Operate a central pharmacy for compounding radiopharmaceuticals
RIT Biotech Company Ltd	Hong Kong	33.33%	–	33.33%	–	Operate a central pharmacy for compounding radiopharmaceuticals

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

20. INTERESTS IN ASSOCIATES *(continued)*

A. Issue of shares pursuant to Shareholders' Agreement

On 2 January 2015, the Company, pursuant to the Shareholders' Agreement, issued total 6,894,239 shares to certain shareholders of Powder Pharmaceuticals Incorporated ("PPI") in exchange for their total 11,660 Subscription Shares and Milestone Shares in PPI. Details of this Share Transaction have been disclosed in the Company's announcement dated 3 December 2014.

As a result, the equity interests in PPI held by the Group increased to 56.63% from 39.65% and continued to be the Group's associate.

B. Gain on deemed disposal of interest in an associate

In May and June 2015, PPI issued new shares to other shareholders, resulting in a dilution of the Group's equity interest in PPI from 56.63% to 33.92%. In spite of the dilution, because of the premium of the new shares issued, the Group's share of net assets in PPI increased and resulted in a gain on deemed disposal of interest in PPI of HK$31,825,000 and was recognised in the consolidated statement of profit or loss during the reporting period.

C. Summarised financial information of material associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

20. INTERESTS IN ASSOCIATES *(continued)*

C. Summarised financial information of material associates *(continued)*

Powder Pharmaceuticals Incorporated ("PPI")

	2015 HK$'000	2014 HK$'000
Current assets	63,881	6,094
Non-current assets	35,686	72,050
Current liabilities	25,411	38,739
Non-current liabilities	–	24

	2015 HK$'000	2014 HK$'000
Revenue	6,438	17,582
Loss from operations	(57,299)	(125)
Loss for the year	(58,436)	(1,684)
Other comprehensive income	–	–
Total comprehensive expense for the year	(58,436)	(1,684)
Dividend received from associate during the year	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

20. INTERESTS IN ASSOCIATES *(continued)*

C. Summarised financial information of material associates *(continued)*

Powder Pharmaceuticals Incorporated ("PPI") (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interests in the associate recognised in the consolidated financial statements:

	2015 HK$'000	2014 HK$'000
Net assets of PPI	74,156	39,381
Proportion of the Group's ownership interests in PPI	33.92%	39.65%
Goodwill	23,995	18,249
Carrying amount of the Group's interests in PPI	49,148	33,863

RIT Biotech (Holding) Company Limited ("RIT")

	2015 HK$'000	2014 HK$'000
Current assets	16,492	–
Non-current assets	–	–
Current liabilities	24	–
Non-current liabilities	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

20. INTERESTS IN ASSOCIATES *(continued)*

C. Summarised financial information of material associates *(continued)*

RIT Biotech (Holding) Company Limited ("RIT") (continued)

	2015 HK$'000	2014 HK$'000
Revenue	5	–
Loss from operations	(1,432)	–
Loss for the year	(1,432)	–
Other comprehensive income	–	–
Total comprehensive expense for the year	(1,432)	–
Dividend received from associate during the year	–	–

Reconciliation of the above summarised financial information to the carrying amount of the interests in the associate recognised in the consolidated financial statements:

	2015 HK$'000	2014 HK$'000
Net assets of RIT	16,468	–
Proportion of the Group's ownership interests in RIT	33.33%	–
Carrying amount of the Group's interest in RIT	9,523	–

As at 31 December 2015, there was outstanding capital premium in RIT though shares were fully issued pursuant to the underlying agreement. Therefore the carrying amount of the Group's interests in RIT as at 31 December 2015 cannot be directly calculated by multiplying its net assets with the proportion of the Group's ownership interests.

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21. HELD-TO-MATURITY FINANCIAL ASSETS

Details of the Group's held-to-maturity financial assets are as follows:

	2015 HK$'000	2014 HK$'000
Unlisted investments	5,491	5,323

The investments referred to the guaranteed investments issued by financial institution with maturity on August 2018, and are grouped under non-current assets. The investments carry effective interest rate at 3.28% per annum (2014: 3.28%). None of these investments has been past due or impaired at the end of the reporting period.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Details of the Group's available-for-sale financial assets are as follows:

	2015 HK$'000	2014 HK$'000
Equity securities listed outside Hong Kong *(Note 1)*	27,015	31,233
Unlisted equity securities *(Note 2)*	39,060	11,534
Unlisted partnership investment *(Note 3)*	32,954	–
	99,029	42,767

Notes:

1. The fair values of listed securities are based on quoted market closing prices available on the relevant exchanges as at the end of the reporting period.

2. The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in Switzerland and United States. They are measured at cost less impairment at the end of the reporting period. The fair value of the financial asset cannot be reliably measured.

3. The above unlisted investment represents partnership interest in a private fund, Lee's Healthcare Industry Fund L.P. ("Fund"), incorporated in Cayman Islands. They are measured at cost less impairment at the end of the reporting period. The fair value of the financial asset cannot be reliably measured.

23. PREPAYMENT FOR ACQUISITION OF A LEASEHOLD LAND

The Group entered into an agreement with the Bureau of Land Resources and Housing Management of Guangzhou Municipality to acquire a land piece of for medical and sanitary use. Details of this transaction have been disclosed in the Company's announcement dated 8 September 2015.

24. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	11,031	15,972
Work-in-progress	14,134	22,036
Finished goods	144,713	100,881
	169,878	138,889

No inventories are carried at net realisable value at 31 December 2015 (2014: nil).

