* For identification purpose only

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 2016

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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

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South Church Street, George Town
Grand Cayman, Cayman Islands

PLACE OF BUSINESS IN HONG KONG

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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
Shops 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

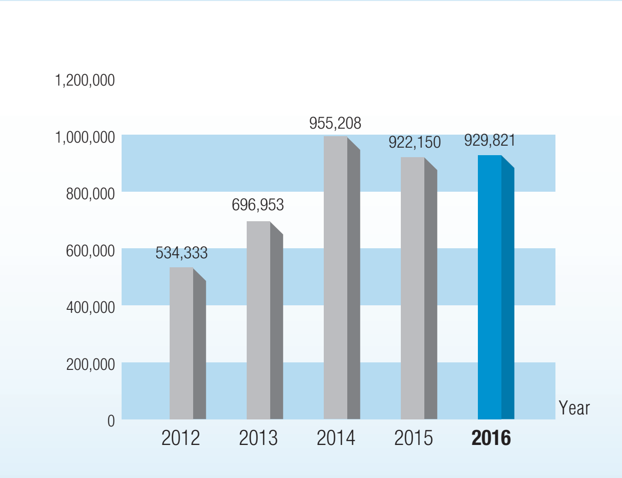
* *In the National Drug Reimbursement List of the PRC*

FINANCIAL HIGHLIGHTS

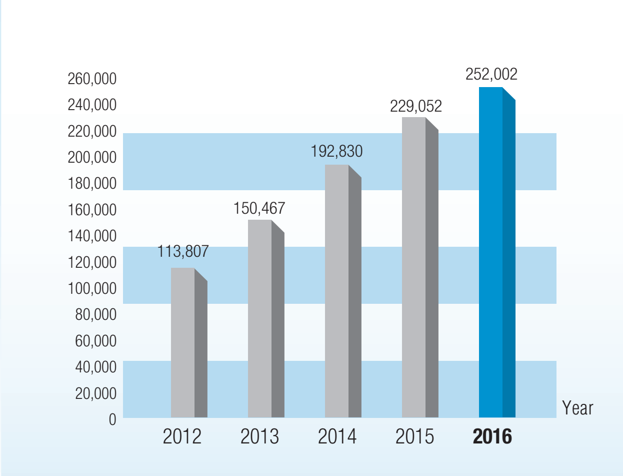
	2016	2015	Change
	HK$'000	HK$'000	
Revenue	**929,821**	922,150	+0.8%
Profit attributable to the owners of the Company	**252,002**	229,052	+10.0%
Total equity attributable to the owners of the Company	**1,601,726**	1,467,438	+9.2%
	HK cents	HK cents	
Earnings per share			
Basic	**42.79**	39.77	+7.6%
Diluted	**42.60**	39.29	+8.4%
Dividend per share			
Interim	**3.3**	3.0	
Final	**7.9**	7.4	
Total	**11.2**	10.4	+7.7%
Dividend payout ratio	**26.2%**	26.2%	

FINANCIAL HIGHLIGHTS

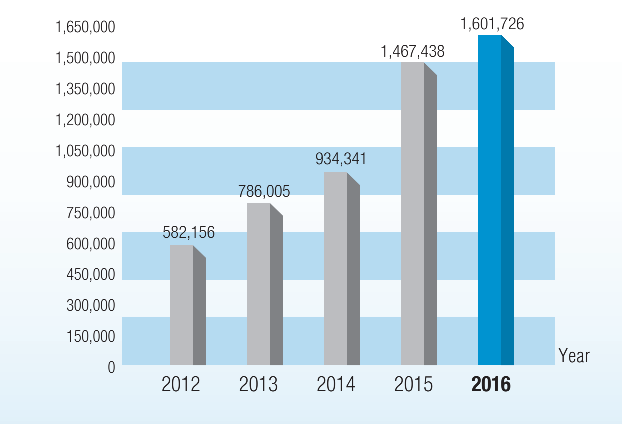
Revenue (HK$'000)



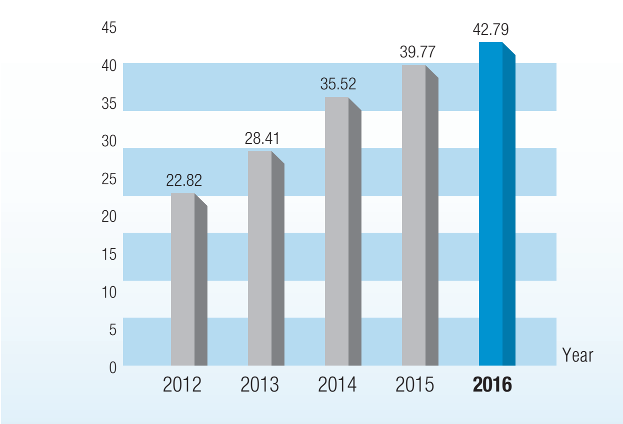
Profit Attributable to the Owners of the Company (HK$'000)



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				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**929,821**	922,150	955,208	696,953	534,333
Cost of sales	**(261,586)**	(273,986)	(284,685)	(193,700)	(153,498)
Gross profit	**668,235**	648,164	670,523	503,253	380,835
Other income	**72,137**	12,194	17,572	10,731	12,385
Gain on deemed disposal of interest in an associate	**–**	31,825	–	–	–
Fair value changes of derivative financial instruments	**–**	10,092	(10,092)	–	–
Impairment of intangible assets	**(23,324)**	(8,192)	(5,649)	(6,094)	(3,752)
Selling and distribution expenses	**(204,225)**	(256,465)	(309,202)	(222,850)	(179,512)
Research and development expenses	**(67,886)**	(38,883)	(32,315)	(26,168)	(12,552)
Administrative expenses	**(146,511)**	(112,310)	(99,345)	(78,511)	(63,042)
Profit from operations	**298,426**	286,425	231,492	180,361	134,362
Finance costs	**(3,803)**	(3,040)	(2,671)	(1,853)	(1,192)
Share of results of associates	**(12,019)**	(29,450)	(668)	(2,418)	–
Profit before taxation	**282,604**	253,935	228,153	176,090	133,170
Taxation	**(50,198)**	(40,938)	(41,368)	(27,087)	(20,104)
Profit for the year	**232,406**	212,997	186,785	149,003	113,066
Attributable to:					
Owners of the Company	**252,002**	229,052	192,830	150,467	113,807
Non-controlling interests	**(19,596)**	(16,055)	(6,045)	(1,464)	(741)
Profit for the year	**232,406**	212,997	186,785	149,003	113,066

FIVE-YEAR FINANCIAL SUMMARY

FINANCIAL POSITION

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,177,685**	1,009,659	639,392	523,884	284,687
Current assets	**883,712**	841,469	729,988	641,771	511,844
Current liabilities	**(358,375)**	(281,956)	(308,179)	(272,157)	(172,689)
Net current assets	**525,337**	559,513	421,809	369,614	339,155
Non-current liabilities	**(68,306)**	(52,344)	(62,334)	(41,440)	(30,563)
Net assets	**1,634,716**	1,516,828	998,867	852,058	593,279
Total equity attributable to the owners of the Company	**1,601,726**	1,467,438	934,341	786,005	582,156
Non-controlling interests	**32,990**	49,390	64,526	66,053	11,123
Total equity	**1,634,716**	1,516,828	998,867	852,058	593,279

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of Lee's Pharmaceutical Holdings Limited and its board ("Board") of directors ("Directors") I am delighted to present this annual report. Although our sales growth remained relatively static during the year under review, it is noteworthy that the downward trend has been successfully reversed. We have intensified our investment into expanding our capacity and capability in research and development ("R&D"), manufacturing and marketing during the year despite the prevailing challenging market condition. As a result, we not only delivered a solid and satisfactory financial result for the year, but also made steady progress from various aspects.

In 2016, under the "new normal" of slower and more balanced growth, the economic output in China grew just 6.7%, the slowest in 26 years. In pharmaceutical market, key trends in 2016 included the drug price pressure through the tendering process, to ban public hospitals from marking up prices of drugs, as well as the continuous reforms to the regulatory regime which exerted pressure on the industry. Nevertheless, we had surmounted various issues during the year under review, such as the import drug license renewal and market penetration issues of our products, which in turn led to a resurgence of revenue growth in the last two quarters and a modest overall rise in our profit and profitability metrics.

We remain committed to continuing the execution of our strategy to become a fully integrated specialty pharma in China through investment in new drug development. During the year of 2016, we had bucked the industry trend by markedly increase our new drug development budget. Our spending in R&D reached a level of 18% of our total revenue, among one of the highest in the industry in China in 2016.

Resultantly, our oncology and ophthalmology franchises are poised to become new driver for our growth in near future. Two of the oncology products are phase III-enabling and we plan to initiate the study in 2017 in China. The diversity of our oncology products that include immuno-oncology (checkpoint inhibitor and oncolytic virus), targeted therapy and chemo-therapy, pave the way for the development of combination therapy strategy based on in-house products with checkpoint inhibitor as backbone therapy. The establishment of a genomics lab reflects our resolution in accelerating drug development through precision medicine approach and picks us up to par with newest strategy in cancer drug development.

CHAIRMAN'S STATEMENT

Our efforts in strengthening the ophthalmology portfolio was as relentless as for oncology pipeline, if not more so. In-house development and in-licensed partnership have contributed to a comprehensive pipeline that targets a variety of ophthalmic diseases. From biologics to small molecules, from eye drop to liposome formulation, the wide span of the products covers retinal diseases, dry eyes syndromes, glaucoma and other severe eye problems. Several of the products are already in clinical studies or will enter thereinto soon.

During the year under review, we have made significant progress in enhancing our production capability. In our newest manufacturing site in Nansha Guangzhou, we had completed the investment and erection of a solid dose production facility and successfully obtained the first pharmaceutical manufacturing license for tablet and capsule from the China Food and Drug Administration ("**CFDA**"). The facility has since produced our first oral product Azilsartan for New Drug Application ("**NDA**") submission purpose. The application for a Good Manufacturing Practice ("**GMP**") certification in mid-2017 is expected. One other product is also envisaged to complete three batch productions in the new facility with an aim to file NDA before the end of 2017. The facility also allows scale-up process development for several oral proprietary products, greatly accelerating the development.

Following the completion of the solid dose facility, we immediately embarked on construction work of ophthalmic drugs production facility in Guangzhou Nansha. The multipurpose facility offers flexibility in producing a variety of different ophthalmic formulations to support our development effort. The construction work on the facility is in good progress and is on target for completion in mid-2017. We will work toward a speedy obtainment of manufacturing license so that NDA-enabling manufacturing of several products can be made soon.

With the construction and installation of our new pre-filled syringe facility in Anhui Hefei, we have achieved the desirable breadth of manufacturing different injection, ophthalmic and oral formulations, significantly augmenting its ability to develop new products, to work with partners and to compete in the market place.

Investment in improving efficiency of sales and marketing remained as a major theme in 2016 and was the key for us to achieve historical net profit margin and modest profit growth. Considering the challenges in sales growth and substantial increase in R&D spending, the attainment of profit growth is a testimony of remarkable team work of our sales and marketing organisation. The creation of new business unit focusing in newly launch products, the realignment of business units focusing in legacy products and the transformation of business unit focusing in detailing all resulted in a more coherent and effective approach in product sales and promotion in market place. This focal pointed management has also provided better market penetration for our products.

CHAIRMAN'S STATEMENT

Modern communication tools are also employed to improve efficiency. Our web based Sino-Europe Echocardiography CME program has been well received by Chinese physicians and more than 14,000 of them has signed up thereto through both PC version and mobile version at the end of 2016. This project creates enormous goodwill in the medical community for us and has become an invaluable asset for our brand building effort. A video conference system was also set up during the year, connecting all of our major sites such as Hong Kong, Nansha, Hefei, Beijing and Shanghai. Pharmaceutical market in China changes rapidly and decision must be made swiftly and accurately to avert risk and capture opportunity. Efficient communication tools could make a difference.

