石四藥集團有限公司
SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2005)

2016

Annual Report

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Qu Jiguang *(Chairman)*
Mr. Wang Xianjun
Mr. Su Xuejun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Chow Hing Yeung

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681 GT, Grand Cayman
KY1-1111, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 4902-03, 49th Floor
Central Plaza, 18 Harbour Road
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Mr. Chow Hing Yeung

AUDIT COMMITTEE

Mr. Chow Kwok Wai *(Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun *(Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

NOMINATION COMMITTEE

Mr. Wang Yibing *(Chairman)*
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House, 24 Shedden Road
George Town, Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of Communications
Bank of Hebei
BNP Paribas Hong Kong Branch
China CITIC Bank
China CITIC Bank International
Hang Seng Bank
Hongkong and Shanghai Banking Corporation
Industrial and Commercial Bank of China

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

KPMG

WEBSITE

http://www.ssygroup.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

I. RESULT AND DIVIDEND DISTRIBUTION

During 2016, as the entire nation was overcast by an economic slowdown and against the backdrop of increasingly fierce competition among pharmaceutical business operations, the Company managed to achieve hard-won results. Aspiring to seize the timing for consolidation throughout the intravenous infusion solutions industry as a result of the nation's policy to put restraints on infusion solutions and regulate pharmaceutical tendering and bidding, we put serious efforts into expanding the product market, adjusting product mix, and reducing product costs. We strive to strengthen our competitiveness on the market, increase the sales volume of products, enlarge the sales market, and witness the skyrocketing number of end user clients. The Group's market position within the industry as well as cost and quality advantages were further reinforced whereas industry consolidation brought in broader market prospects for the Company.

During the year, the Group achieved a revenue of HK$2,361 million (or Renminbi ("RMB") 2,024 million), representing an increase of 6.3% (or 13.3% in RMB) compared with last year with the gross profit margin of 51.6%, representing a 4.4 percentage point increase compared with last year. The Group achieved a net profit of HK$490 million (or RMB420 million) which represented a year-on-year increase of 21.3% (or 29.4% in RMB) even when RMB's depreciation indeed had a relatively huge impact on the Company's results and performance.

The Group resolved to pay on 9 June 2017 a final dividend for the year ended 2016 of HK$0.03 per share to the shareholders named in the register of members of the Company on 29 May 2017 amounting to HK$85.2 million (the corresponding period of last year: nil). Together with an interim dividend of HK$0.025 per share, a full-year dividend of HK$0.055 per share (the full-year dividend for last year: HK$0.025 per share) amounted to HK$156 million and represented a 122% increase compared with last year.

II. BUSINESS REVIEW

(1) Sales of Products

While strengthening the current market penetration, we placed emphasis on market share growth in new bid-winning provinces with concentrated efforts on market development for soft bags, particularly the market for advantageous products such as upright soft bags in an endeavor to effectually ensure sales growth of the Company's leading products. On the production side, by virtue of employing integrated bottle-ring pull among other production technologies and technical modifications, and continuously improving the efficiency of equipment operations, the results of energy saving and cutting back on raw materials were prominent. We also placed emphasis on controlling the process involved in materials procurement and consumption as well as using self-manufactured co-extrusion films at a much higher level so as to ensure that the Company's products had cost and quality advantages.

During 2016, we achieved a sales volume of 1,118 million bags/bottles of intravaneons infusion solutions, among which the sales volume of standard soft bags amounted to 416 million bags, representing an increase of 4.8% compared with last year and the sales volume of upright soft bags amounted to 140 million bags, representing an year-on-year increase of 45.2%, thereby reinforcing the Group's operational advantage through the economy of scale.

(2) Research and Development of New Products

The Company's innovation capacity was further enhanced. During the year, the approval for the Company to establish the "National and Local Joint Engineering Laboratory to Control the Quality of Injectable Chemical Drug Formulations" was granted by the National Development and Reform Commission. The laboratory can delve into theories and techniques in relation to quality control throughout the production process of injectable chemical drug formulations, establish consistent quality reviews for injectable formulations, function as a base for the development, scientific research, and implementation of new products, cultivate high-tech talent, and offer technical support for the development of domestic injectable formulations industry in accordance with the requirements of the nation's industry policy and the execution of the development strategy. The establishment of the laboratory will significantly enhance the Group's innovation capability and provide key technologies and services for the development of the Group, thereby prompting and raising the standard of self-initiated innovation capability of the injectable chemical drug industry across the nation.

The results of research and development of new products were prominent. We obtained production approval for Ambroxol Hydrochloride and Sodium Chloride Injection, being the second entity in China to obtain such approval of intravenous infusion solutions on the market; became the first entity in China to obtain approvals for clinical trial for Ibuprofen and Sodium Chloride Injection (a variety of intravenous infusion solutions with antipyretic and analgesic effects) and for Acetaminophen Injection and to commence clinical verification process; obtained 32 approvals for clinical trial for previous Type 3 chemical drugs including Stiripentol for Suspension for the treatment of epilepsy in children; obtained 14 bioequivalence clinical trial approvals for generic drugs including Felodipine Extended-Release Tablets for the treatment of cardiovascular and cerebrovascular diseases. Meanwhile, we completed bioequivalence studies of Levamlodipine Besylate Tablet, a drug for the treatment of high blood pressure and submitted the application for production. A business blueprint with intravenous infusion solutions as the central products along with diversified development is gradually taking shape.