25. TRADE RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	108,042	100,346
Less: Allowances for bad and doubtful debts	(262)	(564)
	107,780	99,782

The credit period on sales of goods is 30 – 120 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates, and net of allowance for bad and doubtful debts at the end of the reporting period:

25. TRADE RECEIVABLES *(continued)*

	2015 HK$'000	2014 HK$'000
0 – 30 days	50,767	35,640
31 – 120 days	50,236	57,433
121 – 180 days	5,839	4,571
181 – 365 days	934	2,004
Over 365 days and under 3 years	4	134
	107,780	99,782

The fair value of the Group's trade receivables at 31 December 2015 approximates to the corresponding carrying amount.

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for bad and doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Age of receivables that are past due but not impaired

	2015 HK$'000	2014 HK$'000
Overdue by:		
1 – 180 days	20,244	18,520
181 – 365 days	257	521
	20,501	19,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

25. TRADE RECEIVABLES *(continued)*

Movement in allowance for bad and doubtful debts

	2015 HK$'000	2014 HK$'000
Balance at beginning of the year	564	3,910
Exchange rate adjustments	(17)	(50)
Write-off of allowance for bad and doubtful debts	(285)	(3,296)
Balance at the end of the year	262	564

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Age of receivables that are past due and impaired

	2015 HK$'000	2014 HK$'000
Overdue by:		
181 – 365 days	258	521
Over 365 days and under 3 years	4	43
	262	564

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENT

	2015 HK$'000	2014 HK$'000
Utilities and rental deposits	3,143	2,691
Prepayment for plant and equipment and services	69,275	52,628
Other tax recoverable	16,722	685
Others *(Note)*	19,681	21,731
	108,821	77,735

Note: Others includes discounts receivable from suppliers, deposits to suppliers and receivables from other debtors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

27. AMOUNT DUE FROM A RELATED PARTY

	2015 HK$'000	2014 HK$'000
Lee's Healthcare Industry Fund L.P. *(Note)*	37,275	–

The amount is unsecured, interest free and has no fixed terms of repayment.

Note: Dr. Li Xiaoyi, director of the Company, is also a member of key management of Lee's Healthcare Industry Fund L.P.

28. ADVANCE TO AN ASSOCIATE

The amount represents the loans advance to and interest receivable from an associate, Powder Pharmaceuticals Incorporated. Details have been stated in note 47(c).

29. CASH AND BANK BALANCES/TIME DEPOSITS

Bank balances carry interest at market rates which are 0.01% to 0.39% (2014: 0.01% to 1.06%) per annum. Time deposits carry interest rates in the range of 0.35% to 3.46% (2014: 0.70% to 3.60%) per annum.

30. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2015 approximates to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2015 and 2014:

	2015 HK$'000	2014 HK$'000
0 – 90 days	35,523	42,227
91 – 180 days	1	–
181 – 365 days	2,065	10
Over 365 days	32	12
	37,621	42,249

The average credit period on purchases of certain goods is 90 days. The Group has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

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FOR THE YEAR ENDED 31 DECEMBER 2015

31. OTHER PAYABLES

	2015 HK$'000	2014 HK$'000
Bills payables	15,092	–
Other tax payables	29,510	33,611
Advances from customers	51,806	84,289
Sales guarantee deposits	19,408	15,056
Others *(Note)*	56,803	49,909
	172,619	182,865

Note: Others includes accrued staff salaries and welfare, accrued expenses and advances from other creditors.

32. OBLIGATIONS UNDER LICENSE CONTRACT

The balances as at 31 December 2015 and 2014 are repayable within one year.

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 HK$'000	2014 HK$'000
Liabilities		
Foreign currency forward contracts	–	10,092

	2015 HK$'000	2014 HK$'000
Liabilities		
Beginning of the year	10,092	–
Fair value change of derivative financial instruments	(10,092)	10,092
End of the year	–	10,092

The derivatives are measured at fair value at each reporting date. Fair value is determined in the manner as described in note 42.

At 31 December 2015, there are no outstanding derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

34 BANK BORROWINGS

	2015 HK$'000	2014 HK$'000
Secured bank loans classified as current liabilities [1]	66,769	52,269
Carrying amount of the borrowings are repayable: [2]		
Within one year	34,146	16,207
More than one year but not exceeding two years	23,804	16,245
More than two year but not exceeding five years	8,819	19,817
	66,769	52,269

Notes:

(1) As all the term loans include a clause that gives the lenders the unconditional right to call the loans at any time ("repayment on demand clause"), according to HK – Int 5 which requires the classification of whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Group as current liabilities in the current year.

(2) The table is based on the agreed repayment schedule set out in the term loans.

The ranges of effective interest rate on the Group's bank borrowings are as follows:

	2015 HK$'000	2014 HK$'000
Bank loans	2.53% – 4.50%	3.00% – 4.12%

The Group's borrowings denominated in currencies other than the functional currency of the relevant group entities are as follows:

	Hong Kong dollars HK$'000	**Euro** HK$'000	**Japanese Yen** HK$'000
As at 31 December 2015	52,697	9,056	5,016
As at 31 December 2014	52,269	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

35. OBLIGATIONS UNDER FINANCE LEASE

The Group leases motor vehicle under finance lease. The lease term is five years. Interest rate underlying the obligations under finance leases is 3.72% per annum. The lease has no terms of renewal or purchase options and escalation clauses. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Amounts payable under finance lease:				
Within one year	342	–	303	–
In the second to fifth year inclusive	912	–	868	–
	1,254	–	1,171	–
Less: Future finance charges	(83)	–	N/A	–
Present value of lease obligations	1,171	–	1,171	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(303)	–
Amounts due for settlement after 12 months			868	–

Obligations under finance lease are denominated in Hong Kong dollars, which is also the functional currency of the relevant group entities.