Year 2016 is a year of investment and steady progress. Despite uncertainty continues both globally and regionally, we believe that this is the best moment to invest in the future. The regulatory environment for new drug development has improved greatly during the last 18 months in China and will continue to change for the better. As a company always relies on new drug development as its engine for growth, this is the best time for us and the favourable aura will help to reduce time to market for our products, broadening the revenue base in the near future.

Finally, a vote of thanks to our business partners, management team and staff, as well as my fellow Board members is in order. It is their continued commitment that has enabled us to deliver another year of decent results. We shall continue to stay focused on delivering for our shareholders over the long term.

Lee Siu Fong
Chairman

Hong Kong, 23 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

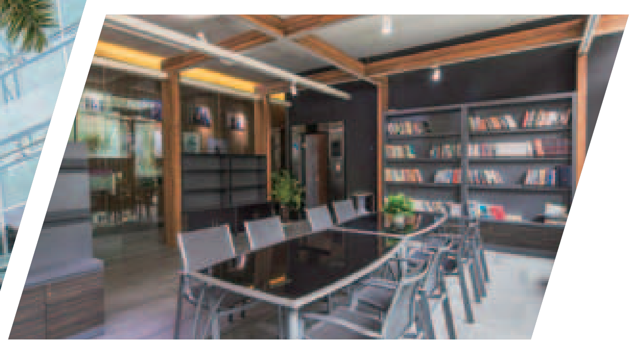
The pharmaceutical market environment has been surrounded by persistent challenges and emerging issues arising from unstable and unsettled Chinese economy, regulatory shakeups, drug cost containment measures and healthcare reform turbulences during the fiscal year. Nevertheless, against this backdrop, the Group has exercised cost discipline while continued to invest in future growth, explored and capitalised the potential of pipeline product collaboration opportunities to create values, and end up maintained profitability amid relatively stagnant revenue growth in 2016.

Revenue and profit

During the fiscal year, the Group recorded sales revenue of HK$929,821,000, representing a turnaround performance of 0.8% improvement compared to the same period last year. Sales of licensed-in products was HK$489,748,000 (2015: HK$503,361,000) and accounted for 52.7% (2015: 54.6%) of the Group's revenue while sales of proprietary products was HK$440,073,000 (2015: HK$418,789,000) and contributed 47.3% (2015: 45.4%) of the Group's revenue.

The proprietary products maintained a steady revenue growth of 5.1% during the fiscal year. While both *Yallaferon*® and *Livaracine*® achieved modest revenue growth of 9.3% as compared to the same period last year, the revenue from the sale of *Slounase*® has fairly improved by 1.3%. In addition, the sale of *Eyprotor*® get off to good start since its relaunch in September 2016 which contributed HK$3.6 million to the revenue of the Group during the fiscal year.

During the fiscal year, the Group has been able to identify and overcome numerous challenges stemmed from the licensed-in products such as the renewal of Import Drug License of *Ferplex*® in the first half of 2016. Upon the renewal



MANAGEMENT DISCUSSION AND ANALYSIS

thereof, sale of *Ferplex*® resumed normal and rapidly turned its negative trend into a positive 19.0% growth through 2016. In addition, the sale of *Remodulin*® in its third-year launch has recorded a decent overall growth of 67.2% as compared to the same period last year and contributed HK$18.1 million to the revenue of the Group. Nevertheless, the aforesaid sales growths therefrom have been offsetting by the underperformance of *Carnitene*® and *Zanidip*® which led to an overall decline of, amid narrowed, 2.7% as compared to the same period last year.

Overall gross margin improved in the year under review and hit 71.9% in 2016 (2015: 70.3%), increased by 1.6 percentage points during the year. The Group continued the streamlining process on its sales and marketing efficiency and selling expenses to revenue ratio has further lowered to 22.0% (2015: 27.8%). The Group stay focused on its R&D path and continued to invest in its pipeline products development in cardiovascular, oncology and ophthalmology therapeutic areas. R&D expense during the year under review was HK$67,886,000, increased by 74.6% from HK$38,883,000 of the prior year, and represented 7.3% (2015: 4.2%) to the corresponding yearly revenue. In the meantime, the Group has impaired certain licensing and R&D projects capitalised in the prior years with an aggregate carrying value of HK$23,324,000 (2015: HK$8,192,000) in 2016.

The Group continued to achieve savings from the stringent control on sales and marketing expenses. Furthermore, the Group received development grants, development milestone income, compensation for service provided in the registration area and upfront payment for the co-development of a combination product for the treatment of late stage cancers from the third parties and has been recognised as other income during the year under review. As a result, net profit attributable to the owners of the Company was HK$252,002,000 (2015: HK$229,052,000), which represented an increase of 10.0% over last year, and recorded an improved net profit margin of 27.1% (2015: 24.8%).

Quality System, Production and Manufacturing Facilities

The Group has completed its HK$80 million investment 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 successfully obtained the first pharmaceutical manufacturing license for tablet and capsule from the China Food and Drug Administration ("**CFDA**"). The capacity of this facility is estimated at up to 1 billion tablet/capsule units per year. The first registration batches have been in place in November 2016 and the Group is currently waiting for the stability test data thereof, along with preparatory work for obtaining Good Manufacturing Practice ("**GMP**") certification, for the submission on or around May 2017.

The Group has budgeted approximately HK$80 million for the ophthalmic drugs production facility located on the fifth floor of the factory building in Guangzhou Nansha. 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 construction has been commenced and is expected to be completed in mid-2017.

In the Hefei site, a new prefilled syringe facility for the upgrading of production capability and to meet all the needs for injection products has been completed during the fiscal year, and the next milestone therefor will be the manufacturing license application. Together with works in the Nansha site, those efforts significantly enhance the Group's manufacturing capability and enable it to move towards the target to become a fully integrated specialty pharma in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Drug Development

Natulan® registration study for the treatment of advanced Hodgkin's lymphoma in the PRC has been commenced and is expected to enrol 184 patients in total. The first patient has been successfully enrolled in December 2016.

Phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris has been completed and the analytics work to the topline data is currently in progress. Phase III study is envisaged to initiate in the second quarter of 2017.

Phase IIb study of Anfibatide is in good progress. 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. The study involved a total of 12 centers across China and is expected to enroll a total of 240 patients and standard dual antiplatelet strategy is employed with or without Anfibatide, and to date, around 65% of the patients required have been enrolled.

In addition, Anfibatide has reached a milestone in its another indication of Thrombotic Thrombocytopenic Purpura ("**TTP**") and its application to the US FDA for orphan drug designation for Anfibatide on TTP has been approved in March 2016.

During the fiscal year, the CFDA modified its regulations for conducting clinical trials in the PRC, in which the CFDA changed its regulations to allow Phase I or Phase II clinical trials with drug candidates manufactured abroad (including both the active pharmaceutical ingredient and the finished product). This rule change can significantly speed up drug development in China as the local drug development in China may now rely on drugs sourced outside of the country in early clinical trials. This change allowed the Group to accelerate the development activities in China for RGN-259 to treat ocular disorders prior to the completion of the Group's manufacturing capability in ophthalmic products.

The development of the two cardiovascular assets, namely Rostafuroxin and Istaroxime, under CVie Therapeutics Limited, a 56.26% owned subsidiary of the Group, has made significant progress therein during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Phase IIb clinical study (Protocol No. CVT-CV-001) in Taiwan for Rostafuroxin capsule 50ug, 500ug with antihypertensive effect is in full swing. The 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 Italian arm of the study was substantially completed, and to date, over 60% of the patients required have been enrolled for Taiwan study (MOHW's Approval Notice No. 1046044455).

Istaroxime is a first-in-class luso-inotropic agent for the treatment of acute decompensated heart failure. Istaroxime possesses a dual mode of action, combining inotropic (myocyte contraction) and lusotropic (myocyte relaxation) effects. This is a Phase IIb, multi-center, randomised, double-blinded, parallel and placebo-controlled clinical study targeting a total of 120 patients in Italy (24 patients) and China (96 patients). Phase IIb clinical study in Italy was substantially completed. The Human Genetic Material Collection approval for the study in China has been obtained and the first patient has been successfully enrolled in December 2016. The study in China is expected to be completed by end of 2017. In addition, the Group has initiated a discovery and development collaboration in August 2016 with ScinoPharm Taiwan Limited to identify the new generation compound to Istaroxime for the treatment of acute and chronic heart failure in oral form.

Powder Pharmaceuticals Incorporated ("**PPI**"), an associated company of the Group which currently focusing on the development of two medical devices, namely *Zingo*® and Continuous Blood Glucose Monitoring System ("**CGM**"), has also made good progress on its product developments during the year under review.

In August 2016, PPI has successfully completed the first subject of its Clinical Study for CGM in Hong Kong. The clinical study is collaboration between The Chinese University of Hong Kong, EyeSense, and PPI. This clinical study will perform blood glucose clamp study with multiple CGM devices. The study of the first 10 subjects were completed during the year under review at Phase I Clinical Trial Centre of The Chinese University of Hong Kong and PPI is currently working on this study for 2 additional subjects before moving on to the next development step.

In March 2017, *Zingo*® has been granted by CFDA priority review for its clinical trial application. The clinical program will be commenced soon and is targeted to be approved by CFDA in 2018.

International Partnerships

In August 2016, the Group has made the first step towards combination therapy clinical trial in oncology area and entered a collaboration agreement with Beijing Shenogen Pharma Group Limited to jointly develop and commercialise a combination product which composed of the Group's licensed-in clinical compound, Pexa-Vec (formerly JX-594), for treatment of late stage cancers.

In September 2016, the Group has made a licensing agreement with a private company in the United States to license a novel therapeutic formulation for treatment of Diabetic Retinopathy ("**DR**") and other diseases of the eye. This is currently in the planning stage of Phase II clinical testing in patients with moderate stage DR in the United States. DR is the damage occurs to the retina due to diabetes and can lead to blindness if it is not treated. Recent studies suggested that 35% people with diabetes have DR globally and more than 20 million people in China are suffering from DR. The Group believes that the addition of this will definitely strengthen its pipeline on ophthalmology diseases area.

MANAGEMENT DISCUSSION AND ANALYSIS

In December 2016, the Group has entered into a licensing agreement with TOT Biopharm Company Limited to license TAB014, the monoclonal antibody drug, exclusively within China, Hong Kong and Macau. TAB014 is a new antibody product that can be used to treat wet age-related macular degeneration (wAMD) and other eye diseases.

Sales and marketing

The Group endure ongoing efforts in knowledge-based promotion and leverage on new media to support physician education and to disseminate scientific information for its products. During the fiscal year, the number of medical practitioners/physicians registered to the Group's fully sponsored China-Europe Echocardiography CME Project (中歐超聲心動圖繼續教育項目) has exceeded 14,000.

Along with the successful completion of transformation of its sales and marketing organisation to improve operation efficiency and extract more value, its efforts made so far have proven to be sustainable and have produced tangible results.

In addition, two new business units have been created to focus on sales and marketing of new and newer products as well as oncology products, respectively, during the year under review. The teams are currently working in full swing to the preparation works for the expected launch of *Mictonorm*® and *Sancuso*® in 2017.

FINANCIAL REVIEW

Revenue and Net Profit Attributable to the Owners of the Company

The Group's revenue slightly increased year-on-year by HK$7,671,000 or 0.8%, from HK$922,150,000 in 2015 to HK$929,821,000 in 2016. During the year, sales of proprietary products maintained steady growth of 5.1%, while the sales of licensed-in products were narrowly declined by 2.7%.

