YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 01558)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2016 was RMB941.50 million, increased by 35.88% as compared with the previous year.
- Profit before taxation for the year ended 31 December 2016 was RMB453.07 million, increased by 43.96% as compared with the previous year.
- Profit and total comprehensive income attributable to equity owners of the Company for the year ended 31 December 2016 was RMB380.60 million, increased by 43.22% as compared with the previous year.
- Basic and diluted earnings per share for the year ended 31 December 2016 was RMB0.84.

FINAL DIVIDEND

- The Board recommended a final dividend of RMB0.30 per share (tax inclusive) for the year ended 31 December 2016, which represents a total distribution of RMB135.61 million.

RESULTS HIGHLIGHTS

The board of directors (the "**Board**") of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**" or "**we**") for the year ended 31 December 2016 (the "**Reporting Period**"), prepared under International Financial Reporting Standards ("**IFRSs**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in Renminbi)

	Note	**2016**	**2015**
		RMB'000	*RMB'000*
Revenue	3	941,504	692,910
Cost of sales		(214,234)	(178,334)
Gross profit		727,270	514,576
Other revenue	4(a)	15,998	15,801
Distribution costs		(180,887)	(77,287)
Administrative expenses		(132,711)	(120,171)
Other net income	4(b)	30,629	6,686
Profit from operation		460,299	339,605
Finance costs	5(a)	(7,233)	(24,899)
Profit before taxation	5	453,066	314,706
Income tax	6	(72,469)	(48,956)
Profit for the year attributable to equity shareholders of the Company		380,597	265,750
Total comprehensive income for the year attributable to equity shareholders of the Company		380,597	265,750
Basic and diluted earnings per share	7	RMB0.84	RMB0.79

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016
(Expressed in Renminbi)

	Note	**2016**	**2015**
		RMB'000	*RMB'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment		413,915	378,801
– Interests in leasehold land held for own use under operating leases		81,767	83,699
		495,682	462,500
Prepayments		422,544	294,599
Deferred tax assets		11,415	10,392
Total non-current assets		929,641	767,491
Current assets			
Inventories		110,624	154,628
Trade and other receivables	8	337,149	260,568
Time deposits		238,988	33,000
Pledged deposits		2,635	8,077
Cash and cash equivalents		1,212,072	1,353,651
Total current assets		1,901,468	1,809,924
Current liabilities			
Trade and other payables	9	182,377	155,961
Bank loans		70,000	105,000
Deferred income		4,379	4,379
Current taxation		27,525	5,826
Total current liabilities		284,281	271,166
Net current assets		1,617,187	1,538,758
Total assets less current liabilities		2,546,828	2,306,249

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016 (continued)
(Expressed in Renminbi)

	Note	**2016**	**2015**
		RMB'000	*RMB'000*
Non-current liabilities			
Bank loans		20,000	90,000
Deferred income		69,021	73,400
Total non-current liabilities		89,021	163,400
Net assets		2,457,807	2,142,849
Capital and reserves			
Share capital		450,823	450,659
Reserves		2,006,984	1,692,190
Total equity		2,457,807	2,142,849

NOTES TO CONSOLIDATED FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

In the current year, the Group has applied a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on sales of pharmaceutical products. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented for the year end 31 December 2016.

No geographic information is shown as the Group's operating profit is entirely derived from activities of manufacture and sale of pharmaceutical products in the PRC.

3 REVENUE

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

Revenue represents the sales value of goods supplied to customers. Revenue excludes sales taxes and surcharges and is after deduction of any trade discounts. The amount of each significant category of revenue is as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Sales of anti-viral drugs	739,824	457,436
Sales of cardiovascular drugs	89,182	107,083
Sales of endocrine and metabolic drugs	46,739	39,047
Sales of other medical products	65,759	89,344
	941,504	692,910

The Group's customer base is diversified and includes one customer (2015: one) with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2016, including sales to entities which are known to the Group under common control with this customer. Revenues from this customer amounted to approximately RMB384,468,000 (2015: RMB202,478,000).

4 OTHER REVENUE AND OTHER NET INCOME

(a) Other revenue

	2016 *RMB'000*	2015 *RMB'000*
Government grants		
– Unconditional subsidies	3,322	4,490
– Conditional subsidies	4,379	7,886
Interest income	8,104	2,172
Research service income	—	1,129
Others	193	124
	15,998	15,801

(b) Other net income

	2016 *RMB'000*	2015 *RMB'000*
(Loss)/gain on disposal of fixed assets	(136)	13
Exchange gain	32,765	8,001
Others	(2,000)	(1,328)
	30,629	6,686

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2016 *RMB'000*	2015 *RMB'000*
Interest expenses	7,233	24,899

(b) Staff costs

	2016 *RMB'000*	2015 *RMB'000*
Salaries, wages, bonuses and benefits	71,942	47,964
Contribution to retirement schemes	7,820	4,513
	79,762	52,477

(c) Other items

	Note	2016 *RMB'000*	2015 *RMB'000*
Depreciation		27,449	25,747
Auditor's remuneration			
– audit services		1,200	800
– non-audit services		600	2,763
(Reversal) / provision of impairment losses on			
– trade receivables	8	500	7,064
– other receivables		(1,064)	994
Operating lease charges		1,094	364
Research and development cost (i)		64,236	52,303
Cost of inventories (ii)		136,793	130,546
Listing expenses		—	23,815

(i) Research and development cost include RMB27,068,000 (2015:RMB21,796,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 5(b) for each of these types of expenses.

(ii) Cost of inventories include RMB31,400,000 (2015:RMB24,761,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	2016 *RMB'000*	2015 *RMB'000*
Current tax		
Provision for PRC Corporate Income Tax for the year	73,768	53,501
Over-provision for PRC income tax in respect of prior years	(276)	—
	73,492	53,501
Deferred tax		
Origination and reversal of temporary differences	(1,023)	(4,545)
Total income tax	72,469	48,956

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

	2016 *RMB'000*	2015 *RMB'000*
Profit before taxation	453,066	314,706
Applicable tax rate (i)	25%	25%
Notional tax on profit before taxation	113,267	78,676
Over-provision for PRC income tax in respect of prior years	(276)	—
Effect of non-deductible expenses	8,630	4,796
Effect of preferential tax rate (ii)	(45,303)	(31,475)
Effect of bonus deduction of research and development expenses (iii)	(3,849)	(3,041)
Income tax expenses	72,469	48,956

(i) The PRC corporate income tax rate is 25%.