36. DEFERRED TAXATION

The following is the major deferred tax balances recognised and movements thereon during the current and prior years:

Deferred tax (assets) liabilities

	Accelerated tax depreciation HK$'000	**Intangible assets** HK$'000	**Deferred revenue** HK$'000	**Total** HK$'000
At 1 January 2014	112	14,549	–	14,661
Exchange difference	–	(246)	–	(246)
Charge (credit) to profit or loss	(159)	1,266	–	1,107
At 31 December 2014 and 1 January 2015	(47)	15,569	–	15,522
Exchange difference	–	(576)	–	(576)
Charge (credit) to profit or loss	195	8,682	(5,542)	3,335
At 31 December 2015	148	23,675	(5,542)	18,281

For the purpose of presentation in the consolidated statement of financial position, deferred tax assets and liabilities have been offset and shown under deferred tax liabilities.

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 earned by the PRC subsidiaries amounting to HK$368 million (2014: HK$250 million) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

37. SHARE CAPITAL

	Number of shares		Share capital	
	2015	2014	2015	2014
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning of the year	544,720,604	538,245,604	27,236	26,912
Exercise of share options	5,180,500	6,475,000	259	324
Issue of shares pursuant to the Placing Agreement	30,000,000	–	1,500	–
Issue of shares pursuant to Shareholders' Agreement *(Note 20A)*	6,894,239	–	345	–
At end of the year	586,795,343	544,720,604	29,340	27,236

38. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries	Share-based compensation reserve of subsidiaries	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2015	64,494	32	64,526
Capital contribution from non-controlling interests	1,954	–	1,954
Share of loss for the year	(16,055)	–	(16,055)
Share of other comprehensive expense for the year	(1,053)	–	(1,053)
Share of employee share options benefit	–	18	18
At 31 December 2015	49,340	50	49,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

38. NON-CONTROLLING INTERESTS *(continued)*

	Share of net assets of subsidiaries HK$'000	Share-based compensation reserve of subsidiaries HK$'000	Total HK$'000
At 1 January 2014	66,039	14	66,053
Reduction in non-controlling interests arising from acquisition of additional interests in a subsidiary	966	–	966
Deemed partial disposal of interests in a subsidiary	4	–	4
Capital contribution from non-controlling interests	3,518	–	3,518
Share of loss for the year	(6,045)	–	(6,045)
Share of other comprehensive income for the year	12	–	12
Share of employee share options benefit	–	18	18
At 31 December 2014	64,494	32	64,526

The non-controlling interests represent 43.74% (2014: 43.74%) and 35% (2014: 35%) equity interests held by third parties in CVie Therapeutics Limited and China Oncology Focus Limited respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. RETIREMENT BENEFIT

Defined contribution plan

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

The total cost recognised in profit or loss of HK$650,429 (2014: HK$494,517) represents contributions payable to the Scheme by the Group in respect of the current accounting period. As at 31 December 2015, contributions of HK$132,748 (2014: HK$114,245) due in respect of the reporting period had not been paid over to the Scheme.

The employees of the Group's subsidiaries in the PRC and Taiwan are members of a state-managed retirement benefit plan operated by the government of the PRC and Taiwan. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit is to make the specified contributions.

Defined benefit plan

Retirement benefit scheme represents the retirement benefit provided to the executive Directors.

Each of executive Directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Group for certain years.

The carrying value of the retirement benefit represents the fair value at 31 December 2015 which was valued by Messrs. Ascent Partners Valuation Service Limited, an independent professional valuer not connected to the Group. The valuation was carried out on a fair value basis. The term "fair value" is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of retirement benefit was accrued in the consolidated financial statements but the retirement benefit scheme was not established up to the date of the report. Thus, no actuarial gain or loss will be considered.

40. SHARE OPTION SCHEMES

The Company

The Company's share option scheme (the "2002 Share Option Scheme") and new share option scheme (the "New Share Option Scheme") were adopted on 26 June 2002, and 10 May 2012 respectively for the primary purpose of providing incentives to directors, eligible employees, advisers and consultants.

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Share Options Scheme and the New Share Option Scheme was 14,712,000 shares (2014: 18,554,500 shares) representing 2.5% (2014: 3.4%) of the shares of the Company in issue at that date.

For the 2002 Share Option Scheme, the total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the shares of the Company ("Shares") in issue at the time of listing, without prior approval from the Company's shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue, without prior approval from the Company's shareholders.

For the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on the date on which the New Share Option Scheme is conditionally adopted and approved by the shareholders at the AGM, unless the Company obtains an approval from the shareholders in general meeting to refresh such 10% in accordance with the Listing Rules. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating such 10%. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes must not exceed 30% of the Shares in issue from time to time.

The exercise price is determined by the directors, and will not be less than the highest of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

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40. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Details of the Company's share option schemes are summarised as follow:

Date of grant	Outstanding at 01.01.2015	During the year Granted	Exercised	Lapsed	Outstanding at 31.12.2015	Exercise period	Exercise price per share
Category I: Directors							
25.09.2009	448,000	–	(448,000)	–	–	25.03.2010-24.09.2019	HK$1.076
20.12.2010	697,500	–	(697,500)	–	–	20.06.2011-19.12.2020	HK$3.750
20.12.2011	469,000	–	(469,000)	–	–	20.06.2012-19.12.2021	HK$2.666
20.12.2012	1,042,000	–	(1,042,000)	–	–	20.06.2013-19.12.2022	HK$4.930
30.12.2013	1,614,000	–	(738,000)	–	876,000	30.06.2014-29.12.2023	HK$7.300
31.03.2015	–	1,338,000	–	–	1,338,000	30.09.2015-30.03.2025	HK$11.200
Category II: Employees							
11.07.2005	500,000	–	(500,000)	–	–	11.01.2006-10.07.2015	HK$0.159
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
02.01.2008	320,000	–	–	–	320,000	02.07.2008-01.01.2018	HK$0.492
12.01.2010	660,000	–	(420,000)	–	240,000	12.07.2010-11.01.2020	HK$2.200
20.12.2010	300,000	–	–	–	300,000	20.06.2011-19.12.2020	HK$3.750
08.10.2012	5,614,000	–	(650,000)	–	4,964,000	08.10.2013-07.10.2022	HK$4.996
05.04.2013	300,000	–	–	–	300,000	05.10.2013-04.04.2023	HK$5.620
30.12.2013	2,040,000	–	(16,000)	–	2,024,000	30.12.2014-29.12.2023	HK$7.300
07.10.2014	600,000	–	–	–	600,000	30.06.2015-06.10.2024	HK$10.340
07.10.2014	750,000	–	–	–	750,000	03.10.2015-06.10.2024	HK$10.340
Category III: Consultants							
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
02.01.2008	2,000,000	–	–	–	2,000,000	02.07.2008-01.01.2018	HK$0.492
20.12.2010	200,000	–	(200,000)	–	–	20.06.2011-19.12.2020	HK$3.750
	18,554,500	1,338,000	(5,180,500)	–	14,712,000		
Exercisable at the end of the year					12,541,000		
Weighted average exercise price	HK$4.558	HK$11.200	HK$3.859	–	HK$5.409		

The weighted average share price on which the options were exercised is HK$12.00.

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40. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise price	Exercise price per share HK$
11.07.2005	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015	0.159
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006 – 10.07.2015	
02.06.2006	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016	0.175
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007 – 01.06.2016	
02.01.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018	0.492
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009 – 01.01.2018	
25.09.2009	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. from 25.03.2010 to 24.09.2019	1.076
	(ii)	Unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. from 25.12.2010 to 24.09.2019	

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40. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise price	Exercise price per share HK$
12.01.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010-11.01.2020	2.200
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011-11.01.2020	
20.12.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011-19.12.2020	3.750
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012-19.12.2020	
20.12.2011	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012-19.12.2021	2.666
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013-19.12.2021	
08.10.2012	(i)	259,500 options exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013 – 07.10.2022	4.996
	(ii)	259,500 options exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014 – 07.10.2022	
	(iii)	1,160,000 options exercisable during the period from 08.10.2013 – 07.10.2022	
	(iv)	2,230,000 options exercisable during the period from 08.10.2014 – 07.10.2022	
	(v)	2,650,000 options exercisable during the period from 08.10.2015 – 07.10.2022	

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FOR THE YEAR ENDED 31 DECEMBER 2015

40. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise price	Exercise price per share HK$
20.12.2012	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2013 – 19.12.2022	4.930
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2014 – 19.12.2022	
05.04.2013	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 05.10.2013 – 04.04.2023	5.620
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 05.07.2014 – 04.04.2023	
30.12.2013	(i)	1,614,000 options: 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 30.06.2014 – 29.12.2023; and in respect of the unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. 30.03.2015 – 29.12.2023	7.300
	(ii)	669,000 options will be exercisable during the period from 30.12.2014 to 29.12.2023	
	(iii)	669,000 options will be exercisable during the period from 30.12.2015 to 29.12.2023	
	(iv)	702,000 options will be exercisable during the period from 30.12.2016 to 29.12.2023.	

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FOR THE YEAR ENDED 31 DECEMBER 2015

40. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant		Exercise price	Exercise price per share HK$
07.10.2014	(i)	600,000 options: 50% will be exercisable during the period from 30.06.2015 to 06.10.2024; and 50% will be exercisable during the period from 30.06.2016 to 06.10.2024	10.340
	(ii)	250,000 options will be exercisable during the period from 03.10.2015 to 06.10.2024	
	(iii)	250,000 options will be exercisable during the period from 03.10.2016 to 06.10.2024	
	(iv)	250,000 options will be exercisable during the period from 03.10.2017 to 06.10.2024	
31.03.2015	(i)	669,000 options will be exercisable during the period from 30.09.2015 to 30.03.2025	11.200
	(ii)	669,000 options will be exercisable during the period from 30.06.2016 to 30.03.2025	

40. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The following table summarised movements in the Company's share options during the year:

	Outstanding at 01.01.2015	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2015
Directors					
Lee Siu Fong	1,291,500	446,000	(753,500)	–	984,000
Leelalertsuphakun Wanee	538,000	446,000	(200,000)	–	784,000
Li Xiaoyi	2,441,000	446,000	(2,441,000)	–	446,000
Directors' total	4,270,500	1,338,000	(3,394,500)	–	2,214,000
Employees	11,584,000	–	(1,586,000)	–	9,998,000
Consultants	2,700,000	–	(200,000)	–	2,500,000
Grand total	18,554,500	1,338,000	(5,180,500)	–	14,712,000

The Company issues equity-settled share option to certain employees and consultants. Equity-settled share option are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share option is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually become vested and adjusted for the effect of non market-based vesting conditions.

40. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The fair value of the total options granted in the year measured as at the date of grant on 31 March 2015 was HK$5,009,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. exercise price HK$11.200;

2. expected volatility range of 38.040% to 40.590%;

3. the options life is 10 years;

4. annualised dividend yield range of 1.092%; and

5. the risk free rate (referring to the yield of Hong Kong Sovereign Zero Coupon yield with maturity matching the time to expected life of the share options as at the valuation date as obtained from Bloomberg) of 1.128% to 1.178%.