Revenue	**2016**	2015	**Change**
	HK$'000	HK$'000	
Proprietary Products	**440,073**	418,789	+5.1%
Licensed-in Products	**489,748**	503,361	–2.7%
Total	**929,821**	922,150	+0.8%

Net profit attributable to owners of the Company maintained a modest growth of 10.0% and reached HK$252,002,000 in 2016 as compared to HK$229,052,000 in 2015.

Gross Profit Margin

Gross profit margin for the financial year 2016 was 71.9% (2015: 70.3%), increased by 1.6 percentage points as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Other income for the financial year 2016 was HK$72,137,000, significantly increased by HK$59,943,000 as compared with the corresponding period of last year. Other income during the year included certain one-off items such as development grants from the government, development milestone income of certain R&D project, compensation on termination of product license from the third party, and development upfront income from the co-development of a combination product in oncology.

Impairment of Intangible Assets

Impairment of intangible assets for the fiscal year 2016 was HK$23,324,000 (2015: HK$8,192,000). This represented certain licensing and R&D projects in which the developments were no longer continued during the year.

Selling and Distribution Expenses

Due to the Group's commitment to further enhance its operation efficiency in sales and marketing, the selling and distribution expenses for the year ended 31 December 2016 significantly reduced by HK$52,240,000 as compared with the corresponding period of last year to HK$204,225,000, accounting for 22.0% of the Group's revenue, as compared with 27.8% for last year.

Administrative Expenses

The administrative expenses for the year ended 31 December 2016 increased by HK$34,201,000 as compared with the corresponding period of last year to HK$146,511,000. It accounted for 15.8% of the Group's revenue during the year under review, as compared with 12.2% for last year. The increase in expenses was mainly arised from the newly operated Guangzhou Nansha office such as depreciation and wages.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2016 increased by HK$29,003,000 as compared with the corresponding period of last year to HK$67,886,000. It accounted for 7.3% of the Group's revenue during the year under review, as compared with 4.2% 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 2016 increased by HK$9,260,000 as compared with the corresponding period of last year to HK$50,198,000. The Group's effective tax rate was approximately 17.8% during the year under review, increased by 1.7 percentage points as compared with 16.1% 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 and bank borrowings.

As at 31 December 2016, the Group's current ratio (current assets divided by current liabilities) was 2.47 (2015: 2.98). As at 31 December 2016, the Group had net cash position of HK$398,036,000 (2015: net cash of HK$327,378,000) which represented cash and bank balances of HK$295,282,000 (2015: HK$278,244,000), pledged bank deposits of HK$26,639,000 (2015: nil), time deposits of HK$209,693,000 (2015: HK$115,903,000), and short term bank borrowings of HK$133,578,000 (2015: HK$66,769,000).

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 2016 (2015: 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.

Pledged of Assets

At 31 December 2016, the Group has pledged bank deposits of HK$26,639,000 (2015: nil) to secure general banking facilities granted to the Group and service provided by supplier.

The Group's obligations under finance leases are secured by the lessor's title to the motor vehicles, which have a carrying amount of HK$1,874,000 (2015: HK$1,321,000).

Contingent Liabilities

Details of the contingent liabilities of the Group as at 31 December 2016 are set out in note 45 to the consolidated financial statements.

Employee Information

As at 31 December 2016, the Group had 851 employees (2015: 780 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

Persistent changes and challenges is expected to follow suit in 2017.

In accordance to the announcement made by the State Council in its February 9, 2017 Circular on *Several Opinions Concerning Further Reforms of the Policies Governing Drug Production, Circulation and Usage* (the "**Circular No. 13**"), "Healthcare Affordability" is one of major themes in the coming healthcare reform to be launched in China. Hence, a more price-sensitive environment is expected to remain in this year. In addition, we have seen increasingly challenging operating conditions within the sector which are outside our control. Most of our continuing profits are generated in the PRC market and the value of these earnings during 2016 as expressed in Hong Kong dollars has been eroded by the fall of Renminbi, with the depreciation trend may likely to be continued.

Amid the tough conditions ahead, the Group firmly believes that innovation is the engine that can drive strong and sustainable growth of its future. As another of the major themes in the Circular No. 13 is the determination of the government to accelerate approvals for new drugs and urges generics to pass the quality consistency tests. As a company always relies on new drug development as its engine for growth, the Group could become one of main beneficiaries of these regulatory changes. The favourable aura will help to reduce time to market for the Group's products, broadening the revenue base in the near future. In 2017 the Group expects to obtain five Investigational New Drug ("**IND**") approvals and two New Drug Application ("**NDA**") approvals. In addition, six IND submissions and two NDA submissions are planned for this year. Furthermore, six new clinical studies will be initiated, bringing the number of ongoing studies to twelve. The hectic pace of development activities is a reflection of our continual committed as well as our burgeoning confidence in the future.

With the full spectrum of manufacturing capability, comprehensive product pipeline and variety of partnerships, enhanced sales and marketing efficiency, strengthened regulatory expertise and healthy balance sheet, the Group is well positioned to capitalise the opportunities therefrom and to face the coming challenging year.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, aged 60

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 63

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 54, 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 61, 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. From August 2016 he serves on the board of directors of Fennec Pharmaceutical, Inc., a company listed on the Toronto Stock 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 54, 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 has also been appointed as independent non-executive director of China High Speed Transmission Equipment Group Co., Ltd. in December 2016, which is a listed company on the main board of The Stock Exchange of Hong Kong Limited. 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 55, 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 had also served directorship at various listed companies in Hong Kong. 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 58, 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 58

Mr. Chen Yueshen has been working for the Group for more than 19 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 47

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 43

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 20 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 43, MBA, BSc

Mr. Zhang Guohui has been working in Zhaoke for more than 19 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 57, 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 resources management and operational management in various sizeable PRC pharmaceutical companies for more than 34 years.

Victor Tsui

Chief Manufacturing Officer, Licensed Professional Engineer, aged 50, 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 24 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

President and General Manager of CVie Therapeutics Limited, aged 54, 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 22 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 was responsible for the business development of East China region. In May 2016, he has been appointed as the President and General Manager of CVie Therapeutics Limited, a subsidiary of the Group in Taiwan, and is responsible for the management of the research and development of drugs.

Yang Zhongqiang

Director of the Quality Control Department, aged 42

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 19 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 Group for the year ended 31 December 2016.

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 9 to 11 and pages 12 to 19 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 47 to the consolidated 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 2016 are set out in the consolidated statement of profit or loss on page 53.

The Board has resolved to recommend a final dividend for the year ended 31 December 2016 (the "Final Dividend") equivalent to HK$0.079 per share (2015: HK$0.074 per share) to the shareholders whose names appear on the register of members of the Company as at the close of business on 26 May 2017. Upon approval by shareholders, the final dividend will be paid on 15 June 2017.

Together with the interim dividend of HK$0.033 per share (2015: HK$0.030 per share) paid on 28 September 2016, total distribution of dividend by the Company for the year ended 31 December 2016 will be HK$0.112 per share (2015: HK$0.104 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 35 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 39 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.

REPORT OF THE DIRECTORS

DONATIONS

During the year, the Group made charitable donations amounting to HK$341,000 (2015: HK$2,148,000).

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 57. Details of the movements in the reserves of the Company during the year are set out in note 36 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$779,059,000 (2015: HK$851,454,000). This includes the Company's share premium account in the amount of HK$721,154,000 (2015: HK$717,925,000) at 31 December 2016, 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 15.57% in aggregate for the Group's total revenue for the year (2015: 17.28%).

Purchase from the Group's five largest suppliers accounted for approximately 82.18% in aggregate for the Group's total purchases for the year (2015: 86.25%). The largest supplier of the Group accounted for approximately 31.40% of the Group's total purchases (2015: 49.93%).

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.

REPORT OF THE DIRECTORS

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, Dr. Li Xiaoyi, Dr. Chan Yau Ching, Bob and Dr. Tsim Wah Keung, Karl 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. During the year, the monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$277,061 and HK$298,684 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. During the year, the monthly salaries and allowance has been revised to HK$412,569. 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 December 2016 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 2016 and 20 September 2016 respectively. Director's fees for both of Mr. Lam and Dr. Tsim are HK$144,000 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 2016. Director's fee is HK$144,000 per annum and bonus will not be paid.

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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and 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 20 to 23.

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

Operational Risk

The Group 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 2016 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.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE REPORT

The Environmental, Social and Corporate Governance Report prepared in accordance with Appendix 27 of the Listing Rules will be published on the websites of the Company and the Stock Exchange within three months after the publication of this annual report.

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 2016 was 31,019,543 Shares.

As at 31 December 2016, 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 13,217,000 (2015: 14,712,000) Shares, representing 2.2% (2015: 2.5%) of the Shares in issue at that date.

Details of the Company's share option schemes are set out in note 39 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 39 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 2016, 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	2,171,375		
	Interest held jointly with Leelalertsuphakun Wanee	1,600,000		
	Interest of a controlled corporation *(Note 1)*	114,000,625	117,772,000	19.96%
Leelalertsuphakun Wanee	Beneficial owner	2,179,500		
	Interest held jointly with Lee Siu Fong	1,600,000		
	Interest of a controlled corporation *(Note 1)*	114,000,625	117,780,125	19.96%
Li Xiaoyi	Beneficial owner	42,594,501		
	Family interest *(Note 2)*	16,000,000	58,594,501	9.93%
Chan Yau Ching, Bob	Beneficial owner	1,060,000		0.18%
Lam Yat Cheong	Beneficial owner	300,000		0.05%
Tsim Wah Keung, Karl	Beneficial owner	300,000		0.05%

Notes:

(1) 114,000,625 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.

(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 *(Notes)*	Balance as at 1 January 2016	Granted during the year	Exercised during the year	Balance as at 31 December 2016	Exercise price per share HK$
Lee Siu Fong	30 December 2013	(1)	538,000	–	–	538,000	7.300
	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	–	587,000	–	587,000	5.754
			984,000	587,000	–	1,571,000	
Leelalertsuphakun Wanee	30 December 2013	(1)	338,000	–	–	338,000	7.300
	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	–	587,000	–	587,000	5.754
			784,000	587,000	–	1,371,000	
Li Xiaoyi	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	–	587,000	–	587,000	5.754
			446,000	587,000	–	1,033,000	

Notes:

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

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

(3) Divided into 2 tranches exercisable from 30 September 2016 and 30 June 2017 respectively to 30 March 2026.

(c) As at 31 December 2016, 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) Save as disclosed above, 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 2016, 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	114,000,625	19.32%
Essetifin S.p.A	Beneficial owner	142,053,333	24.07%
Cavazza Paolo	Interest of a controlled corporation	142,053,333	24.07%
Paponi Claudia	Family interest	142,053,333	24.07%
Assicurazioni Generali S.p.A	Interest of a controlled corporation	61,681,500	10.45%
Lion River I N.V.	Interest of a controlled corporation	61,681,500	10.45%
GL Trade Investment Limited	Beneficial owner	54,485,000	9.23%
GL Capital Management GP L.P.	Interest of a controlled corporation	54,485,000	9.23%
GL Capital Management GP Limited	Interest of a controlled corporation	54,485,000	9.23%
GL China Opportunities Fund L.P.	Interest of a controlled corporation	54,485,000	9.23%
GL Partners Capital Management Limited	Interest of a controlled corporation	54,485,000	9.23%
Li Zhenfu	Interest of a controlled corporation	54,485,000	9.23%
FMR LLC	Investment manager *(Note 1)*	53,142,000	9.01%
High Knowledge Investments Limited	Beneficial owner *(Note 2)*	16,000,000	2.71%
Lue Shuk Ping, Vicky	Interest of a controlled corporation *(Note 2)*	16,000,000	2.71%
	Family interest *(Note 3)*	42,594,501	7.22%

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)*	1,033,000	0.18%

Notes:

(1) FMR LLC was deemed to be interested in 53,142,000 shares of the Company, of which 8,700,000 shares were held by Fidelity Management & Research (Hong Kong) Limited, 11,810,536 shares were held by FMR Co., Inc., 30,478,964 shares were held by FMR Investment Management (UK) Limited, 438,500 shares were held by Fidelity Institutional Asset Management Trust Company and 1,714,000 shares were held by FIAM LLC.