II. BUSINESS REVIEW *(CONTINUED)*

(3) Acquisition of Assets and Businesses

During the year, the operating profit of Jiangsu Best New Medical Material Co., Ltd. a manufacturer of medical materials that the Company had wholly acquired, met the target promised by the Vendor, hence the acquisition was fully completed. Following the incorporation of Jiangsu Best into the Group, the synergy with the Company's intravenous infusion solutions business was fully leveraged so as to thoroughly prepare for the implementation of medical materials-related review and assessment and in turn improve business competiveness. Its production capacity ensured sufficient materials such as co-extrusion films and stoppers for the Company's intravenous infusion solutions, which not only reduced on costs of the Group's intravenous infusion solution products but also resulted in significantly enhanced economic benefits for Jiangsu Best itself.

During the year, the Group's percentage of equity interest in Hebei Hanlin, a company that had commenced producing, merchandising, and promoting peptide anti-wrinkle cosmetic products on the market, further increased to 75%. Nevertheless, other products under research and development still have a long way before going into market.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead for year 2017, although the environments of policies, markets and operations remain difficult in general, with the elimination and survival of the companies in the intravenous infusion solutions industry, the competitive advantages and superior position of leading entities become increasingly prominent. The Company's growth in market share and the economic benefits brought about by our advantages in the market will become apparent this year.

The Group will continue its focused efforts on the promotions and operations in the market for products including upright soft bags, double-soft-tube and double-hard-tube standard soft bags, and liquid injections in ampules, concentrate on the sales of products including soft bag rinsing solutions, therapeutic infusion solutions, oral formulations, and antiseptic products whereas keeping its leading position in the industry of soft bag infusion solutions production and sales as well as maintaining the profitability of intravenous infusion solution products. The sales volume of intravenous infusion solution products is planned to achieve 1,300 million bags/bottles this year, among which the sales volume of standard soft bags is 440 million bags, and the sales volume of upright soft bags is 226 million bags.

Regarding innovation, we aspire to leverage on the prime timing of being granted the permission to set up the Nation and Local Joint Engineering Laboratory, practically utilize the function of a postdoctoral scientific research workstation, seize the timing of adjustments on the drug review and assessment mechanism, project the innovative vision onto the field of national research on major innovative drugs, act quickly on research and development of new varieties with a huge market potential and technology-intensive, and simultaneously pay attention to the research and development applications for new products along with consistency reviews of existing key varieties so as to practically speed up the progress of application and approval for products and elevate the transformation efficiency of research results.

Jiangsu Best will enhance the production capacity of large co-extrusion film and special rubber stopper products by way of technical renovation and process optimization, and achieve the innovative transformation of high value-added products to improve our own competitiveness in the market.

III. PROSPECTS FOR DEVELOPMENT *(CONTINUED)*

We will maintain the advantages in infusion solution production technique and products, improve infusion solution formulations and product varieties, formulate product groups of basic infusion solution series with all-inclusive package types, rinsing solution specialised products for surgical operations, surgery and emergency treatment-related therapeutic series, dialysis product series, parenteral nutrition infusion solution series and antiseptic series.

We plan to obtain 11 production approvals for preparations and raw material drugs including Balanced Saline Solution (Type 3 chemical drug) and Hydroxyethyl Starch Injection (Type 4 chemical drug), complete the application for production for 7 projects, apply for approvals for clinical trial for 7 projects, as well as commence clinical trial for 18 projects this year.

We are full of confidence in the Company's future development. Leveraging on our advantages in scale, quality and streamlined management, our market share will increase through industry consolidation and such market advantages will start to achieve preliminary results this year. With the launch of our new products in succession, the Company's product mix would gradually move toward perfection and the ability to hedge against market risks would be further enhanced so as to generate satisfactory returns for our investors.

I would like to take this opportunity to express our gratitude to our investors and all staff in the Group for their supports to the development of the Group.

Qu Jiguang
Chairman

Hong Kong, 29 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

SSY Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the research, development, manufacturing and selling of a wide rande of pharmaceutical products, which includes finished medicines of mainly intravenous infusion soltion to hospitals and distributors, bulk pharmaceuticals and medical materials. The Group has manufacturing plants in Hebei Province and Jiangsu Province, the Province, the People's Republic of China ("Mainland China"), and sells to customers mainly in the Mainland China.

For the year ended 31 December 2016, the review on the Group's business performance and financial performance are contained in the Chairman's statement under section headed "BUSINESS REVIEW" and in this Management Discussion and Analysis under section headed "FINANCIAL PERFORMANCE REVIEW" respectively. The future development in the Group's business is discussed in the Chairman's statement under section headed "PROSPECT FOR DEVELOPMENT".