(ii) The PRC Corporate Income Tax Law allows enterprises to apply for the certificate of "High and New Technology Enterprise" ("HNTE") which entitles the qualified companies to a preferential income tax rate of 15%. The qualification is valid for three years from 2014 to 2016. Therefore, the Company was entitled to a preferential income tax rate of 15% for the years ended 31 December 2016 and 2015.

Yichang HEC Pharmaceutical Co., Ltd. (宜昌東陽光醫藥有限公司,"Yichang HEC Pharmaceutical"), a PRC subsidiary of the Group, is qualified as a Small Micro-Size Enterprise (小微企業), which entitled to a preferential income tax rate of 10% for the years ended 31 December 2016 and 2015.

(iii) According to relevant tax rules in the PRC, qualified research and development expenses ("R&D expenses"), which are not capitalised, are allowed for bonus deduction for income tax purpose, i.e. an additional 50% of such expenses could be deemed as deductible expenses.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB380,597,000 (2015: RMB265,750,000) and the weighted average of 450,814,367 (2015: 335,564,823 shares) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2016	**2015**
	shares	*shares*
Issued ordinary shares at 1 January	450,659,450	300,000,000
Effect of shares issued upon certain new investors on 5 June 2015	—	34,824,012
Effect of shares issued upon initial public offering on 29 December 2015	—	740,811
Effect of shares issued upon the over-allotment option of initial public offering	154,917	—
Weighted average number of ordinary shares at 31 December	450,814,367	335,564,823

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in 2016 and 2015, and therefore, diluted earnings per share is the same as the basic earnings per share.

8 TRADE AND OTHER RECEIVABLES

	2016	**2015**
	RMB'000	*RMB'000*
Current		
Trade receivables	286,176	241,308
Bills receivable	56,409	22,133
Less: allowance for doubtful debts	(13,847)	(13,347)
	328,738	250,094
Prepayments for inventories	5,538	7,393
Other receivables	2,873	3,081
Total	337,149	260,568

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net off allowance for doubtful debts, is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Within 3 months	280,266	193,214
More than 3 months but within 1 year	48,472	56,880
	328,738	250,094

Trade debtors are generally due within 30-90 days from the date of billing. Bills receivable is due in 3 months or 6 months from the date of billing. All of the trade and other receivables of the Group are expected to be recovered within one year.

(b) Impairment of trade debtors and bills receivable

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

The movement in the allowance for doubtful debts during the year is as follows:

	2016 *RMB'000*	2015 *RMB'000*
At 1 January	13,347	6,283
Impairment loss recognised	500	7,064
At 31 December	13,847	13,347

At 31 December 2016, trade debtors receivable of RMB17,609,000 (2015: RMB18,049,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB 13,847,000 (2015: RMB13,347,000) were recognised.

(c) Trade debtors and bills receivable that are not impaired

The aging analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Not past due	274,284	191,924
Less than 3 months past due	36,512	36,916
More than 3 months but within 1 year past due	14,180	16,552
	324,976	245,392

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

9 TRADE AND OTHER PAYABLES

	2016 *RMB'000*	2015 *RMB'000*
Trade payables (ii)	19,279	31,258
Bills payable (i)	2,635	2,153
Trade and bills payables	21,914	33,411
Amount due to related parties	2,392	—
Receipts in advance	9,933	5,934
VAT and other taxes payable	17,605	16,357
Accrued payroll and benefits	17,483	12,397
Other payables and accruals	113,050	87,862
	182,377	155,961

(i) Certain bills payable of the Group as at 31 December 2016 and 2015 were secured by pledged deposits.

(ii) An ageing analysis of the trade payables based on the invoice date is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	14,554	10,467
Over 1 month but within 3 months	2,109	8,123
Over 3 months but within 1 year	1,392	10,600
Over 1 year	1,224	2,068
	19,279	31,258

10 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2016	2015
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of RMB0.30 (2015:RMB0.15) per ordinary share	135,607	67,599

Pursuant to the resolution passed at the directors' meeting on 20 March 2017, a cash dividend of RMB0.30 (2015: RMB0.15) per share for the year ended 31 December 2016 were proposed for shareholders' approval at the annual general meeting.

The final dividend proposed after the end of the year has not been recognised as liabilities as at 31 December 2016.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016	2015
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of RMB0.15 per ordinary share (2015: nil)	67,623	—

11 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(i) On 6 February 2017, the extraordinary general meeting had resolved to issue 1,200,000 additional shares of RMB1.00 each to HEC Pharm Co., Ltd. (宜昌東陽光藥業股份有限公司) ("HEC Pharm") (the immediate controlling shareholder) at a price of HK$18.05 per share. Proceeds of RMB1,200,000 representing the par value of these ordinary shares, were credited to the Company's share capital and the excess of the proceeds over the nominal value of the total number of ordinary shares issued after offsetting share issuance costs of RMB17,729,000 were credited to the capital reserve account of the Company. As the completion of the private issue, the Company's share capital and the capital reserve increased to RMB452,023,000 and RMB1,476,163,000 respectively.

(ii) The Company and TaiGen Biopharmaceuticals (Beijing) Co., Ltd. established a joint venture of company, Dongguan HEC TaiGen Biopharmaceuticals Co., Ltd. (東莞東陽光太景醫藥研發有限責任公司, "HEC TaiGen") on 10 January 2017. HEC TaiGen is engaged in the research and development, production and sales of medical drugs. The Company invested RMB348.4 million in cash, representing 51% equity interests of HEC TaiGen.

(iii) After the end of the reporting period, the board of directors of the Company approved a distribution of dividends. Further details are disclosed in Note 10.

I. Industry Review

The pharmaceutical industry is not only an important industry concerning national economy and people's livelihood, but also a key area of the "*Made in China 2025*" and the strategic emerging industries, which is strongly supported by national policies of the PRC. The pharmaceutical industry developed rapidly during the "12th Five-year Plan" period. According to the statistics of the *Guidelines for the Development and Planning of the Pharmaceutical Industry* (《醫藥工業發展規劃指南》), the average annual growth rate of added value in large-scale pharmaceutical industry was 13.4% during the "12th Five-year Plan" period, representing an increase in the proportion to the added value of the industries in China from 2.3% to 3.0%.