(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 2016, 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.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2016, 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 46 to the consolidated financial statements. Save for the transaction mentioned in the section headed "Connected Transactions" which is subject to announcement and disclosure requirements under Chapter 14A of the Listing Rules, certain transactions mentioned in note 46 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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

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

1. *Advance of shareholder loan to China Oncology Focus Limited ("**COF**"), a subsidiary of the Group*

On 13 June 2016, the shareholder loan in the principle amount of HK$10,000,000 was provided by the Group to COF for one year at an interest rate of 4% per annum. Details of this transaction have been disclosed in the Company's announcement dated 13 June 2016.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They hold 90% of the equity interest in Perfect Concept Holdings Limited ("**Perfect Concept**") and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules. Lee's International is a shareholder of COF and at the same time, Perfect Concept, is also a shareholder of COF. Perfect Concept, being a connected person of the Company, is holding 35% of the issued share capital of COF, and therefore, the shareholder loan made by Lee's International to COF under the shareholder loan agreement constitutes a connected transaction pursuant to Rule 14A.27 of the Listing Rules.

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 2016 (2015: 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.

REPORT OF THE DIRECTORS

STAFF RETIREMENT SCHEME

The Group companies operated in Hong Kong are required to participate in a defined contribution retirement scheme 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 operated 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.

Particulars of the scheme of the Group are set out in note 38 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 2016.

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 2016.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the corporate governance report on pages 39 to 44.

REPORT OF THE DIRECTORS

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 2016, including the accounting principles and practices adopted by the Group.

AUDITOR

The consolidated financial statements 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 2017

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 2016, 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 2016, 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 2016.

BOARD OF DIRECTORS

The non-executive Director provides 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.

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.

CORPORATE GOVERNANCE REPORT

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 2016, 9 board meetings and 1 Shareholders meeting were held and the attendance of individual Directors at these meetings is set out below:

Attendees	**Number of Board meetings attended/Total**	**Number of Shareholders meeting attended/Total**
Executive Directors		
Lee Siu Fong *(Chairman)*	7/9	1/1
Leelalertsuphakun Wanee *(Managing Director)*	9/9	1/1
Li Xiaoyi *(Chief Executive Officer)*	9/9	1/1
Non-executive Director		
Marco Maria Brughera	4/9	0/1
Independent non-executive Directors		
Chan Yau Ching, Bob	5/9	1/1
Lam Yat Cheong	4/9	0/1
Tsim Wah Keung, Karl	4/9	0/1

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

NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE REPORT

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 Group 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 2016 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.

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 Group, 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.

CORPORATE GOVERNANCE REPORT

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 2016, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditor and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendees	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%

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 Ms. 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 2016, 2 meetings are 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 2015 and the monthly salary of executive Directors during the year.

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.

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 2016, 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 over 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 regulate the handling and dissemination of inside information of the Group.

For the year ended 31 December 2016, 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, and 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

Total auditor's remuneration for the financial year 2016 in relation to statutory audit work of the Group amounted to HK$1,138,000 of which a sum of HK$920,000 was paid to HLM CPA Limited.

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.

CORPORATE GOVERNANCE REPORT

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 2016, 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
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TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

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 53 to 148, which comprise the consolidated statement of financial position as at 31 December 2016, and 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addresses the Key Audit Matter
Revenue recognition **(refer to note 5 to the consolidated financial statements)**	
The Group's revenue amounted to HK$930 million for the year ended 31 December 2016. Sales of goods are recognised as revenue when goods are delivered and title has passed. We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue.	Our main procedures in relation to the revenue recognition included: – Obtaining evidence regarding the transfer of effective control of ownership. – Testing the key internal controls over the revenue recognition, and assessing whether the accounting policy related to the revenue recognition were applied appropriately and consistently throughout the year. – On a sample basis, making selections from sales records and delivery records, and tracing to their contracts, delivery orders and customer receipts, and paying special attentions to samples before and after the end of the reporting period to assess whether the relevant revenue was recognised in the correct period. Based on our procedures described, we found that the amount and timing of the revenue recorded were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addresses the Key Audit Matter
Valuation of retirement benefit on defined benefit plan (refer to note 38 to the consolidated financial statement)	
The Group entered into service contracts with the executive directors to provide certain retirement benefits. There is judgement in determining valuation of the retirement benefit as recorded at the end of the reporting period. The valuation is based on a number of assumptions including discount rate, growth rate of salary and life expectancy.	Our main procedures in relation to the valuation of the retirement benefit on defined benefit plan included: – Assessing the independence and competence of the independent external valuer appointed by the Group to calculate the fair value of the retirement benefit. – Assessing the accuracy and relevance of the input data provided by management to the independent external valuer by challenging and corroborating the market data and information from similar transactions from independent source. – Evaluating the appropriateness of methodology and assumptions used by independent external valuer. – Testing the mathematical accuracy of the underlying valuation. We found the assumptions and key assumptions to be reasonable.
Property, plant and equipment ("PPE") (refer to note 16 to the consolidated financial statement)	
The Group has construction-in-progress ("CIP") for its new investments in PPE. Some of the CIP are expected to be completed in the coming year, subject to trials and getting the requisite approval from the government authorities. As the CIP is significant in amount, we have focused on the review of the appropriateness of the classification of categories within PPE.	Our main procedures in relation to property, plant and equipment included: – Performing site-visit of factories, identifying PPE which became available for use during the financial year and assessing the reasonableness of the corresponding depreciation charge during the financial year. – On a sample basis, making selections from ledger and tracing to underlying contracts and invoices to assess whether the transaction meet the recognition criteria and in compliance with accounting policy. Based on our procedures described, we found the classification of property, plant and equipment were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Intangible assets recognition and impairment assessment (refer to note 17 to the consolidated financial statement)

As at 31 December 2016, the Group reported intangible assets of HK$421 million, of which HK$286 million were capitalised development expenditure and HK$135 million were license fees.

Development expenditure mainly comprised development of pharmaceutical products. The Group capitalises eligible product development costs upon meeting the criteria as described in Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38"). Capitalisation criteria assessment requires significant management judgement and there is measurement uncertainty at inception and throughout the lives of the individual projects.

Management is required to assess at the end of each reporting period whether there is any indication of impairment exists, which requires significant management judgement and assumptions with reference to the ability to use or sell the products, it future market or economic development.

How our audit addresses the Key Audit Matter

Our main procedures in relation to the recognition of intangible assets included:

– Assessing the recognition and eligibility criteria for intangible assets by challenging the key assumptions used or estimates made in capitalising the cost.
– Testing on a sample basis for the expenditure being capitalised to source documents and signed contracts.
– Assessing the ownership of license fee.

Our main procedures in relation to the impairment assessment of intangible assets included:

– Assessing management's determination of the impairment based on our understanding of the nature of the Group's business.
– Assessing whether there are any indicators of impairment by understanding the business rationale for the developing products.
– Discussing with and interviewing the responsible staff and manager on the progress and future prospects on respective development projects.
– Selecting products with significant development cost and request for independent valuation to be done to substantiate their carrying amounts.

Based on our procedures described, we found the recognition and impairment assessment on intangible assets to be reasonable.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addresses the Key Audit Matter
Impairment assessment of goodwill **(refer to notes 19 and 20 to the consolidated financial statement)**	
Management is required to assess at the end of each reporting period whether there is any indication that the goodwill may be impaired. If any such indication exists, the management shall estimate the recoverable amount of the asset.	Our main procedures in relation to the impairment assessment of goodwill included: – Assessing management's determination of the Group's CGUs based on our understanding of the nature of the business and the economic environment in which the CGUs operate. – Based on our knowledge of the business and industry, challenging the reasonableness of the underlying key assumptions and data used in the cash flow forecasts (including revenue growth rate, operating profit, and discount rate used). Based on our procedures described, we found the estimations of management in relation to goodwill is supported by plausible evidence.
Impairment assessment of unlisted available-for-sale financial assets **(refer to note 22 to the consolidated financial statement)**	
As at 31 December 2016, the Group reported available-for-sale financial assets of HK$128 million, of which HK$112 million being unlisted investment. Management concluded that there was no impairment on the unlisted available-for-sale financial assets based on the circumstances of the investees, including any significant changes with an adverse effect that has taken place in technological, market, economic or legal environment in which the investees operate. We identified the impairment assessment of unlisted available-for-sale financial assets as a key audit matter as it requires management to exercise significant judgement on determining whether any impairment indicator in relation to the Group's investments existed at the end of the reporting period, and was assessed by us to be a significant risk of material misstatement.	Our main procedures in relation to the unlisted available-for-sale financial assets included: – Understanding the investees' operations and latest development. – Assessing the financial performance of the investees. – Challenging the reasonableness of management's key assumptions (including market and business information) adopted in the impairment assessment based on our knowledge of the business and industry. Based on our procedures described, we found the impairment assessment on available-for-sale financial assets adopted by management to be reasonable.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

HLM CPA Limited
Certified Public Accountants

Ho Pak Tat
Practising Certificate Number: P05215

Hong Kong, 23 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	5	929,821	922,150
Cost of sales		(261,586)	(273,986)
Gross profit		668,235	648,164
Other income	8	72,137	12,194
Gain on deemed disposal of interest in an associate		–	31,825
Fair value changes of derivative financial instruments		–	10,092
Impairment of intangible assets	17	(23,324)	(8,192)
Selling and distribution expenses		(204,225)	(256,465)
Administrative expenses		(146,511)	(112,310)
Research and development expenses		(67,886)	(38,883)
Profit from operations	9	298,426	286,425
Finance costs	10	(3,803)	(3,040)
Share of results of associates	20	(12,019)	(29,450)
Profit before taxation		282,604	253,935
Taxation	13	(50,198)	(40,938)
Profit for the year		232,406	212,997
Attributable to:			
Owners of the Company		252,002	229,052
Non-controlling interests		(19,596)	(16,055)
		232,406	212,997
		HK cents	HK cents
Earnings per share			
Basic	15	42.79	39.77
Diluted	15	42.60	39.29

The notes on pages 61 to 148 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 HK$'000	2015 HK$'000
Profit for the year	232,406	212,997
Other comprehensive expense:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes of available-for-sale financial assets	(11,817)	(4,218)
Exchange differences on translation of financial statements of overseas subsidiaries	(49,054)	(56,386)
Other comprehensive expense for the year, net of tax	(60,871)	(60,604)
Total comprehensive income for the year	171,535	152,393
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	190,883	169,501
Non-controlling interests	(19,348)	(17,108)
	171,535	152,393

The notes on pages 61 to 148 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current Assets			
Property, plant and equipment	16	437,092	355,940
Intangible assets	17	421,853	337,825
Lease premium for land	18	134,583	13,401
Goodwill	19	3,900	3,900
Interests in associates	20	46,820	58,671
Held-to-maturity financial assets	21	5,659	5,491
Available-for-sale financial assets	22	127,778	99,029
Prepayment for acquisition of a leasehold land	23	–	135,402
		1,177,685	1,009,659
Current Assets			
Lease premium for land	18	2,844	306
Inventories	24	134,910	169,878
Trade receivables	25	87,069	107,780
Other receivables, deposits and prepayments	26	106,223	108,821
Amount due from a related party	27	–	37,275
Advance to an associate	28	20,524	22,588
Tax recoverable		528	674
Pledged bank deposits	29	26,639	–
Time deposits	29	209,693	115,903
Cash and bank balances	29	295,282	278,244
		883,712	841,469
Current Liabilities			
Trade payables	30	42,301	37,621
Other payables	31	172,340	172,619
Obligations under license contract		490	505
Bank borrowings	32	133,578	66,769
Obligations under finance leases	33	467	303
Tax payables		9,199	4,139
		358,375	281,956

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Net Current Assets		525,337	559,513
Total Assets less Current Liabilities		1,703,022	1,569,172
Capital and Reserves			
Share capital	35	29,503	29,340
Reserves	36	1,572,223	1,438,098
Equity Attributable to the Owners of the Company		1,601,726	1,467,438
Non-controlling interests	37	32,990	49,390
Total Equity		1,634,716	1,516,828
Non-current Liabilities			
Deferred tax liabilities	34	25,290	18,281
Retirement benefit	38	42,015	33,195
Obligations under finance leases	33	1,001	868
		68,306	52,344
		1,703,022	1,569,172

The notes on pages 61 to 148 form part of these consolidated financial statements.