The fair value of the share options granted during the year was valued by Messrs. Ascent Partners Valuation Service Limited, an independent professional valuer not connected to the Group. The valuation was derived by the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimated.

The Subsidiary – CVie Therapeutics Company Limited

A subsidiary of the Company, CVie Therapeutics Company Limited ("CVie"), also operates a share option scheme (the "CVie's Scheme"). The CVie's Scheme was adopted pursuant to a resolution on 5 November 2012 for the primary purpose of providing incentives to eligible employees of CVie. The share option was granted on 30 November 2012 and will expire on 30 November 2022. Under the CVie's Scheme, the board of directors of CVie may grant options to eligible employees and eligible grantees.

40. SHARE OPTION SCHEMES *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the CVie's Scheme was 440,000 (2014: 440,000), representing 3.26% (2014: 3.26%) of the shares of CVie in issue at that date. The total number of shares in respect of which options may be granted under the CVie's Scheme shall not exceed 500,000 shares of CVie. The overall limit on the number of shares of CVie which may be issued upon exercise of all outstanding options granted and yet to be exercised under the CVie scheme and any other share option schemes of CVie must not exceed 30% of the shares of CVie in issue from time to time, without prior approval from the shareholders of CVie.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of CVie, and will not be less than the fair value of each share of CVie on the date of grant.

Details of the CVie's Scheme are summarised as follows:

		During the year					
Date of grant	Outstanding at 01.01.2015	Granted	Exercised	Lapsed	Outstanding at 31.12.2015	Exercise period	Exercise price share
Tranche 1							
30.11.2012	133,000	–	–	–	133,000	Note a	HK$1.628
Tranche 2							
30.11.2012	267,000	–	–	–	267,000	Note b	HK$1.628
Tranche 3							
30.11.2012	40,000	–	–	–	40,000	01.12.2014-30.11.2022	HK$1.628
	440,000	–	–	–	440,000		
Exercisable at the end of the year					40,000		
Weighted average exercise price	HK$1.628	–	–	–	HK$1.628		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

40. SHARE OPTION SCHEMES *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

Notes:

a. Upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

b. One year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

Particulars of share options:

Date of Grant	Exercise period		Exercise price per share HK$
Tranche 1 30.11.2012	(i)	133,000 options will be exercisable upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	HK$1.628
Tranche 2 30.11.2012	(i)	267,000 options will be exercisable one year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	HK$1.628
Tranche 3 30.11.2012	(i)	40,000 options will be exercisable during the period 01.12.2014-30.11.2022	HK$1.628

The Group has recognised an expense of HK$3,811,000 for the year ended 31 December 2014 (2014: HK$3,880,000) in relation to share options granted by the Company and CVie.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners of the Company 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 net debt (which includes borrowings and obligations under finance lease net of cash and cash equivalents) and equity attributable to the owners of the Company (comprising issued share capital, share premium, reserves and retained profits).

Gearing ratio

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

	2015 HK$'000	2014 HK$'000
Debt *(Note 1)*	67,940	52,269
Cash and cash equivalents	(337,129)	(392,912)
Net debt	(269,189)	(340,643)
Equity *(Note 2)*	1,467,438	934,341
Net debt to equity ratio	N/A	N/A

Notes:

1. Debt is defined as bank borrowings and obligations under finance lease as described in notes 34 and 35.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2015 HK$'000	2014 HK$'000
Financial assets		
Held-to-maturity financial assets	5,491	5,323
Loans and receivables (including cash and cash equivalents)	607,766	528,114
Available-for-sale financial assets	99,029	42,767
	712,286	576,204
Financial liabilities		
Amortised cost	264,213	277,830
Derivative financial instruments (liabilities)	–	10,092
	264,213	287,922

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk, and other price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks and may use derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade derivative financial instruments for speculative purposes.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. FINANCIAL INSTRUMENTS *(continued)*

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group may enter into foreign currency forward contracts to hedge the exchange rate risk arising on foreign currency purchase.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

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

	Assets		Liabilities	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Renminbi ("RMB")	320,599	327,707	107,511	161,818
United States Dollar ("US$")	146,266	137,707	10,189	4,021
Euro ("EUR")	3,830	25,193	64,161	47,887
New Taiwan Dollar ("NTD")	20,429	343	751	–
Japanese Yen ("JPY")	–	–	5,402	–
	491,124	490,950	188,014	213,726

42. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2014: 5%) increase in the relevant foreign currencies against HK$. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted their translation at the period end for a 5% change in foreign currency rates. A positive number indicates an increase in profit or equity whereas a number in bracket indicates a decrease in profit or equity. For a 5% (2014: 5%) decrease in the relevant foreign currencies against HK$, there would be an equal and opposite impact on the profit or equity.

	Profit or loss		**Other comprehensive income**	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
RMB	40	1,301	11,160	6,994
US$	6,804	6,684	–	–
EUR	(3,017)	(1,135)	–	–
NTD	–	–	804	17
JPY	(270)	–	–	–
	3,557	6,850	11,964	7,011

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure.

Interest rate sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2014: 50 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 interest rates had been 50 basis points (2014: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2015 would decrease/increase by HK$279,000 (2014: decrease/increase by HK$218,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

Other price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The Group's equity price risk is mainly concentrated on equity securities operating in biopharmaceutical industry sectors quoted in NASDAQ Stock Market.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of the reporting period.

If the price of the equity instruments had been 5% (2014: 5%) higher/lower, other comprehensive income for the year ended 31 December 2015 would increase/decrease by HK$1,351,000 (2014: increase/decrease by HK$1,562,000) as a result of the changes in fair value of listed available-for-sale financial assets.