During the past year of 2016, the pharmaceutical industry experienced a painful transformation as well as the joy of harvest. The publish of a series of policies had a deep effect on the development of the pharmaceutical industry, which mainly included: reinforcing the review and approval requirements for the launching of new drugs in the stage of registration; emphasizing the enhancement of the quality and therapeutic effect of innovative drugs and accelerating the implementation of consistency evaluation on the quality and therapeutic effect of launched generic drugs in the stage of production; focusing on regulating the distribution order, reforming and improving the distribution system of drugs and reducing the falsely high prices of drugs in the stage of distribution; reforming and adjusting the interest-driven mechanism, facilitating the return of drugs to the original use of curing disease, promoting reasonable drug usage and further eliminating the mechanism of subsidizing medical costs with drugs in the stage of usage.

Efficiently implementing the priority evaluation system, focusing on high-quality innovation and highlighting on clinical value

On 26 February 2016, the China Food and Drug Administration ("**CFDA**") issued the *Opinions Concerning the Implementation of Priority Evaluation to Resolve the Backlog of Applications for Drug Registration* (《關於解決藥品註冊申請積壓實行優先審評審批的意見》), which expressly states that the priority evaluation system shall be an organic integral part of the supply-side reform for the pharmaceutical industry in China. The implementation of drug evaluation reform provided a positive policy environment to change the current supply condition, backlog of applications for registration and oversupply of low level and repeated capacities, in the pharmaceutical industry of China at the source. The priority evaluation system led the industry to innovation, focusing on innovative drugs with higher clinical value and generic drugs of former patent drugs with larger sales and better competitive landscape. In the short run, the review process for drugs included in priority evaluation will be greatly shortened, which will create an invisible market advantage for post-marketing promotions. In the long run, the priority evaluation system will guide and encourage enterprises to pursue innovations, promote the change of emphasis from speed to quality and realize a positive cycle for industrial development.

Enhancing quality of generic drugs by consistency evaluation of drugs

On 31 May 2016, CFDA published two relevant policies regarding the consistency evaluation of drugs: *Guidelines on Certified Service for Good Laboratory Practice (GLP)* (《藥物非臨床研究質量管理規範認證服務指南》) and *Guidelines on Qualification Recognition Service for Drug Clinical Trial Institution* (《藥物臨床實驗機構資格認定服務指南》), which resolved the critical point of implementing the consistency evaluation of drugs.

In order to further promote the consistency evaluation, corresponding incentive policies were also launched successively by the government. In March 2016, the Office of the State Council issued the *Opinions of the Office of the State Council on the Commencement of Consistency Evaluation on the Quality and Therapeutic Effect of Generic Drugs* (《國務院辦公廳關於開展仿製藥質量和療效一致性評價的意見》) and pointed out that generic drugs produced by domestic pharmaceutical enterprises which had obtained approvals for launching in the markets of European Union, United States and Japan could make an application for market launch under the new registration category of the chemical drugs based on the relevant information submitted under the overseas registration. Having obtained approval for launching by CFDA, such drugs would be deemed to have passed the consistency evaluation. Drugs produced by the same production line and launched in the PRC, which have obtained approval for market launch in the European Union, United States and Japan are also deemed to have passed the consistency evaluation.

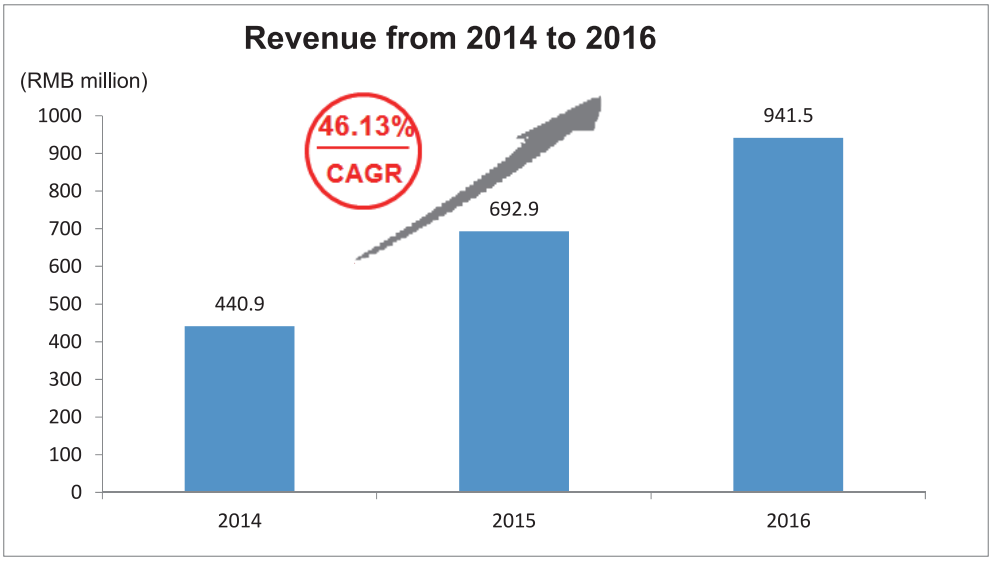
Looking ahead in the future, with the continuous median to high growth rate of the PRC economy, it is expected the pharmaceutical market will maintain relatively rapid growth under the driving factors such as the continuous increase in the disposable income of residents, the ongoing upgrading in the consumption structure, the steady progress in building a healthy China, further improvement in the medical reimbursement system, the severity in the aging trend of population, the continuous increase in the morbidity rate of some diseases and the full implementation of the two-children policy.

The *Research and Consulting Report on Investment Strategy for the Pharmaceutical Industry in China for 2016-2020* (《2016-2020年中國醫藥行業投資戰略研究諮詢報告》) published by ASKCI Corporation (中商產業研究院) pointed out that during the "13th Five-year Plan" period, the pharmaceutical industry in China will continue to develop rapidly and the market size will reach RMB1,791.9 billion by 2020, with a CAGR of 8% from 2015 to 2020. The transformation of the pharmaceutical sector from large to strong will speed up in such period and the pharmaceutical industry of China will completed its upgrading through encouraging innovations, accelerating the internationalization process of pharmaceutical enterprises and improving the quality of drugs.

II. Business Review

I. Summary of Overall Results

The Group recorded a revenue of RMB941.50 million for the year ended 31 December 2016, representing an increase of 35.88% as compared to 2015. Net profit after tax amounted to RMB380.60 million, representing an increase of 43.22% as compared to 2015. In terms of the product portfolio, Kewei, Ertongshu, Oumeining, Xinhaining and Xining were still the top five core products of the Group.