The consolidated financial statements on pages 55 to 56 were approved and authorised for issue by the Board of Directors on 23 March 2017 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 2016

	Attributable to the Owners of the Company										
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investments revaluation reserve	Exchange reserve	Retained profits	Sub-total	Attributable to non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	29,340	717,925	9,200	8,718	59,344	(899)	(47,540)	691,350	1,467,438	49,390	1,516,828
Employee share option benefits	–	–	–	3,901	–	–	–	–	3,901	–	3,901
Exercise of share options	163	3,229	–	(971)	–	–	–	–	2,421	–	2,421
Share of share-based compensation reserve of a subsidiary	–	–	–	23	–	–	–	–	23	17	40
Share of reserve of associates	–	–	–	–	168	–	–	–	168	–	168
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	2,931	2,931
Profit (loss) for the year	–	–	–	–	–	–	–	252,002	252,002	(19,596)	232,406
Other comprehensive (expense) income for the year	–	–	–	–	–	(11,817)	(49,302)	–	(61,119)	248	(60,871)
Total comprehensive income (expense) for the year	–	–	–	–	–	(11,817)	(49,302)	252,002	190,883	(19,348)	171,535
2015 final dividend paid	–	–	–	–	–	–	–	(43,645)	(43,645)	–	(43,645)
2016 interim dividend paid	–	–	–	–	–	–	–	(19,463)	(19,463)	–	(19,463)
At 31 December 2016	29,503	721,154	9,200	11,671	59,512	(12,716)	(96,842)	880,244	1,601,726	32,990	1,634,716

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	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	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

The notes on pages 61 to 148 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Operating activities			
Profit before taxation		282,604	253,935
Adjustments for:			
Share of results of associates		12,019	29,450
Fair value changes of derivative financial instruments		–	(10,092)
Gain on deemed disposal of interest in an associate		–	(31,825)
Retirement benefit		8,820	(13,617)
Depreciation of property, plant and equipment	16	33,050	33,369
Interest expenses	10	3,395	2,609
Interest income		(1,651)	(3,832)
Interest from advance to an associate	8	(817)	(865)
Interest from held-to-maturity financial assets		(168)	(168)
Amortisation of intangible assets	17	12,678	10,814
Amortisation of lease premium for land	18	3,423	319
Impairment of intangible assets	17	23,324	8,192
Exchange difference	9	26,970	23,726
Share-based payments	9	3,941	3,811
Write-off of other receivables		81	1,244
Provision for (write-back of) allowance for bad and doubtful debts	9	143	(285)
Loss on disposal of property, plant & equipment	9	246	–
Provision for slow moving stock		–	614
Write-off of expired stock		4,028	2,775
Operating cash flows before movements in working capital		412,086	310,174
Decrease (increase) in inventories		24,856	(38,697)
Decrease (increase) in trade receivables		14,961	(11,310)
Increase in other receivables, deposits and prepayments		(4,662)	(35,285)
Increase in pledged bank deposits		(26,639)	–
Increase (decrease) in trade payables		4,697	(4,594)
Increase (decrease) in other payables		5,762	(6,568)
Cash from operations		431,061	213,720
Interest paid		(3,395)	(2,609)
Income tax refund		106	–
Income tax paid		(33,236)	(50,877)
Net cash generated from operating activities		394,536	160,234

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 HK$'000	2015 HK$'000
Investing activities		
Interest received	1,651	3,832
Purchase of plant and equipment	(28,638)	(17,245)
Payment for construction in progress	(110,412)	(88,155)
Investment in an associate	–	(10,000)
Proceed from disposal of property, plant and equipment	47	–
Decrease (increase) in amount due from a related party	37,275	(37,275)
Additions of development cost and license fee	(130,620)	(129,030)
Prepayment for acquisition of a leasehold land	–	(135,402)
Advance to an associate	–	(2,000)
Repayment from an associate	2,881	801
Increase in time deposits with initial terms of over three months	(99,990)	(57,018)
Additions of available-for-sale financial assets	(40,566)	(60,480)
Capital contribution from non-controlling interests	2,931	1,954
Net cash used in investing activities	(365,441)	(530,018)
Financing activities		
New loans raised	147,942	33,980
Repayment of loans	(80,130)	(19,572)
Proceed from obligations under finance leases	782	1,556
Repayment of obligations under finance leases	(485)	(385)
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	2,421	19,949
Dividend paid	(63,108)	(56,173)
Net cash generated from financing activities	7,422	362,972
Net increase (decrease) in cash and cash equivalents	36,517	(6,812)
Cash and cash equivalents at 1 January	337,129	392,912
Effect of foreign exchange rate changes	(25,679)	(48,971)
Cash and cash equivalents at 31 December	347,967	337,129
Analysis of cash and cash equivalents		
Cash and bank balances	295,282	278,244
Time deposits	209,693	115,903
	504,975	394,147
Less: Time deposits with maturity over three months	(157,008)	(57,018)
	347,967	337,129

The notes on pages 61 to 148 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for 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 in the current year:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendment to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

The application of these amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017, 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 1 January 2019, with earlier application permitted

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

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKFRS 9 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 generally measured at FVTOCI. All other debt investments and equity investments are 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to 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 is 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 words, 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

Application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). The Group has already commenced an assessment of the impact of this new HKFRS but is not yet in a position to state whether this new HKFRS would have a material impact on its results of operations and financial position.

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.

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

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

HKFRS 15 Revenue from Contracts with Customers (continued)

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group has already commenced an assessment of the impact of this new HKFRS but is not yet in a position to state whether this new HKFRS would have a material impact on its results of operations and financial position.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

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

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

HKFRS 16 Leases (continued)

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

The Group has already commenced an assessment of the impact of this new HKFRS but is not yet in a position to state whether this new HKFRS would have a material impact on its results of operations and financial position.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

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.

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide guidance on how an entity determines, in accordance with HKAS 12 *Income Taxes*, whether to recognise a deferred tax asset in relation to unrealised tax losses of a debt instrument that is classified as an available-for-sale financial asset in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* under certain specific facts and circumstances.

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.

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

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

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a `net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

   (i) the original liability is derecognised;

   (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

   (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

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.

Amendments to HKFRS 4 Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

The amendments provide two optional approaches to deal with the mismatched effective dates of HKFRS 9 and the new insurance contracts standard to replace HKFRS 4:

a. The overlay approach: all companies that issue insurance contracts have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when HKFRS 9 is applied before the new insurance contracts standard is issued; and

b. The deferral approach: companies whose activities are predominantly connected with insurance have an optional temporary exemption from applying HKFRS 9 until 2021. Entities that defer the application of HKFRS 9 will continue to apply HKAS 39 *Financial Instruments: Recognition and Measurement*.

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.

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

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

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.

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").

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, 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.

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount 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 relevant subsidiary'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 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 to fair value at subsequent reporting dates, 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.

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, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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 and then to the other assets 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

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.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, 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 the relevant 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.

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 is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 leases.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement s neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation, which are recognised in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

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 on identifiable assets acquired on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in 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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Defined contribution plan

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.

Defined benefit plan

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the service. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) in the period the related service is rendered.

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 41 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.

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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Taxation *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (*(continued)*

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 (including obtaining the requisite production certificate). Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of 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% –33%
Motor vehicles	10% – 33%

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.

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 accumulated impairment losses. License fee with finite useful lives are amortised from the date they are ready for intended 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.

3. SIGNIFICANT ACCOUNTING POLICIES ((continued)

Intangible assets *(continued)*

License fee (intangible assets acquired separately) (continued)

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 a licensed-in product 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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.

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

Financial assets are 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Financial assets at FVTPL (continued)

- 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 41.

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.

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

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).

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FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

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 prepayments, time deposits, pledged bank 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

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.

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 41.

Financial liabilities at amortised cost

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

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.

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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition (continued)

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.

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;

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(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);

(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); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

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$5,659,000 (31 December 2015: HK5,491,000). Details of these assets are set out in note 21.

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

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.

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 2016, the carrying amount of goodwill is HK$3,900,000 (net of impairment loss of nil) (2015: 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 2016, the carrying amount of trade receivables is HK$87,069,000 (net of allowance for doubtful debts of HK$384,000) (31 December 2015: carrying amount of HK$107,780,000, net of allowance for doubtful debts of HK$262,000).

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.

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$23,324,000 (2015: HK$8,192,000) impairment was considered necessary for these assets.

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

Key sources of estimation uncertainty *(continued)*

Share-based payments

The Group recognises share-based payments expense on options granted. Share-based payments expense is based on the estimated fair value of each option at its grant date, the estimation of which requires the directors to make assumptions about future volatility of the Group's stock price, future interest rates and the timing with respect to exercise of the options. The effects of a change in one or more of these variables could result in a materially different fair value. The fair value of the share options granted during the year was estimated at HK$4,960,000 (2015: HK$5,009,000) and the amount associated with share-based payments for the year ended 31 December 2016 is HK$3,941,000 (2015: HK$3,811,000).

Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deprecation

The Group's net carrying amount of property, plant and equipment as at 31 December 2016 was approximately HK$437,092,000 (31 December 2015: approximately HK$355,940,000). The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 33% 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.

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

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6. SEGMENT INFORMATION *(continued)*

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	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Segment revenue	440,073	418,789	489,748	503,361	929,821	922,150
Segment results	207,574	185,379	118,253	70,316	325,827	255,695
Interest income					1,651	3,832
Gain on deemed disposal of interest in an associate					–	31,825
Unallocated expenses					(29,052)	(4,927)
Profit from operations					298,426	286,425
Finance costs					(3,803)	(3,040)
Profit before share of results of associates					294,623	283,385
Share of results of associates					(12,019)	(29,450)
Profit before taxation					282,604	253,935
Taxation					(50,198)	(40,938)
Profit for the year					232,406	212,997

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2015: nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results 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.

6. SEGMENT INFORMATION *(continued)*

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	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Segment assets	258,895	260,304	1,104,866	942,067	1,363,761	1,202,371
Unallocated assets					697,636	648,757
Total assets					2,061,397	1,851,128
Segment liabilities	85,420	87,839	264,757	190,846	350,177	278,685
Unallocated liabilities					76,504	55,615
Total liabilities					426,681	334,300

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, part of lease premium for 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.