42. FINANCIAL INSTRUMENTS *(continued)*

Credit risk management

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 46.

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

Trade receivables consist of a large number of customers and spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The credit risk of the Group's other financial assets, which comprise time deposits, cash and bank balances, amount due from a related party and advance to an associate, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by single counterparty.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

42. FINANCIAL INSTRUMENTS *(continued)*

Credit risk management *(continued)*

In addition, the Group is exposed to credit risk in relation to financial guarantees given to bank provide by the Group. The Group's maximum exposure in this respect is the maximum amount the Group would have to pay if the guarantee is called on (see note 46). As at 31 December 2015, an amount of nil (31 December 2014: nil) has been recognised in the consolidated statement of financial position as financial liabilities.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of Directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have 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. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows and outflows on those derivative that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management *(continued)*

Liquidity tables (continued)

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2015							
Non-derivative financial liabilities							
Trade and other payables	–	158,434	–	–	–	158,434	158,434
Obligations under license contract	–	505	–	–	–	505	505
Obligations under finance lease	3.72	28	57	257	912	1,254	1,171
Bank borrowings *(Note 1)*	2.53 – 4.50	1,508	4,015	30,209	34,101	69,833	66,769
Tax payables	–	4,139	–	–	–	4,139	4,139
		164,614	4,072	30,466	35,013	234,165	231,018
Derivatives – gross settlement							
Foreign currency forward contracts							
– inflows		–	–	–	–	–	
– outflows		–	–	–	–	–	
		–	–	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management *(continued)*

Liquidity tables (continued)

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2014							
Non-derivative financial liabilities							
Trade and other payables	–	140,824	–	–	–	140,824	140,824
Obligations under license contract	–	562	–	2,809	–	3,371	3,371
Bank borrowings *(Note 1)*	3.00 – 4.12	1,139	3,279	13,253	37,713	55,384	52,269
Tax payables	–	17,333	–	–	–	17,333	17,333
		159,858	3,279	16,062	37,713	216,912	213,797
Derivatives – gross settlement							
Foreign currency forward contracts							
– inflows		17,493	34,722	52,083	–	104,298	
– outflows		(20,548)	(41,096)	(61,179)	–	(122,823)	
		(3,055)	(6,374)	(9,096)	–	(18,525)	(10,092)

Note:

1. Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of financial instruments

Some of the Group's financial asset and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial asset and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial asset/ Financial liabilities	Fair value as at 31.12.2015	Fair value as at 31.12.2014	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Available-for-sale financial asset – Equity securities	Listed overseas equity securities HK$27,015,000	Listed overseas equity securities HK$31,233,000	Level 1	Quoted bid prices in an active market.	N/A
Derivative financial instruments	Nil	Liabilities – HK$10,092,000	Level 3	Monte Carlo. This technique is to estimate a probable outcome using multiple simulations with random variables.	Volatility of underlying derivative of 6.23%. An increase in the volatility of underlying derivative would result in an increase in the fair value measurement, and vice versa.
Retirement benefit	HK$33,195,000	HK$46,812,000	Level 3	Discounted cash flows method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the retirement benefit, and spread over the period till the year of retirement.	Annualised historical growth rate of 4.1%. An increase in annualised historical growth rate would result in an increase in the fair value measurement, and vice versa. Credit spread, ranging from 2.58% to 4.07%, determined by matching the shortest term of retirement benefit adjusted by the Liquidity Spread for A-rated bonds. An increase in credit spread would result in an decrease in the fair value measurement, and vice versa. Discount rate determined by the Hong Kong Government Benchmark Yield Curve, ranging from 4.14% to 6.42%. An increase in discount rate would result in an decrease in the fair value measurement, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of financial instruments *(continued)*

There were no transfers between Levels 1 and 2 in the current year.

The directors consider that the amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements

	Derivative financial instruments HK$'000	Retirement benefit HK$'000	Total HK$'000
At 31 December 2015			
Opening balance	10,092	46,812	56,904
Gain recognised in profit or loss	(10,092)	(13,617)	(23,709)
Closing balance	–	33,195	33,195
At 31 December 2014			
Opening balance	–	23,569	23,569
Loss recognised in profit or loss	10,092	23,243	33,335
Closing balance	10,092	46,812	56,904

Gain or loss relating to retirement benefit are included in "Administrative expenses".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

43. OPERATING LEASES

	2015 HK$'000	2014 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	7,885	6,526

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

	2015 HK$'000	2014 HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	7,235	6,167
More than one year but not exceeding five years	6,542	6,548
	13,777	12,715

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 1 to 5 years. The Group does not have options to purchase the leased asset at the expiry of the lease period.

44 CAPITAL AND OTHER COMMITMENTS

	2015 HK$'000	2014 HK$'000
Capital commitments in respect of:		
Investment in available-for-sale financial assets	36,431	14,793
Intangible assets – license fee and development cost	71,147	40,862
Property, plant and equipment	20,020	10,178
Construction contract	22,081	25,334
	149,679	91,167

At 31 December 2015, the Group has no commitment on outstanding foreign currency forward contract to buy Euro (at 31 December 2014: EUR12,000,000).

45. PLEDGED OF ASSETS

The Group's obligations under finance lease is secured by the lessor's title to the motor vehicle, which has a carrying amount of HK$1,321,000 (2014: nil).

46. CONTINGENT LIABILITIES

At the end of the reporting period, there were contingent liabilities, so far as not provided for in the consolidated financial statements, in respect of guarantee for the banking facilities made available to:

	2015 HK$'000	2014 HK$'000
Associate	8,000	6,000

47. RELATED PARTIES TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties. In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

(a) Purchases from Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.