II. Products, Research and Development

On 30 December 2016, Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司) ("**Shenzhen HEC Industrial**") entered into a renewed licensing agreement with Oseltamivir Phosphate Licensor, pursuant to which the royalty rate was agreed to reduce by approximately 10% and the licensing shall be effective until the date when the last patent of the licensed patents expires or is declared invalid or unenforceable. Shenzhen HEC Industrial agreed to irrevocably license its interest under the licensing agreement entered into with Oseltamivir Phosphate Licensor at nil consideration to the Company, together with an undertaking made by Shenzhen HEC Industrial that, unless with prior consent from the Company, its interest under the licensing agreement shall cease to be licensed to any other companies, including Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司) ("**Sunshine Lake Pharma**").

In addition, the Group made certain achievements in the research and development of anti-virus therapeutic and endocrine areas during 2016.

1. Anti-virus therapeutic area

In February 2016, the Group and TaiGen Biotechnology Holdings Limited (太景生物科技股份有限公司) ("**TaiGen**") reached an agreement on intention of cooperation in respect of the development of a novel treatment for chronic Hepatitis C virus (HCV), and the cooperation was formally commenced on 10 January 2017 through the establishment of Dongguan HEC TaiGen Biopharmaceuticals Co., Ltd. (東莞東陽光太景醫藥研發有限責任公司) (the "**JV company**") to jointly conduct clinical development with the two National Class 1.1 innovative anti-Hepatitis C drugs held by both parties to form an all-oral interferon-free combo treatment for Hepatitis C.

In this cooperation, the product from our Group was NS5A inhibitor Yimitasvir Phosphate, a National Class 1.1 innovative drug, which had completed Phase I clinical trial and obtained approvals from the CFDA for Phase II and Phase III clinical trials in December 2016. The product from TaiGen was Furaprevir, an NS3/4A protease inhibitor, which had completed Phase II clinical trial in Taiwan successfully in February 2017. The JV company would strive to promote the clinical research of combining Yimitasvir Phosphate and Furaprevir in China with a view to launch a novel all-oral interferon-free direct anti-viral agents (DAAs) combo. Since the DAA combo did not require the use of interferon, and the treatment period would be notably shorter than that under the standard of care by using Ribavirin with interferon, the compliance and tolerance of the patients for such treatment would be improved, which is also the standard treatment regimens commonly used internationally.

Moreover, since such research and development was positioned at the Hepatitis C treatment area where new drugs were extremely needed, both Yimitasvir Phosphate of the Group and Furaprevir of TaiGen were selected in the priority evaluation list of the Centre of Drug Evaluation ("CDE") under CFDA in 2016, which would be helpful for the above products to obtain the CFDA approvals as soon as possible.

2. Area of endocrine and metabolic diseases

In the area of endocrine and metabolic diseases, the Group focused on developing portfolio of insulin products for the treatment of diabetes. As at 31 December 2016, the Recombinant Human Insulin Injection of the Group, a second generation insulin product, was under clinic trials, and other second generation insulin products, such as Isophane Protamine Recombinant Human Insulin Injection and Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R), and Insulin Glargine Injection, a third generation insulin product, had already obtained clinical trial approvals in August 2016. The clinical trials for such products are being conducted as planned currently. Insulin Aspart Injection and Insulin Aspart 30 Injection, both belonging to the third generation insulin products, are currently in the stage of clinical trial application.

The Group strives to provide diabetic patients in China with high quality and affordable drugs of genuine biologics. As the Group follows the latest research and development guidelines on biosimilar drugs adopted in Europe and United States, and adopts the development strategy of making strict comparison with the biologics, all insulin products of the Group are highly similar to the biologics in terms of quality, purity and stability.

By leveraging on the high standard of research and development and the excellent product quality, the Group and Lannett (NYSE: LCI) reached an agreement in April 2016 on the intention of strategic cooperation for the joint development of insulin glargine biologics. The two parties will jointly apply for registration of the insulin biosimilar drugs of the Group in the US market.

3. Strong product reserve

In 2015, the Group entered into a strategic cooperation agreement with Shenzhen HEC Industrial, our controlling shareholder, pursuant to which the Group is entitled to the pre-emptive right of purchasing products developed by the HEC Research Group (including Yichang HEC Research Co., Ltd. (宜昌東陽光藥研發有限公司), Linzhi HEC Pharmaceutical Investment Co., Ltd. (林芝東陽光藥業投資有限公司) and their respective subsidiaries, being the subsidiaries of Shenzhen HEC Industrial). Yimitasvir Phosphate and the following DAAs are the first batch of excellent products introduced to the Group through the agreement. By relying on the strategic cooperation with the controlling shareholder, the Group will obtain an abundant supply of competitive products, advanced technological support and a strong patent reserve in the future.

4. Intellectual property rights

(1) Trademarks

On 12 June 2016, HEC Pharm Co., Ltd. (宜昌東陽光藥業股份有限公司) (the "**Parent Company**") and the Group signed three trademark transfer contracts, whereby the Parent Company transferred the following three main authorized trademarks to the Group with nil consideration. Currently, the transfer of the trademarks is still under relevant registration progress.

No.	Transferor	Transferee	Registered trademark	Registration number/ Application number	International classification number
1	Parent Company	the Company	东阳光	5627469	5
2	Parent Company	the Company	东阳光	6297959	5
3	Parent Company	the Company	东阳光	9224300	5