6. SEGMENT INFORMATION *(continued)*

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	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Depreciation of property, plant and equipment	26,289	30,205	6,761	3,164	33,050	33,369
Amortisation of intangible assets	–	–	12,678	10,814	12,678	10,814
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	52,331	81,480	217,339	152,950	269,670	234,430
Impairment of intangible assets	2,121	351	21,203	7,841	23,324	8,192

Geographical information

During the years ended 31 December 2016 and 2015, 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	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Segment assets	1,167,680	1,085,401	893,717	765,727	2,061,397	1,851,128
Segment liabilities	157,941	118,241	268,740	216,059	426,681	334,300

7. INFORMATION ABOUT MAJOR CUSTOMERS

For the year ended 31 December 2016, no single customer accounted for 10% or more of the Group's total revenue.

For the year ended 31 December 2015, included in revenue arising from sales of licensed-in products of HK$503.4 million are revenue of approximately HK$61.5 million which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's total revenue.

8. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Interest income on:		
Bank deposits	1,651	3,832
Held-to-maturity financial assets	168	168
Advance to an associate	817	865
Total interest income	2,636	4,865
Development grants	10,230	6,616
Development milestone income	4,501	–
Development upfront income	29,260	–
Compensation on termination of product license	23,769	–
Sundry income	1,741	713
	72,137	12,194

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

9. PROFIT FROM OPERATIONS

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

	2016 HK$'000	2015 HK$'000
Depreciation of property, plant and equipment	33,050	33,369
Amortisation of intangible assets (included in Cost of Sales)	12,678	10,814
Total depreciation and amortisation	45,728	44,183
Auditors' remuneration	1,138	1,353
Net foreign exchange losses	26,970	23,726
Listing costs	747	630
Staff costs	153,794	130,659
Share-based payments	3,941	3,811
Research and development costs	67,886	38,883
Operating lease payments in respect of rented premises	8,706	7,885
Provision for (write-back of) allowance for bad and doubtful debts	143	(285)
Loss on disposal of property, plant and equipment	246	–
Cost of inventories charged to profit or loss	242,404	244,184
Fair value changes of derivative financial instruments	–	(10,092)

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10. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	3,322	2,538
Finance leases	73	71
Total interest expenses for financial liabilities not classified as FVTPL	3,395	2,609
Bank charges	408	431
	3,803	3,040

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$'000	2016 Total emoluments HK$'000
Executive Directors								
Lee Siu Fong	–	3,025	1,080	18	4,123	3,636	390	8,149
Leelalertsuphakun Wanee	–	3,584	1,164	18	4,766	4,795	390	9,951
Li Xiaoyi (CEO)	–	4,951	1,607	18	6,576	389	390	7,355
Non-executive Director								
Marco Maria Brughera	96	–	–	–	96	–	–	96
Independent Non-executive Directors								
Chan Yau Ching, Bob	107	–	–	–	107	–	–	107
Lam Yat Cheong	120	–	–	–	120	–	–	120
Tsim Wah Keung, Karl	109	–	–	–	109	–	–	109
Total	432	11,560	3,851	54	15,897	8,820	1,170	25,887

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$'000	Retirement benefit HK$'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 year 2015.

The directors' and chief executive's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (31 December 2015: nil).

Certain executive directors of Company are entitled to bonus payments which are determined based on a percentage of the Group's profit after tax for the year.

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 39 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

Transactions, 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 was 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 (2015: nil).

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 (2015: nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2015: three directors), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining two (2015: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other benefits	4,485	5,679
Employer's contributions to retirement benefit schemes	43	36
Equity-settled share option expense	315	333
	4,843	6,048

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

	2016 Number of employees	2015 Number of employees
HK$1,000,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$3,000,000	1	–
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.

13. TAXATION

	2016 HK$'000	2015 HK$'000
Current tax		
Hong Kong Profits Tax	18,538	25,300
PRC Enterprise Income Tax	23,318	12,161
	41,856	37,461
Under (over) provision in prior years		
Hong Kong Profits Tax	119	118
PRC Enterprise Income Tax	(62)	24
	57	142
Deferred tax		
Origination and reversal of temporary differences	8,285	3,335
	50,198	40,938

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% (2015: 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:

	2016 HK$'000	2015 HK$'000
Profit before taxation	282,604	253,935
Notional tax at the rates applicable to results in regions concern	46,197	37,235
Tax effect of share of results of associates	1,983	4,859
Tax effect of expenses not deductible for tax purpose	4,748	9,653
Tax effect of income not taxable for tax purpose	(5,373)	(20,793)
Under provision in prior years	57	142
Tax effect on temporary differences not recognised	(3,102)	(2,187)
Tax effect of tax losses not recognised	13,912	17,085
Tax effect of PRC preferential tax allowance	(5,969)	(5,559)
Tax at other jurisdictions	455	503
Utilisation of tax losses previously not recognised	(2,710)	-
Tax charge for the year	50,198	40,938

At 31 December 2016, the Group has estimated unused tax losses of approximately HK$161 million (2015: HK$89 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.

14. DIVIDENDS

	2016 HK$'000	2015 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2016 Interim – HK$0.033 (2015: 2015 interim dividend HK$0.030) per share	19,463	17,596
2015 Final – HK$0.074 (2015: 2014 final dividend HK$0.066) per share	43,645	38,577
	63,108	56,173

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FOR THE YEAR ENDED 31 DECEMBER 2016

14. DIVIDENDS *(continued)*

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2016 of HK7.9 cents per share (2015: final dividend in respect of the year ended 31 December 2015 of HK7.4 cents per share), in an aggregate amount of HK$46,614,000 (2015: HK$43,423,000) 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 2016.

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:

	2016 HK$'000	2015 HK$'000
Earnings:		
Net profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	252,002	229,052

	2016 Share(s) '000	2015 Share(s) '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	588,923	575,986
Effect of dilutive potential ordinary shares:		
Options	2,688	7,026
Weighted average number of ordinary shares for the purposes of diluted earnings per share	591,611	583,012

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 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 and 1 January 2016	55,084	3,356	59,051	33,114	9,938	262,258	422,801
Exchange rate adjustments	(9,706)	(653)	(4,009)	(1,724)	(399)	(12,693)	(29,184)
Additions	108	10,779	5,724	10,543	1,484	110,412	139,050
Transfer in (out)	147,137	3,863	8,898	–	–	(159,898)	–
Disposals	(39)	–	–	(46)	(540)	–	(625)
At 31 December 2016	192,584	17,345	69,664	41,887	10,483	200,079	532,042
DEPRECIATION AND IMPAIRMENT							
At 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 and 1 January 2016	14,948	2,899	23,014	20,144	5,856	–	66,861
Exchange rate adjustments	(1,159)	(110)	(1,935)	(1,116)	(309)	–	(4,629)
Charge for the year	6,965	2,638	14,044	8,013	1,390	–	33,050
Write-off upon disposal	(16)	–	–	(46)	(270)	–	(332)
At 31 December 2016	20,738	5,427	35,123	26,995	6,667	–	94,950
CARRYING AMOUNTS							
At 31 December 2016	171,846	11,918	34,541	14,892	3,816	200,079	437,092
At 31 December 2015	40,136	457	36,037	12,970	4,082	262,258	355,940

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$3,816,000 (2015: HK$4,082,000) includes an amount of HK$1,874,000 (31 December 2015: HK$1,321,000) in respect of assets held under finance leases.

17. INTANGIBLE ASSETS

	License fee	Development cost	Total
	HK$'000	HK$'000	HK$'000
COST			
At 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 and 1 January 2016	155,327	217,978	373,305
Exchange rate adjustments	(2,132)	(9,069)	(11,201)
Additions	29,308	101,312	130,620
Impairment	(8,885)	(14,439)	(23,324)
At 31 December 2016	173,618	295,782	469,400
AMORTISATION AND IMPAIRMENT			
At 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 and 1 January 2016	25,339	10,141	35,480
Exchange rate adjustments	–	(611)	(611)
Charge for the year	12,381	297	12,678
Write-off upon impairment	–	–	–
At 31 December 2016	37,720	9,827	47,547
CARRYING AMOUNTS			
At 31 December 2016	135,898	285,955	421,853
At 31 December 2015	129,988	207,837	337,825

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18. LEASE PREMIUM FOR LAND

	2016 HK$'000	2015 HK$'000
Carrying amounts at 1 January	13,707	14,810
Exchange rate adjustments	(6,601)	(784)
	7,106	14,026
Additions for the year	133,744	–
Amortisation for the year	(3,423)	(319)
Carrying amounts at 31 December	137,427	13,707
Current portion of non-current assets	(2,844)	(306)
Non-current portion	134,583	13,401

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

19. GOODWILL

	2016 HK$'000	2015 HK$'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 (2015: 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:

	2016 HK$'000	2015 HK$'000
Cost of investment, unlisted	91,208	91,208
Share of post-acquisition loss and other comprehensive income, net of dividends received	(44,556)	(32,537)
Share of reserve of associates	168	–
	46,820	58,671

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		Proportion of voting rights held by the Group		Principal activities
		2016	2015	2016	2015	
Powder Pharmaceuticals Incorporated	British Virgin Islands/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Manufacture and sale of pharmaceutical products
Powder Pharmaceuticals (HK) Co., Limited	Hong Kong/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Not yet commenced business
RIT Biotech (Holding) Company Limited	British Virgin Islands/ Hong Kong	33.33%	33.33%	33.33%	33.33%	Operate a central pharmacy for compounding radiopharmaceuticals
RIT Biotech Company Limited	Hong Kong/ Hong Kong	33.33%	33.33%	33.33%	33.33%	Operate a central pharmacy for compounding radiopharmaceuticals

20. INTERESTS IN ASSOCIATES *(continued)*

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.

Powder Pharmaceuticals Incorporated ("PPI") and its wholly-owned subsidiary

	2016 HK$'000	2015 HK$'000
Current assets	31,199	63,881
Non-current assets	32,693	35,686
Current liabilities	21,477	25,411
Non-current liabilities	–	–

20. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Powder Pharmaceuticals Incorporated ("PPI") and its wholly-owned subsidiary (continued)

	2016 HK$'000	2015 HK$'000
Revenue	2,351	6,438
Loss from operations	(31,076)	(57,299)
Loss for the year	(31,914)	(58,436)
Other comprehensive income	–	–
Total comprehensive expense for the year	(31,914)	(58,436)
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:

	2016 HK$'000	2015 HK$'000
Net assets of PPI	42,415	74,156
Proportion of the Group's ownership interests in PPI	33.92%	33.92%
Goodwill	23,995	23,995
Carrying amount of the Group's interests in PPI	38,382	49,148

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20. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

RIT Biotech (Holding) Company Limited ("RIT") and its wholly-owned subsidiary

	2016 HK$'000	2015 HK$'000
Current assets	15,375	16,492
Non-current assets	–	–
Current liabilities	361	24
Non-current liabilities	–	–

	2016 HK$'000	2015 HK$'000
Revenue	18	5
Loss from operations	(3,584)	(1,432)
Loss for the year	(3,584)	(1,432)
Other comprehensive income	–	–
Total comprehensive expense for the year	(3,584)	(1,432)
Dividend received from associate during the year	–	–

20. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

RIT Biotech (Holding) Company Limited ("RIT") and its wholly-owned subsidiary (continued)

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

	2016 HK$'000	2015 HK$'000
Net assets of RIT	15,014	16,468
Proportion of the Group's ownership interests in RIT	33.33%	33.33%
Carrying amount of the Group's interest in RIT	8,438	9,523

As at 31 December 2016, 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 2016 cannot be directly calculated by multiplying its net assets with the proportion of the Group's ownership interests.

21. HELD-TO-MATURITY FINANCIAL ASSETS

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

	2016 HK$'000	2015 HK$'000
Unlisted investments	5,659	5,491

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% (2015: 3.28%) per annum. None of these investments has been past due or impaired at the end of the reporting period.