Name of related parties	Notes	**Nature of transaction**	2015 HK$'000	2014 HK$'000
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. ("STIFR")	(1)/(2)	Purchase of pharmaceutical product	38,029	93,565
STIFR	(1)/(3)	Purchase of experimental products for use in R&D	2,899	2,941
			40,928	96,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

47. RELATED PARTIES TRANSACTIONS *(continued)*

(a) Purchases from Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. *(continued)*

Notes:

1. The amount represented the transactions made on or before 31 May 2015. STIFR ceased to be the related party of the Group from 1 June 2015 because it has ceased as an associate (as defined in the Listing Rules) of a substantial shareholder of the Company due to the restructuring of Sigma-Tau Group. As a result, STIFR is no longer a connected person of the Company and the transaction made between STIFR and any members of the Group thereafter will no longer constitute related party transactions and continuing connected transactions of the Company.

2. These transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules and details of such transactions are set out in the section headed "Report of the Directors - Connected Transactions and Continuing Connected Transactions" of the annual report and the Group has complied with the requirements under Chapter 14A of the Listing Rules.

3. These transactions constituted exempt connected transactions under Chapter 14A of the Listing Rules and were not subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(b) Compensation of key management personnel

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

	2015 HK$'000	2014 HK$'000
Short-term benefits	14,566	14,171
Share-based payments	854	1,204
Retirement benefit	(13,617)	23,243
	1,803	38,618

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

47. RELATED PARTIES TRANSACTIONS *(continued)*

(c) Shareholder Loans to Powder Pharmaceuticals Incorporated ("PPI")

During the year ended 31 December 2015, the Group provided the following shareholder loans to PPI, which is an associate to the Group:

Advance Date	Term	Interest rate	Loan amount (HK$)
7 January 2015*	1 year	4% per annum	8,000,000
13 March 2015*	1 year	4% per annum	2,000,000
24 July 2015	1 year	4% per annum	4,032,080
25 July 2015	1 year	4% per annum	4,000,000
8 October 2015	1 year	4% per annum	4,000,000

* These transactions constituted connected transactions under Chapter 14A of the Listing Rules and details of such transactions are set out in the section headed "Report of the Directors – Connected Transactions and Continuing Connected Transactions" of the annual report and the Group has complied with the requirements under Chapter 14A of the Listing Rules.

As disclosed in note 8 to the consolidated financial statments, interest income from loans to PPI for the year ended 31 December 2015 amounted to HK$865,000 (2014: HK$484,000).

Upon the completion of the issuance of series A preferred shares of PPI on 24 June 2015, the aggregate shareholding interest in PPI held by all connected persons of the Company under the Listing Rules at the issuer level, namely (a) Sigma-Tau Finanziaria S.p.A. which became a substantial shareholder of the Company from 19 February 2015 due to the restructuring of Sigma-Tau Group; (b) Dr. Li Xiaoyi, who is a Director and a substantial shareholder of the Company; and (c) Swift Power Investments Limited which is a company wholly-owned by Dr. Li Xiaoyi, has been diluted to 9.05%. As a result, PPI is no longer a commonly held entity as defined in Rule 14A.27 of the Listing Rules, and therefore the financial assistances made by the Group to PPI were no longer constitute connected transactions pursuant to Rule 14A.26 of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

47. RELATED PARTIES TRANSACTIONS *(continued)*

(d) Issue of subsidiary's shares to Perfect Concept Holdings Limited

During the year, China Oncology Focus Limited issued total 3,500 shares to Perfect Concept Holdings Limited ("Perfect Concept"). Dr. Li Xiaoyi, Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, directors of the Company, are the majority of the beneficial owners of Perfect Concept and Perfect Concept is considered as a related party to the Group. Total consideration received for the issue of shares is US$252,000 (HK$1,954,000 approximately).

(e) Investment in Lee's Healthcare Industry Fund L.P.

On 21 August 2015, the Company entered into a Subscription Agreement to invest, as a Limited Partner, in Lee's Healthcare Industry Fund L.P. (the "Fund") for US$8,500,000 million (approximately HK$66,300,000). Details of this transaction is disclosed in the Company's announcement dated 21 August 2015.

Dr. Li Xiaoyi, director of the Company, is also a key management of the Fund and the Fund is considered as a related party to the Group.

This transaction constituted connected transaction under Chapter 14A of the Listing Rules and details of such transaction are set out in the section headed "Report of the Directors – Connected Transactions and Continuing Connected Transactions" of the annual report and the Group has complied with the requirements under Chapter 14A of the Listing Rules.

(f) Donation to Lee's Pharmaceutical – Kanya Lee Scholarship Limited ("Kanya Lee Scholarship")

During the year, total HK$1,300,000 was donated to Lee's Pharmaceutical – Kanya Lee Scholarship Limited ("Kanya Lee Scholarship"). Dr. Li Xiaoyi, director of the Company, is also a member of key management of Kanya Lee Scholarship and Kanya Lee Scholarship is considered as a related party to the Group.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

A. General information of subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2015 are set out as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly		Indirectly		Principal activities
				2015	2014	2015	2014	
Lee's Pharmaceutical International Limited	British Virgin Islands	Ordinary	US$1	100%	100%	–	–	Investment holding
Zhaoke Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Investment holding
Lee's Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$18,400,000	–	–	100%	100%	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Ltd. *(Note 1)*	PRC	Paid-up capital	US$2,000,000	–	–	100%	100%	Manufactures and sale of pharmaceutical products
China Oncology Focus Limited	British Virgin Islands	Ordinary	US$40,000	–	–	65%	65%	Development of pharmaceutical products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