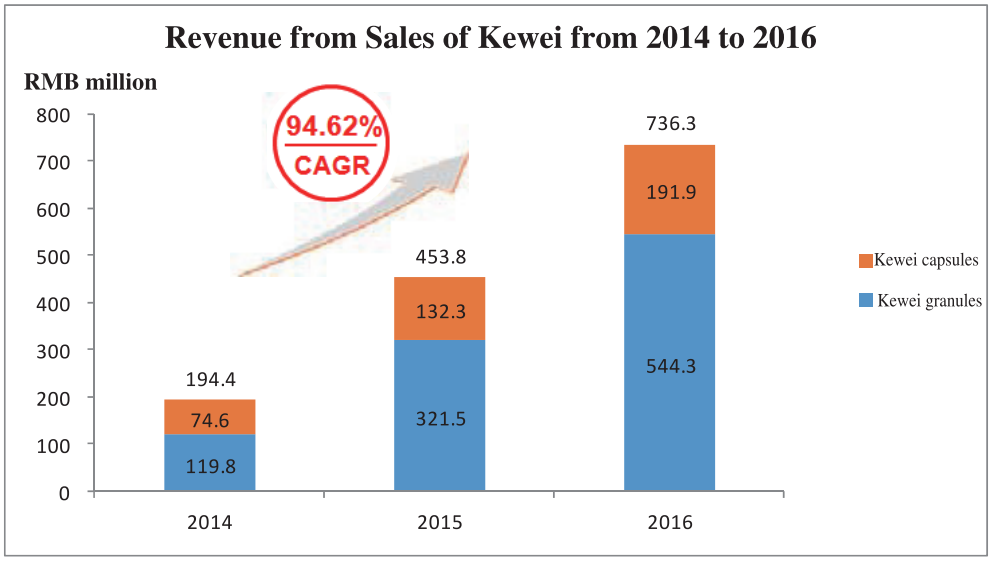
(2) Patents

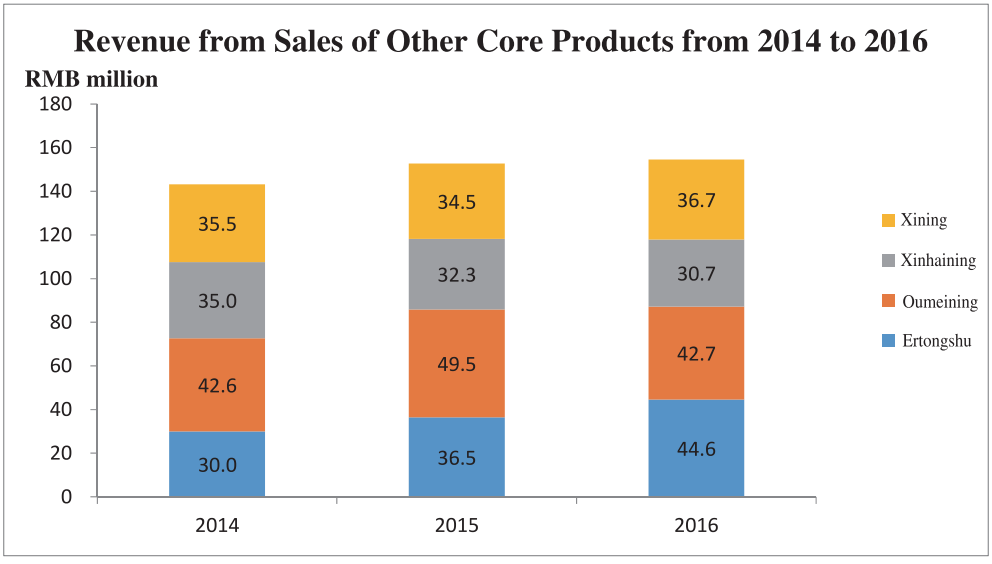
The Group attaches great importance to the protection of the intellectual property and encourages the application for new patents in order to improve the core competitiveness of the Group. In 2016, the Group had five newly granted patents including three invention patents and two utility model patents, as well as one patent under application process.

III. Sales Performance Review

The subsectors participated by the Group mainly include the areas of the anti-viral drug, metabolic and endocrine drug and cardiovascular drug. According to the development stage of the relevant disease spectrum in China, the development trend of the relevant subsectors is optimistic.

Looking back into 2016, Kewei (granules and capsules), the core product of the Group, still maintained a strong growth trend. Revenue form sales of Kewei recorded for the year of 2016 amounted to RMB736.27 million, increased by 62.24% as compared to 2015.





During the reporting period, the Group further improved its national sales network, especially reinforced the academic promotional efforts for pharmaceuticals in provinces including Guangdong, Anhui, Hubei and Zhejiang, organized a number of national and provincial level large-scale academic seminars, including the First Guangdong-Hong Kong-Macau Respiratory Forum and the Launching Ceremony of Guangdong Influenza Standardized Diagnosis and Treatment Academic Direct Through Train (第一屆粵港澳呼吸論壇暨廣東流感規範化診療學術直通車啟動會), Tenth Hospital Pharmacy Academic Conference in Central and Southern Regions (中南地區第十屆醫院藥學學術) and Annual National Pediatrics Conference (全國兒科年會), and further established extensive relationship with major medical institutions and relevant academic institutions to lay a solid foundation for academic promotions, enhancing product and brand awareness.

In respect of the sales team development, we had a total of 404 employees engaged in sales and marketing as at 31 December 2016. The Group enhanced its sales performance through optimizing the core management of the sales group, adjusting the sales organization structure, establishing an effective training system and building a specialist sales team, which also providing professional opinions for the further development of the Group through the predicting of development tread of the pharmaceutical industry.

Moreover, while adhering to the concept of self-operation, the Group introduced pilot of reforms under the "horizontal and vertical combination" model and fully implemented sales by product lines in all provinces. Meanwhile, the Group also followed the macro trend of "collaboration with manufacturers, alliance with strong partners" and entered into a strategic cooperation agreement with China National Accord Medicines Corporation Ltd. (國藥集團一致藥業股份有限公司) to lay a solid foundation for sales and distribution of future products by the Group.

In future, based on the precise understanding on the overall pharmaceutical market, the construction of sales team by the Group and the refined management of customers, together with the advantages of the listing of oseltamivir phosphate granules, the Group's core product, in the National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version) (the "**2017 National Reimbursement Drug List**") of the PRC by the China Ministry of Human Resources and Social Security of the PRC, the Group will achieve a stable growth in its sales performance.

IV. Manufacturing Review

In 2016, by adhering to our consistent strategies of producing drugs of better quality and international standard, the Group has increased its efforts in respect of the compliance management, system establishment and internal governance, and improved quality control with the focus on the establishment of a quality control system to ensure the continuous improvement in product quality.

In respect of the safety management, the Group has been adhering to the principles of "safety first, prevention at core, integrated governance". Guiding by the safety culture, the Group has put in great efforts to promote the establishment of a risk management system and safety standards. By enhancing the guidance, assistance, review and incentives in the safety management process, the Group motivated all its employees to participate in the practice of safety management and achieved zero material safety incident in 2016.

In respect of environmental protection and governance, the Group has increased its investment to formulate and implement specific methods jointly with external experts for the "three wastes" generated from its own products according to the characteristics of their ingredients and categories. The Group also explored new solutions for environmental protection and utilization of resources.

V. Operating Results And Analysis

1. Revenue

For the year ended 31 December 2016, the Group recorded a revenue of RMB941.50 million, representing an increase of 35.88% as compared with RMB692.91million for the year ended 31 December 2015. The increase was primarily attributable to the increase in the sales of our core products Kewei and Erongshu and the further optimization of the marketing network.