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22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2016 HK$'000	2015 HK$'000
Equity securities listed outside Hong Kong (Note 1)	15,198	27,015
Unlisted equity securities (Note 2)	46,671	39,060
Unlisted partnership investment (Note 3)	65,909	32,954
	127,778	99,029

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 the United States of America. They are measured at cost less impairment at the end of the reporting period. The fair value of the financial assets 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 the 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 in 2015. The transaction was completed and certificate of land use right was issued in current year. Hence, the balance was transferred to "Lease premium for land".

24. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	16,050	11,031
Work-in-progress	14,265	14,134
Finished goods	104,595	144,713
	134,910	169,878

No inventories are carried at net realisable value at 31 December 2016 (2015: nil).

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25. TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	87,453	108,042
Less: Allowances for bad and doubtful debts	(384)	(262)
	87,069	107,780

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:

	2016 HK$'000	2015 HK$'000
0 – 30 days	47,314	50,767
31 – 120 days	38,368	50,236
121 – 180 days	1,073	5,839
181 – 365 days	225	934
Over 365 days and under 3 years	89	4
	87,069	107,780

The fair value of the Group's trade receivables at 31 December 2016 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.

25. TRADE RECEIVABLES *(continued)*

Aging of receivables that are past due but not impaired

	2016 HK$'000	2015 HK$'000
Overdue by:		
1 – 180 days	16,674	20,244
181 – 365 days	202	257
	16,876	20,501

Movement in allowance for bad and doubtful debts

	2016 HK$'000	2015 HK$'000
Balance at beginning of the year	262	564
Exchange rate adjustments	(21)	(17)
Provision for (write-back of) allowance for bad and doubtful debts	143	(285)
Balance at the end of the year	384	262

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.

Aging of receivables that are past due and impaired

	2016 HK$'000	2015 HK$'000
Overdue by:		
181 – 365 days	203	258
Over 365 days and under 3 years	181	4
	384	262

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 HK$'000	2015 HK$'000
Utilities and rental deposits	3,174	3,143
Prepayment for plant and equipment and services	47,518	69,275
Other tax recoverable	16,501	16,722
Others (Note)	39,030	19,681
	106,223	108,821

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

27. AMOUNT DUE FROM A RELATED PARTY

	2016 HK$'000	2015 HK$'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 46(c).

29. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES/TIME DEPOSITS

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group, and deposits given by bank on behalf of the Group to service provider for service. The pledged bank deposits would be released within one year therefore are classified as current assets.

Bank balances carry interest at market rates which are 0.01% to 0.50% (2015: 0.01% to 0.39%) per annum. Time deposits carry interest rates in the range of 0.40% to 1.65% (2015: 0.35% to 3.46%) per annum. Pledged bank deposits carry interest rate of 0.13% to 0.95% (2015: nil) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2016 approximates to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2016 and 2015:

	2016 HK$'000	2015 HK$'000
0 – 90 days	36,631	35,523
91 – 180 days	–	1
181 – 365 days	5,618	2,065
Over 365 days	52	32
	42,301	37,621

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.

31. OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Bills payables	7,024	15,092
Other tax payables	13,519	29,510
Prepayment from customers	79,634	51,806
Sales guarantee deposits	27,934	19,408
Others (Note)	44,229	56,803
	172,340	172,619

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

32. BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Secured bank borrowings classified as current liabilities (1)	133,578	66,769
Carrying amount of the borrowings are repayable: (2)		
Within one year	78,053	34,146
More than one year but not exceeding two years	27,331	23,804
More than two years but not exceeding five years	28,194	8,819
	133,578	66,769

Notes:

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

(2) The table is based on the agreed repayment schedule provided by banks.

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

	2016 HK$'000	2015 HK$'000
Bank borrowings	2.00% – 4.79%	2.53% – 4.50%

The Group's borrowings are denominated in the following currencies :

	Hong Kong Dollars HK$'000	**Euro** HK$'000	**Japanese Yen** HK$'000	**Renminbi** HK$'000	**New Taiwan Dollars** HK$'000
As at 31 December 2016	90,142	1,574	–	21,462	20,400
As at 31 December 2015	52,697	9,056	5,016	–	–

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33. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. The lease term is five years. Interest rate underlying the obligations under finance leases is 3.72% (2015: 3.72%) per annum. At the end of the lease term, the Group has an option to purchase the motor vehicles. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Amounts payable under finance leases:				
Within one year	514	342	467	303
In the second to fifth year inclusive	1,042	912	1,001	868
	1,556	1,254	1,468	1,171
Less: Future finance charges	(88)	(83)	N/A	N/A
Present value of lease obligations	1,468	1,171	1,468	1,171
Less: Amount due for settlement within 12 months (shown under current liabilities)			(467)	(303)
Amounts due for settlement after 12 months			1,001	868

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

34. 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 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 and 1 January 2016	148	23,675	(5,542)	18,281
Exchange difference	–	(1,276)	–	(1,276)
Charge (credit) to profit or loss	258	9,697	(1,670)	8,285
At 31 December 2016	406	32,096	(7,212)	25,290

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$428 million (2015: HK$368 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.

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35. SHARE CAPITAL

	Number of shares		Share capital	
	2016	2015	2016 HK$'000	2015 HK$'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	586,795,343	544,720,604	29,340	27,236
Exercise of share options	3,256,000	5,180,500	163	259
Issue of shares pursuant to the Placing Agreement	–	30,000,000	–	1,500
Issue of shares pursuant to Shareholders' Agreement	–	6,894,239	–	345
At end of the year	590,051,343	586,795,343	29,503	29,340

36. RESERVES

Share premium

Share premium represents the difference between the nominal value and the issuing value of the shares.

Merger difference

The merger difference represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group's reorganisation prior to the listing of the Company's shares in 2002.

Share-based compensation reserve

The share-based compensation reserve comprises the fair value of share options granted which are not yet exercised.

Other reserves

Other reserves represent (i) the difference between the consideration and the carrying amount of the net assets attributable to the reduction of interests in subsidiaries being disposed to non-controlling interests; and (ii) share of share options reserve of the associates.

Investments revaluation reserve

Investments revaluation reserve represents the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed or impaired.

36. RESERVES *(continued)*

Investments revaluation reserve *(continued)*

	2016 HK$'000	2015 HK$'000
At the beginning of the year	(899)	3,319
Other comprehensive expense, net of tax		
– Fair value changes of available-for-sale financial assets	(11,817)	(4,218)
At the end of the year	(12,716)	(899)

Exchange reserve

Exchange reserve of the Group comprises the exchange differences arising from the translation of the financial statements of subsidiaries outside Hong Kong.

	2016 HK$'000	2015 HK$'000
At the beginning of the year	(47,540)	7,793
Other comprehensive expenses, net of tax		
– Exchange differences on translation of financial statements of overseas subsidiaries	(49,302)	(55,333)
At the end of the year	(96,842)	(47,540)

37. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries HK$'000	Share-based compensation reserve of subsidiaries HK$'000	Total HK$'000
At 1 January 2016	49,340	50	49,390
Capital contribution from non-controlling interests	2,931	–	2,931
Share of loss for the year	(19,596)	–	(19,596)
Share of other comprehensive income for the year	248	–	248
Share of employee share options benefit	–	17	17
At 31 December 2016	32,923	67	32,990

37. 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 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

38. 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 (2015: HK$1,500) per month for each employee, which contribution is matched by employees.

The total cost recognised in profit or loss of HK$650,927 (2015: HK$650,429) represents contributions payable to the Scheme by the Group in respect of the current accounting period. As at 31 December 2016, contributions of HK$60,931 (2015: HK$68,172) 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.

38. RETIREMENT BENEFIT *(continued)*

Defined benefit plan

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

Each of the 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 cost of providing benefits determined by valuation conducted by independent valuer at the end of the reporting period, amortised over the expected average remaining working lives of the participating employees. The fair value of the retirement benefit at 31 December 2016 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.

During the year, the total cost recognised in profit or loss of HK$8,820,000 represents provision for retirement benefit (2015: overprovide HK$13,617,000).

39. 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 2016, 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 13,217,000 shares (2015: 14,712,000 shares) representing 2.2% (2015: 2.5%) 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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FOR THE YEAR ENDED 31 DECEMBER 2016

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

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

Date of grant	Outstanding at 01.01.2016	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2016	Exercise period	Exercise price per share
Category I: Directors							
30.12.2013	876,000	–	–	–	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
31.03.2016	–	1,761,000	–	–	1,761,000	30.09.2016-30.03.2026	HK$5.754
Category II: Employees							
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	240,000	–	–	–	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	4,964,000	–	(256,000)	–	4,708,000	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	2,024,000	–	–	–	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
	14,712,000	1,761,000	(3,256,000)	–	13,217,000		
Exercisable at the end of the year					12,086,500		
Weighted average exercise price	HK$5.409	HK$5.754	HK$0.749	–	HK$6.602		

The weighted average share price on which the options were exercised in current year is HK$6.27.

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FOR THE YEAR ENDED 31 DECEMBER 2016

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Details of the Company's share option schemes during the prior year 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 in prior year was HK$12.00.

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FOR THE YEAR ENDED 31 DECEMBER 2016

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period		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. 25.03.2010-24.09.2019	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. 25.12.2010-24.09.2019	
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	

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period		Exercise price per share HK$
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	
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	

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period		Exercise price per share HK$
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.	
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	
31.03.2016	(i)	880,500 options will be exercisable during the period from 30.09.2016 to 30.03.2026	5.754
	(ii)	880,500 options will be exercisable during the period from 30.06.2017 to 30.03.2026	

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

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

		During the year			
	Outstanding at 01.01.2016	**Granted**	**Exercised**	**Lapsed**	**Outstanding at 31.12.2016**
Directors					
Lee Siu Fong	984,000	587,000	–	–	1,571,000
Leelalertsuphakun Wanee	784,000	587,000	–	–	1,371,000
Li Xiaoyi	446,000	587,000	–	–	1,033,000
Directors' total	2,214,000	1,761,000	–	–	3,975,000
Employees	9,998,000	–	(756,000)	–	9,242,000
Consultants	2,500,000	–	(2,500,000)	–	–
Grand total	14,712,000	1,761,000	(3,256,000)	–	13,217,000

The Company issues equity-settled share options to certain employees and consultants. Equity-settled share options 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 options 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. 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 2016 was HK$4,960,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. exercise price HK$5.754;

2. expected volatility range of 60.15%;

3. the options life is 10 years;

4. annualised dividend yield range of 1.09%; 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 1.24%.

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.

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the CVie's Scheme was 440,000 (2015: 440,000), representing 3.26% (2015: 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.

39. SHARE OPTION SCHEMES *(continued)*

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

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 during the current year are summarised as follows:

Date of grant	Outstanding at 01.01.2016	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2016	Exercise period	Exercise price per 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 2016

39. SHARE OPTION SCHEMES *(continued)*

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

Details of the CVie's Scheme during the prior year 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 per 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:

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.

39. SHARE OPTION SCHEMES *(continued)*

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

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$3,941,000 for the year ended 31 December 2016 (2015: HK$3,811,000) in relation to share options granted by the Company and CVie.

40. 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 leases 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:

	2016 HK$'000	2015 HK$'000
Debt *(Note 1)*	135,046	67,940
Cash and cash equivalents	(347,967)	(337,129)
Net debt	(212,921)	(269,189)
Equity *(Note 2)*	1,601,726	1,467,438
Net debt to equity ratio	N/A	N/A

Notes:

1. Debt is defined as bank borrowings and obligations under finance leases as described in notes 32 and 33.

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 2016

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Held-to-maturity financial assets	5,659	5,491
Loans and receivables (including cash and cash equivalents)	670,749	607,766
Available-for-sale financial assets	127,778	99,029
	804,186	712,286
Financial liabilities		
Amortised cost	318,091	264,213

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.