A. General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly 2015	Directly 2014	Indirectly 2015	Indirectly 2014	Principal activities
Zhaoke Pharmaceutical (Guangzhou) Ltd. *(Note 1)*	PRC	Paid-up capital	US$16,000,000	–	–	100%	100%	Trading of pharmaceutical products
China Cardiovascular Focus Limited	British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Investment holding
Guangzhou Zhaoke Lian Fa Pharmaceutical Limited *(Note 1)*	PRC	Paid-up capital	RMB1,500,000	–	–	100%	100%	Trading of pharmaceutical products
CVie Therapeutics Company Limited	Cayman Islands	Ordinary	US$135,000	–	–	56.26%	56.26%	Development and trading of pharmaceutical products
CVie Therapeutics Limited (formerly known as CVie International Limited)	Taiwan	Ordinary	NTD314,030,970	–	–	56.26%	56.26%	Development of pharmaceutical products
CVie Therapeutics (HK) Limited	Hong Kong	Ordinary	HK$500,000	–	–	56.26%	56.26%	Not yet commenced business
Guangzhou Zhao Kang Hospital Co. Ltd. *(Note 1)*	PRC	Paid-up capital	US$19,000,000	–	–	100%	–	Not yet commenced business *(Note 2)*

Notes:

1. These were wholly foreign owned enterprises.

2. The company was incorporated in July 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

B. Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below show details of non-wholly owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ operations	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
CVie Therapeutics Limited (formerly known as CVie International Limited) *(Note)*	Taiwan	43.74%	43.74%	(13,883)	(5,272)	46,090	61,008

Note: There is change in structure and CVie Therapeutics Limited (formerly known as CVie International Limited) become the holding company of CVie Therapeutics Company Limited and CVie Therapeutics (HK) Limited.

Summarised financial information in respect of Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represent amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

B. Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

CVie Therapeutics Limited (formerly known as CVie International Limited) and its wholly owned subsidiaries

	2015 HK$'000	2014 HK$'000
Current assets	25,972	70,910
Non-current assets	88,833	72,668
Current liabilities	9,376	4,100
Non-current liabilities	56	–
Equity attributable to the owners of the Company	105,373	139,478
Non-controlling interests	46,090	61,008
Revenue	8,921	5,221
Expenses	(40,660)	(17,274)
Loss for the year	(31,739)	(12,053)
Loss attributable to the owners of the Company	(17,856)	(6,781)
Loss attributable to the non-controlling interests	(13,883)	(5,272)
Loss for the year	(31,739)	(12,053)

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

B. Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

CVie Therapeutics Limited (formerly known as CVie International Limited) and its wholly owned subsidiaries (continued)

	2015 HK$'000	2014 HK$'000
Other comprehensive expense attributable to the owners of the Company	(1,353)	–
Other comprehensive expense attributable to non-controlling interests	(1,053)	–
Other comprehensive expense for the year	(2,406)	–
Total comprehensive expense attributable to the owners of the Company	(19,209)	(6,781)
Total comprehensive expense attributable to non-controlling interests	(14,936)	(5,272)
Total comprehensive expense for the year	(34,145)	(12,053)
Dividend paid to non-controlling interests	–	–
Net cash outflow from operating activities	(9,524)	(14,373)
Net cash outflow from investing activities	(29,845)	(21,244)
Net cash inflow from financing activities	–	–
Net cash outflow	(39,369)	(35,617)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

49. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2015 HK$'000	2014 HK$'000
Non-current Assets		
Interests in subsidiaries	736,525	397,235
Investment in an associate	10,000	–
Held-to-maturity financial assets	5,491	5,323
Available-for-sale financial assets	99,029	42,767
	851,045	445,325
Current Assets		
Other receivables, deposits and prepayments	621	2,264
Amount due from a related party	37,275	–
Tax recoverable	211	277
Time deposits	17,754	7,796
Cash and bank balances	10,956	6,649
	66,817	16,986
Current Liability		
Other payables	3,873	11,132
Net Current Assets	62,944	5,854
Total Assets less Current Liability	913,989	451,179
Capital and Reserve		
Share capital	29,340	27,236
Reserves	851,454	377,131
	880,794	404,367
Non-current Liability		
Retirement benefit	33,195	46,812
	913,989	451,179

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 23 March 2016 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

49. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Investments revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	301,196	9,200	7,730	3,319	55,686	377,131
Employee share option benefits	–	–	3,770	–	–	3,770
Exercise of share options	22,547	–	(2,857)	–	–	19,690
Issue of shares pursuant to Shareholders' Agreement	12,035	–	–	–	–	12,035
Issue of shares pursuant to Placing Agreement	382,147	–	–	–	–	382,147
Profit for the year	–	–	–	–	117,072	117,072
Other comprehensive expense for the year	–	–	–	(4,218)	–	(4,218)
Total comprehensive income for the year	–	–	–	(4,218)	117,072	112,854
2014 final dividend paid	–	–	–	–	(38,577)	(38,577)
2015 interim dividend paid	–	–	–	–	(17,596)	(17,596)
At 31 December 2015	717,925	9,200	8,643	(899)	116,585	851,454
At 1 January 2014	292,326	9,200	5,363	–	46,005	352,894
Employee share option benefits	–	–	3,839	–	–	3,839
Exercise of share options	8,870	–	(1,472)	–	–	7,398
Profit for the year	–	–	–	–	52,619	52,619
Other comprehensive income for the year	–	–	–	3,319	–	3,319
Total comprehensive income for the year	–	–	–	3,319	52,619	55,938
2013 final dividend paid	–	–	–	–	(28,251)	(28,251)
2014 interim dividend paid	–	–	–	–	(14,687)	(14,687)
At 31 December 2014	301,196	9,200	7,730	3,319	55,686	377,131