The table below sets forth the sales revenue of the Group by therapeutic areas as a percentage of total revenue:

	Year ended 31 December				
	2016		**2015**		
	(RMB'000)	*%*	*(RMB'000)*	*%*	**Growth as Compared with Same Period of Last Year** *(%)*
Anti-viral drugs	739,824	78.58%	457,436	66.02%	61.73%
– Including core product Kewei (oseltamivir phosphate)	736,273	78.20%	453,830	65.50%	62.24%
– Kewei granules	544,324	57.81%	321,514	46.40%	69.30%
– Kewei capsules	191,949	20.39%	132,316	19.10%	45.07%
Cardiovascular drugs	89,182	9.47%	107,083	15.45%	-16.72%
Endocrine and Metabolic drugs	46,739	4.97%	39,047	5.64%	19.70%
Others	65,759	6.98%	89,344	12.89%	-26.40%
Total	941,504	100%	692,910	100%	35.88%

2. Cost of Sales

Our cost of sales consists of (i) cost of materials, primarily including cost of active pharmaceutical ingredient (API), ancillary materials and packaging materials, (ii) labour cost, primarily including salaries and welfare benefits of our staff directly involved in the manufacture of our products, (iii) manufacturing cost, primarily including depreciation charge of machinery, equipment and plant and cost of labour protection materials, fuel, machine oil and maintenance, and (iv) royalty fee paid to third parties in relation to various patents.

The Group's cost of sales increased by 20.13% to RMB214.23 million for the year ended 31 December 2016 from RMB178.33 million for the year ended 31 December 2015, which was mainly due to the increase in sales volume.

The table below sets forth the cost of sales of the Group by therapeutic areas and as a percentage of total cost of sales:

	Year ended 31 December				
	2016		**2015**		
	(RMB'000)	*%*	*(RMB'000)*	*%*	**Growth as Compared with Same Period of Last Year** *(%)*
Anti-viral drugs	169,782	79.25%	106,170	59.53%	59.91%
– Including core product Kewei (oseltamivir phosphate)	168,811	78.80%	104,469	58.58%	61.59%
– Kewei granules	112,535	52.53%	68,735	38.54%	63.72%
– Kewei capsules	56,276	26.27%	35,734	20.04%	57.49%
Cardiovascular drugs	14,925	6.97%	18,994	10.65%	-21.42%
Endocrine and Metabolic drugs	6,591	3.08%	5,030	2.82%	31.02%
Others	22,936	10.70%	48,140	27.00%	-52.35%
Total	214,234	100%	178,334	100%	20.13%

3. Gross Profit

For the year ended 31 December 2016, the Group's gross profit increased to RMB727.27 million, representing an increase of 41.33% as compared with RMB514.58 million for the year ended 31 December 2015. The increase in gross profit was mainly due to the increase in the sales of Kewei, a product with higher gross profit margin.

The table below sets forth the gross profit of the Group by therapeutic areas:

	Year ended 31 December				
	2016		2015		
	(RMB'000)	*%*	*(RMB'000)*	*%*	**Growth as Compared with Same Period of Last Year** *(%)*
Anti-viral drugs	570,042	78.38%	351,266	68.26%	62.28%
Including core product Kewei (oseltamivir phosphate)	567,460	78.03%	349,361	67.89%	62.43%
– Kewei granules	431,788	59.37%	252,779	49.12%	70.82%
– Kewei capsules	135,672	18.66%	96,582	18.77%	40.47%
Cardiovascular drugs	74,257	10.21%	88,089	17.12%	-15.70%
Endocrine and Metabolic drugs	40,149	5.52%	34,017	6.61%	18.03%
Others	42,822	5.89%	41,204	8.01%	3.93%
Total	727,270	100%	514,576	100%	41.33%

4. Other revenue

The Group's other revenue mainly includes (i) government subsidies, primarily including amortisation of government subsidies for our construction of the production line of Kewei by instalment in accordance with accounting standards, and other research and development subsidies and awards granted by local government, and (ii) interest income and miscellaneous income.

For the year ended 31 December 2016, the Group's other revenue was RMB16.00 million, representing an increase of 1.25% as compared with RMB15.80 million for the year ended 31 December 2015. Such increase was due to the increase in interest income, offset by the decrease in government subsidies.

5. Other Net Income

For the year ended 31 December 2016, the Group's other net income was RMB30.63 million, representing an increase of 357.85% as compared with RMB6.69 million for the year ended 31 December 2015. The increase was due to foreign exchange gains from the fluctuation of exchange rate between HKD and RMB.

6. Expense Analysis

For the year of 2016, the Group's total expense amounted to RMB320.83 million, representing an increase of 44.29% as compared with RMB222.36 million for the year of 2015. The main components of the Group's expenses are as follows:

	2016	**2015**	**Year-on-year Growth**
	(RMB'000)	*(RMB'000)*	*(%)*
Distribution costs	180,887	77,287	134.05%
Administrative expenses	132,711	120,171	10.44%
Finance costs	7,233	24,899	-70.95%
	320,831	222,357	44.29%

Distribution costs mainly consist of (i) marketing expenses relating to conducting academic promotion activities and other marketing activities, (ii) travelling expenses for marketing purposes, (iii) labour cost, and (iv) other expenses.

The increase in distribution costs was mainly due to the increase in operating cost and travel expenses in relation to academic promotion and other marketing activities, closely relating to our increased efforts on academic promotion of our core product Kewei. In addition, the Group also expanded its sales force in 2016 and its sales and marketing staffs increased by 208 as compared to 2015.

Administrative expenses mainly consist of (i) research and development cost, (ii) salaries and welfare benefits for management and administrative personnel, (iii) depreciation and amortisation costs relating to our office and facilities and land use rights, and (iv) other miscellaneous expenses.

The increase in administrative expenses was mainly due to the increase in labor costs and resarch and development expenses.

Finance costs mainly consist of interests on bank loans.

The decrease in finance costs was mainly due to that the Group had sufficient funds and used such funds to repay matured bank loans which resulting in the decrease in interest expenses.

7. Profit Before Taxation

For the forgoing reasons, profit before taxation increased by 43.96% to RMB453.07 million from RMB314.71 million in 2015.

8. Income Tax

For the year ended 31 December 2016, the Group's income tax expenses were RMB72.47 million, representing an increase of 48.03% as compared with RMB48.96 million for the year ended 31 December 2015, which was mainly due to the increase in profit before taxation.