41. 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**	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Renminbi ("RMB")	266,593	320,599	97,691	107,511
United States Dollars ("US$")	309,636	146,266	10,075	10,189
Euro ("EUR")	6,943	3,830	48,910	64,161
New Taiwan Dollars ("NTD")	8,807	20,429	21,191	751
Japanese Yen ("JPY")	–	–	–	5,402
	591,979	491,124	177,867	188,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

41. 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% (2015: 5%) increase in the relevant foreign currencies against HK$. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted their translation at the period end for a 5% change in foreign currency rates. A positive number indicates an increase in profit or equity whereas a number in bracket indicates a decrease in profit or equity. For a 5% (2015: 5%) decrease in the relevant foreign currencies against HK$, there would be an equal and opposite impact on the profit or equity.

	Profit or loss		Other comprehensive income	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
RMB	406	40	8,039	11,160
US$	14,978	6,804	–	–
EUR	(2,098)	(3,017)	–	–
NTD	–	–	(619)	804
JPY	–	(270)	–	–
	13,286	3,557	7,420	11,964

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.

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at 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 (2015: 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 (2015: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would decrease/increase by HK$548,000 (2015: decrease/increase by HK$279,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

41. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

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% (2015: 5%) higher/lower, other comprehensive income for the year ended 31 December 2016 would increase/decrease by HK$760,000 (2015: increase/decrease by HK$1,351,000) as a result of the changes in fair value of listed available-for-sale financial assets.

Credit risk management

As at 31 December 2016, 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 is the carrying amount of each financial assets as stated in the consolidated statement of financial position.

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.

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. Ongoing credit evaluation is performed on the financial condition of receivables.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

41. FINANCIAL INSTRUMENTS *(continued)*

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 borrowings 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.

	Weighted average interest rate	On demand or less than 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2016					
Non-derivative financial liabilities					
Trade and other payables	–	140,540	–	140,540	140,540
Obligations under license contract	–	490	–	490	490
Obligations under finance leases	3.72	514	1,042	1,556	1,468
Bank borrowings *(Note 1)*	2.00-4.79	136,350	–	136,350	133,578
		277,894	1,042	278,936	276,076
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 leases	3.72	342	912	1,254	1,171
Bank borrowings *(Note 1)*	2.53-4.50	69,833	–	69,833	66,769
		229,114	912	230,026	226,879

Note:

1. Bank borrowings with a Repayment on Demand Clause are included in the "on demand or less than 1 year" time band in the above maturity analysis.

41. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of financial instruments

Some of the Group's financial asset and financial liability 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 liability are determined (in particular, the valuation technique(s) and inputs used).

Financial asset/ Financial liability	Fair value as at 31.12.2016	Fair value as at 31.12.2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Available-for-sale financial assets – Equity securities	Listed overseas equity securities HK$15,198,000	Listed overseas equity securities HK$27,015,000	Level 1	Quoted bid prices in an active market.	N/A
Retirement benefit	HK$42,015,000	HK$33,195,000	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 4.6%. An increase in annualised historical growth rate would result in an increase in the fair value measurement, and vice versa. Credit spread, ranging from 2.27% to 3.62%, 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 4.16% to 6.19%. An increase in discount rate would result in an decrease in the fair value measurement, and vice versa.

41. 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 liability 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
Year ended 31 December 2016			
Opening balance	–	33,195	33,195
Contribution recognised in profit or loss	–	8,820	8,820
Closing balance	–	42,015	42,015
Year ended 31 December 2015			
Opening balance	10,092	46,812	56,904
Gain recognised in profit or loss	(10,092)	–	(10,092)
Over-contribution recognised in profit or loss	–	(13,617)	(13,617)
Closing balance	–	33,195	33,195

Contribution relating to retirement benefit are included in "Administrative expenses".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

42. OPERATING LEASES

	2016 HK$'000	2015 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	8,706	7,885

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:

	2016 HK$'000	2015 HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	6,038	7,235
More than one year but not exceeding five years	4,875	6,542
	10,913	13,777

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.

43. CAPITAL COMMITMENTS

	2016 HK$'000	2015 HK$'000
Capital commitments contracted for:		
Investment in available-for-sale financial assets	15,760	36,431
Intangible assets – license fee and development cost	89,763	71,147
Property, plant and equipment	23,370	20,020
Construction contract	41,649	22,081
	170,542	149,679
Authorised and not contracted for:		
Intangible assets – license fee and development cost	21,890	–

44. PLEDGED OF ASSETS

At 31 December 2016, the Group has pledged bank deposits of HK$26,639,000 (2015: nil) to secure general banking facilities granted to the Group and service provided by supplier.

The Group's obligations under finance leases are secured by the lessor's title to the motor vehicles, which have a carrying amount of HK$1,874,000 (2015: HK$1,321,000).

45. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any material contingent liabilities (2015: Group provided HK$8,000,000 guarantee for the banking facilities made available to an associate and not provided for in the consolidated financial statements).

46. 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	*Note*	**Nature of transaction**	2016 HK$'000	2015 HK$'000
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. ("STIFR")	(1)	Purchase of pharmaceutical product	–	38,029
STIFR	(1)	Purchase of experimental products for use in R&D	–	2,899
			–	40,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

46. RELATED PARTIES TRANSACTIONS *(continued)*

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

Note:

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.

(b) Compensation of key management personnel

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

	2016 HK$'000	2015 HK$'000
Short-term benefits	15,897	14,566
Share-based payments	1,170	854
Retirement benefit	8,820	(13,617)
	25,887	1,803

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

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

During the year ended 31 December 2016 and 2015, the Group provided certain shareholder's loans to PPI, which bear interest rate of 4% per annum and are repayable within 1 year.

As disclosed in note 8 to the consolidated financial statements, interest income from loans to PPI for the year ended 31 December 2016 amount to HK$817,000 (2015: HK$865,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

46. RELATED PARTIES TRANSACTIONS *(continued)*

(d) Interest income from shareholder loan to China Oncology Focus Limited ("COF")

On 13 June 2016, Lee's Pharmaceutical International Limited ("Lee's International"), a wholly owned subsidiary of the Company, and COF entered into a shareholder loan agreement, pursuant to which Lee's International agrees to advance the shareholder loan in the principle amount of HK$10,000,000 to COF for one year at an interest rate of 4% per annum. Details of this transaction have been disclosed in the Company's announcement dated 13 June 2016.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They hold 90% of the equity interest in Perfect Concept Holdings Limited ("Perfect Concept") and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules. Lee's International is a shareholder of COF and at the same time, Perfect Concept, is also a shareholder of COF. Perfect Concept, being a connected person of the Company, is holding 35% of the issued share capital of COF, and therefore, the shareholder loan made by Lee's International to COF under the shareholder loan agreement constitutes a connected transaction pursuant to Rule 14A.27 of the Listing Rules.

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

During the year, China Oncology Focus Limited, a subsidiary of the Company, issued total 5,250 shares to 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$378,000 (HK$2,931,000 approximately).

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

During the year, total HK$300,000 (2015: HK$1,300,000) was donated to 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.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

A. General information of subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2016 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
				2016	2015	2016	2015	
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. Limited *(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$55,000	–	–	65%	65%	Development of pharmaceutical products
Zhaoke Pharmaceutical (Guangzhou) Limited *(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

47. 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 2016	Directly 2015	Indirectly 2016	Indirectly 2015	Principal activities
CVie Therapeutics Limited	Taiwan	Ordinary	NTD204,030,970	–	–	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%	100%	Not yet commenced business
Zhao Kang Medical Investment Limited	Cayman Islands	Ordinary	US$1,000	–	–	100%	–	Not yet commenced business *(Note 2)*
Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited *(Note 1)*	PRC	Paid-up capital	US$2,907,000	–	–	100%	–	Not yet commenced business *(Note 2)*
Zhaoke (Guangzhou) Oncology Pharmaceutical Limited *(Note 1)*	PRC	Paid-up capital	Nil	–	–	100%	–	Not yet commenced business *(Note 2)*

Notes:

1. These were wholly foreign owned enterprises.
2. The companies were incorporated in current year.

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 has material non-controlling interests:

Name of subsidiary	Place of incorporation/ operations	Proportion of ownership interests and voting rights held by non-controlling interests 2016	2015	Loss allocated to non-controlling interests 2016 HK$'000	2015 HK$'000	Accumulated non-controlling interests 2016 HK$'000	2015 HK$'000
		HK$'000	HK$'000				
CVie Therapeutics Company Limited	Cayman Islands	43.74%	43.74%	(9,653)	(12,136)	39,277	48,912

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

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

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

CVie Therapeutics Company Limited

	2016 HK$'000	2015 HK$'000
Current assets	8,189	10,621
Non-current assets	58,720	64,847
Current liabilities	11,391	5,243
Non-current liabilities	37	56
Equity attributable to the owners of the Company	31,214	39,477
Non-controlling interests	24,267	30,692
Revenue	29,243	8,836
Expenses	(43,972)	(36,581)
Loss for the year	(14,729)	(27,745)
Loss attributable to the owners of the Company	(8,287)	(15,609)
Loss attributable to the non-controlling interests	(6,442)	(12,136)
Loss for the year	(14,729)	(27,745)

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

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

CVie Therapeutics Company Limited (continued)

	2016 HK$'000	2015 HK$'000
Other comprehensive expense attributable to the owners of the Company	–	–
Other comprehensive expense attributable to non-controlling interests	–	–
Other comprehensive expense for the year	–	–
Total comprehensive expense attributable to the owners of the Company	(8,287)	(15,609)
Total comprehensive expense attributable to non-controlling interests	(6,442)	(12,136)
Total comprehensive expense for the year	(14,729)	(27,745)
Dividend paid to non-controlling interests	–	–
Net cash outflow from operating activities	(717)	(19,785)
Net cash outflow from investing activities	(10)	(76,970)
Net cash inflow from financing activities	–	35,660
Net cash outflow	(727)	(61,095)

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48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 HK$'000	2015 HK$'000
Non-current Assets		
Interests in subsidiaries	663,993	736,525
Investment in an associate	10,000	10,000
Held-to-maturity financial assets	5,659	5,491
Available-for-sale financial assets	127,778	99,029
	807,430	851,045
Current Assets		
Other receivables, deposits and prepayments	294	621
Amount due from a related party	–	37,275
Tax recoverable	88	211
Pledged bank deposits	25,638	–
Time deposits	11,631	17,754
Cash and bank balances	9,670	10,956
	47,321	66,817
Current Liability		
Other payables	4,174	3,873
Net Current Assets	43,147	62,944
Total Assets less Current Liability	850,577	913,989
Capital and Reserves		
Share capital	29,503	29,340
Reserves	779,059	851,454
	808,562	880,794
Non-current Liability		
Retirement benefit	42,015	33,195
	850,577	913,989

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 23 March 2017 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 2016

48. STATEMENT OF FINANCIAL POSITION AND RESERVES 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 2016	717,925	9,200	8,643	(899)	116,585	851,454
Employee share option benefits	–	–	3,901	–	–	3,901
Exercise of share options	3,229	–	(971)	–	–	2,258
Loss for the year	–	–	–	–	(3,629)	(3,629)
Other comprehensive expense for the year						
– Fair value changes of available-for-sale financial assets	–	–	–	(11,817)	–	(11,817)
Total comprehensive expense for the year	–	–	–	(11,817)	(3,629)	(15,446)
2015 final dividend paid	–	–	–	–	(43,645)	(43,645)
2016 interim dividend paid	–	–	–	–	(19,463)	(19,463)
At 31 December 2016	721,154	9,200	11,573	(12,716)	49,848	779,059
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						
– Fair value changes of available-for-sale financial assets	–	–	–	(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