9. Profit After Taxation

For the forgoing reasons, the Group's profit after taxation was RMB380.60 million for the year ended 31 December 2016, representing an increase of 43.22% as compared with RMB265.75 million for the year ended 31 December 2015.

IV. Financial Position

1. Overview

As at 31 December 2016, the Group's total assets amount to RMB2,831.11 million, with total liabilities of RMB373.30 million and shareholders' equity of RMB2,457.81 million.

2. Net Current Assets

The following table sets forth our current assets, current liabilities and net current assets for the date indicated.

		As at 31 December	
		2016	**2015**
		RMB'000	*RMB'000*
Current assets			
Inventories		110,624	154,628
Trade and other receivables		337,149	260,568
Time deposits		238,988	33,000
Pledged deposits		2,635	8,077
Cash and cash equivalents		1,212,072	1,353,651
Total current assets		1,901,468	1,809,924
Current liabilities			
Trade and other payables	9	182,377	155,961
Bank loans		70,000	105,000
Deferred income		4,379	4,379
Current taxation		27,525	5,826
Total current liabilities		284,281	271,166
Net current assets		1,617,187	1,538,758

Our net current assets increased from RMB1,538.76 million as at 31 December 2015 to RMB1,617.19 million as at 31 December 2016, mainly due to sales growth, increase in trade and other receivables and decrease in bank loans.

3. Gearing ratio and quick ratio

Gearing ratio represents total loans and borrowings as at a record date divided by shareholders' equity as at the same record date. Quick ratio represents current assets excluding inventories as at a record date divided by current liabilities as at the same record date.

The gearing ratio and quick ratio of the Group as at 31 December 2016 were 3.66% and 6.30 times respectively. The gearing ratio and quick ratio of the Group as at 31 December 2015 were 9.10% and 6.10 times respectively.

The decrease in the gearing ratio as at 31 December 2016 as compared with 31 December 2015 was mainly due to the decrease in debts and increase in total equity; the increase in the quick ratio was mainly due to the decrease in current liabilities and increase in quick assets.

4. Capital Raising

The Company exercised part of the over-allotment option on 17 January 2016 to issue 163,000 additional H shares. As at 31 December 2016, the total share capital of the Company was 450,822,850 shares.

The Company entered into the capital increase agreement with the Parent Company on 16 December 2016, pursuant to which, the Company has agreed to issue and allot 1,200,000 new domestic shares of the Company to the Parent Company at a consideration of RMB19,344,000 (the "**Subscription**"). Please refer to the announcement of the Company dated 16 December 2016 and the circular of the Company dated 20 January 2017 for detailed information. The Subscription has completed on 10 February 2017.

5. Bank Loans

In 2016, all indebtedness of the Group were Renminbi-denominated bank loans. As at 31 December 2016, the balance of the Group's bank loans was RMB90.00 million, representing a decrease of 53.85% from RMB195.00 million as at 31 December 2015.

6. Capital Expenditure

In order to meet the production demand for our products, the Group constructed plants and buildings, purchased machines and equipment in 2016 with an aggregate capital expenditure of RMB60.77 million, representing an increase of 103.52% as compared to RMB29.86 million in 2015.

7. Major Purchase and Sales

On 22 July 2015, the Group entered into an agreement with Sunshine Lake Pharma. Pursuant to the agreement, the Group have acquired the right to use all the relevant knowhow and patents relating to yimitasvir phosphate and follow-up direct anti-viral agent compounds (the "**Compounds**") and, upon obtaining necessary government approvals, the right to manufacture and sell worldwide for a consideration of RMB700.00 million. The consideration comprised a down payment of RMB250.00 million and progress payments totalling RMB450.00 million payable upon each stage of development or approval of Yimitasvir phosphate or the Compounds. The agreement expires on 31 December 2030 or the date when the first patent mentioned above expires, whichever is earlier.

8. Contingent Liabilities

As at 31 December 2016, the Group did not provide any external guarantees.

9. Pledge of Assets

As at 31 December 2016, except for bank deposits pledged to secure certain bills payable, we had no other pledged assets.

10. Employee and remuneration policies

(1) Human Resource Summary

As at 31 December 2016, the Group had a total of 1,317 employees,

by age:

Age Distribution	**Number**	**Percentage**
30 or below	594	45%
30-40 (inclusive)	525	40%
40-50 (inclusive)	181	14%
Above 50	17	1%
Total	1317	100%

by education:

Education Level	**Number**	**Percentage**
Master or above	50	4%
Bachelor	395	30%
Associate	323	24%
Vocational or Below	549	42%
Total	1317	100%

(2) Remuneration Policy

The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis.

(3) Employee Benefits

The Group strictly complies with the *Labor Law, the Labor Contract Law* and the *Social Insurance Law* of the PRC, under which it contributes various social insurance premiums and housing provident fund for employees. In addition to the statutory requirement of the PRC, the Group has established corresponding systems such as the annuity system, housing benefits and children's benefits, and established public welfare facilities such as kindergarten and infirmary room.

V. Future Outlook

In recent years, with the increasing demand for public health, acceleration in the aging of population and the backdrop of complete implementation in two-children policy, the pharmaceutical market in the PRC has developed rapidly with an upward trend. Meanwhile, the launching of a series of industrial policies, such as the *Guidelines for the Development and Planning of the Pharmaceutical Industry*, has indicated a clear direction for the rapid, orderly and healthy development of the pharmaceutical industry.

Optimistic development of the pharmaceutical industry

In 2017, the environment for the development of the pharmaceutical industry in China will improve remarkably. With the comprehensive implementation of structural reforms on the supply side, increasing supportive efforts from the national policies on the pharmaceutical industry, increasing awareness of health and preventive protection among national citizens, complete implementation of the two-children policy, steadily increasing disposable income of residents, and successive implementation of key strategies and plans such as "*Made in China 2025*", *Outline Plan of "Healthy China 2030"* and the *Guidelines for the Development and Planning of the Pharmaceutical Industry*, the pharmaceutical industry in China will develop further under these supportive forces and recovery of the pharmaceutical industry will continue.

More active innovations by enterprises

National technology plans, such as "The National Major Innovative Drug Projects" and "Prevention and Treatment of Major Infectious Diseases such as AIDS and Viral Hepatitis", and industrial transformation and upgrading projects provide increasing supportive efforts to biologics and innovative drugs. The registration, review and approval processes for new drugs continue to improve. The strong guidance from national policies has indicated the direction of technological innovation for enterprises, which will stimulate tremendous vigor and momentum for innovations in enterprises.

Looking ahead in 2017, the Group will benefit from the advantage of the Listing of Kewei granules, a core product of the Group, in the 2017 National Reimbursement Drug List, the Group will continue to increase marketing and promotional efforts for its academic products, enhance brand building, expand sales network, actively explore new markets with development potential and strengthen its market leading position. Meanwhile, the Group will also respond to the relevant government policies encouraging innovations by increasing investments in the research and development of products to enable more high quality medicines with great market demand to obtain government approvals and benefit the general public in China.

In future, the Group will continue to adopt sustainable development strategies, actively get more approvals for innovative drugs and biologics, develop "strong-strong" alliance with external parties, expand the coverage of products to more disease treatment areas, accelerate the expansion of existing business by capitalizing on the advantages of industrial resources, aiming to achieve a long-term sustainable growth, become a leading pharmaceutical enterprise in China and maximize the value created for shareholders.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Group is committed to creating two-way channels of communication between senior management and investors, maintaining close relations with all its shareholders through a variety of channels and promoting understanding and communication between investors and the Group. The Company has adopted a shareholders' communication policy to formalize and facilitate the effective and healthy communication between the Company and the shareholders and other stakeholders, which is available on the website of the Group (http://www.hec-changjiang.com). The main communication channels with the shareholders include investors' meetings, general meetings, annual reports, interim reports, announcements and circulars, prospectuses and the Group's website.

The Group has a dedicated team to maintain contact with investors and handle shareholders' inquiries. Should investors have any inquiries, please contact the Group's investor relationship department (Tel: +86-769-8176 8886; +852-3568 7038; email: wangyue@hecpharm.com).

FINAL DIVIDEND

The Board resolved to recommend the payment of final dividends of RMB0.30 (tax inclusive) per share for the year ended 31 December 2016 (the "**2016 Final Dividend**") with an aggregate amount of approximately RMB135.61 million to shareholders whose names are listed on the Company's register of members as at 17 June 2017 in the forthcoming annual general meeting of the Company (the "**AGM**") to be held on 6 June 2017. The 2016 Final Dividend will be denominated and declared in RMB. The Company will pay dividends in respect of domestic shares in RMB and dividends in respect of H shares in HKD. Once the relevant resolution is passed at the AGM, the 2016 Final Dividend is expected to be paid on or around 14 July 2017.

Pursuant to the *Enterprise Income Tax Law of the People's Republic of China* and its implementation rules both effective since 1 January 2008, and other relevant provisions, the Company is required to withhold and pay a 10% enterprise income tax when paying the recommended 2016 Final Dividend to non-residential enterprise shareholders listed on the Company's register of members of H shares. Any H share registered in the name of a non-individual shareholder, such as HKSCC Nominees Limited, other nominees, trustees, organizations or corporates, will be deemed as shares held by a non-residential enterprise shareholder, and therefore the enterprise income tax on the receivable dividend in respect of such shares will be withheld.

According to the *Individual Income Tax Law of China* (《中華人民共和國個人所得税法》) implemented on 1 September 2011 and its implementation provisions, the Notice Concerning Individual Income Tax on the Dividends, Bonuses that Foreign Individuals Obtain from Foreign-invested Enterprises Issued by the Ministry of Finance of Hubei Province (《湖北省地方税務局關於對外籍個人從外商投資企業取得股息紅利所得徵收個人所得税問題的公告》) and other laws and regulations, the Company will withhold and pay a 20% personal income tax on the dividend amount for individual shareholders.

The aforesaid non-residential enterprises and individuals may enjoy the concessionary tax rate in accordance with the relevant provisions of treaties or arrangements for avoidance of double taxation entered into between their country (region) and PRC, and Announcement No. 60 2015 of the State Administration of Taxation: Administrative Measures for Nonresidents to Enjoy the Treatments of Tax Treaties (the "**Measures**") after completing relevant procedures. The aforesaid shareholders shall provide complete information as required by the Measures to the Company by 23 June 2017. The Company will file tax return to enable the aforesaid shareholders to enjoy the concessionary tax rate stipulated in the Measures.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain shareholders' entitlement to attend and vote at the AGM and to the proposed 2016 Final Dividend, the H share register of members of the Company will be closed from Saturday, 6 May 2017 to Tuesday, 6 June 2017 (both days inclusive) and from Monday, 12 June 2017 to Saturday, 17 June 2017 (both days inclusive) respectively, during which no transfer of H shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, all unregistered shareholders of the Company shall lodge transfer documents with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Friday, 5 May 2017. In order to qualify for receiving the proposed 2016 Final Dividend (subject to the approval by the shareholders at the forthcoming AGM), unregistered shareholders of the Company shall lodge transfer documents with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Friday, 9 June 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Company always strives to maintain a high level of corporate governance and complied with all code provisions as set out in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the year ended 31 December 2016.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions of the Company by the directors and supervisors of the Company. Upon making specific enquiries to all of the directors and supervisors of the Company, all directors and supervisors of the Company confirmed that during the year ended 31 December 2016, each of the directors and supervisors of the Company had fully complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers.

AUDITORS

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or expertise related to accounting or financial management. The Company has an audit committee which is accountable to the Board and the primary duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control measures.

The audit committee is composed of two independent non-executive Directors, namely Mr. TANG Jianxin and Mr. LEE Chi Ming and the non-executive Director, namely Mr. TANG Xinfa. Mr. TANG Jianxin serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters.

The audit committee of the Company has reviewed the 2016 annual results and the financial statements for the year ended 31 December 2016 prepared in accordance with the IFRSs.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKExnews website of the Stock Exchange at http://www.hkexnews.hk and on the website of the Company at www.hec-changjiang.com. The 2016 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders in due course and will be published on the websites of the Company and the Stock Exchange.

APPRECIATION

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, which are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to create more values for all its shareholders.

On behalf of the Board
YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
TANG Xinfa
Chairman

Hubei, the PRC
20 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. JIANG Juncai, Mr. WANG Danjin and Mr. CHEN Yangui; the non-executive directors of the Company are Mr. TANG Xinfa, Mr. ZHU Yingwei and Mr. MO Kit; and the independent non-executive directors of the Company are Mr. TANG Jianxin, Mr. FU Hailiang and Mr. LEE Chi Ming.