Principle risks and uncertainties

Save as any adverse change to the pharmaceutical industry environment and government policy uncertainty about intravenous infusion solution in Mainland China which together would be regarded as principal risks and uncertainties, other risk issues had been evaluated by the Company as set out in the Chairman Statement and note 26 to the financial statement.

Compliance with laws and regulations

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

Environmental policies and performance

As a pharmaceutical enterprise, the Group recognizes the importance of environmental sustainability and green manufacturing. The Group has set out policies to ensure its production to be in compliance with environmental requirements under the GMP standard and other relevant laws and regulations. For operating practices, the Group persistently adopted measures with low energy consumption and low pollution level, and encouraged its employees to put relevant environmental factors into consideration from time to time. Moreover, the Group had provided a green and eco-friendly working environment for its employees.
.

Relationships with employees, suppliers and customers

The Group believes that employees are valuable assets. The Group provides competitive remuneration package to employees and is periodically reviewed with reference to industry practice. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. The Group has been working continuously with its suppliers to improve the standard of raw materials, and aiming at delivering products with high quality to its customers. During the year, there was no material and significant dispute between the Group and its suppliers and/or customers.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

Revenue

	2016		2015		
	Sales *HK$'000*	**Percentage of sales** *%*	Sales *HK$'000*	Percentage of sales %	Increase/ (decrease) %
Intravenous infusion solution and others	**2,219,056**	**94.0**	2,175,536	97.9	2.0
(Including: Non-PVC soft bag & upright soft bag infusion solution	**1,337,514**	**56.7**	1,278,288	57.5	4.6
PP plastic bottle infusion solution	**500,915**	**21.2**	502,196	22.6	(0.3)
Glass bottle infusion solution	**224,715**	**9.5**	226,244	10.2	(0.7)
Others)	**155,912**	**6.6**	168,808	7.6	(7.6)
Medical materials	**142,194**	**6.0**	46,385	2.1	206.6
Total	**2,361,250**	**100**	2,221,921	100	6.3

The Group's intravenous infusion solution products are mainly manufactured and sold by Shijiazhuang No. 4 Pharma Co., Ltd ("Shijiazhuang No. 4 Pharma"), a wholly owned subsidiary. There are different forms of packing in intravenous infusion solution products, including Non-PVC Soft Bag, Upright Soft Bag, PP Plastic Bottle and Glass Bottle. The Group's medical materials are mainly manufactured and sold by Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), which was acquired by the Group on 30 September 2015.

Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi ("RMB"), which depreciated by approximately 6.2% when translated into Hong Kong dollars ("HK") on a year-to-year basis for the year ended 31 December 2016. Nevertheless, revenue for the year ended 31 December 2016 increased to HK$2,361,250,000 (2015: HK$2,221,921,000), representing a growth of 6.3% on a year-to-year basis. Among which, revenue from intravenous infusion solution products contributed HK$2,063,144,000 (2015: HK$2,006,728,000), representing a growth of 2.8% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK$1,130,550,000 and HK$206,964,000 respectively, totalling HK$1,337,514,000, representing 64.8% of the total revenue from intravenous infusion solution and an increase of 4.6% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK$500,915,000, representing 24.3% of the total revenue from intravenous infusion solution and an decrease of 0.3% as compared with last year; revenue from Glass Bottle infusion solution was HK$224,715,000, representing 10.9% of the total revenue from intravenous infusion solution and a decrease of 0.7% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the Non-PVC Soft Bag and Upright Soft Bag infusion solution.

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Revenue *(Continued)*

Revenue from medical materials products contributed HK$142,194,000 (2015: HK$46,385,000), representing a growth of 206.6% mainly due to a full year contribution by Jiangsu Best in 2016 as compared to that from three months in 2015.

Cost of Sales

As a result of depreciation in RMB and cost control measures of the Group, the Group's cost of sales decreased by 2.4% from HK$1,172,352,000 for the year ended 31 December 2015 to HK$1,143,808,000 for the year ended 31 December 2016. The cost of direct materials, direct labour and other costs represented approximately 53.7%, 15.7% and 30.6% of the total cost of sales respectively for the year ended 31 December 2016 while their comparative percentages for 2015 were 59.5%, 12.3% and 28.2% respectively.

Gross Profit Margin

Gross profit of the Group in 2016 amounted to HK$1,217,442,000 (2015: HK$1,049,569,000), representing a gross profit margin of 51.6%, which increased by 4.4 percentage point comparing to that of last year 47.2%. The increase of gross profit margin was mainly due to a better product mix from products with higher profit margins and the Group's continuous cost control measures.

Other income

For the year ended 31 December 2016, the Group's other income amounted to approximately HK$64,679,000 (2015: HK$50,485,000) which mainly represented government grants.

Selling and Marketing Costs

For the year ended 31 December 2016, selling and marketing costs amounted to approximately HK$373,160,000 (2015: HK$280,522,000), which mainly consisted of transportation cost of approximately HK$241,456,000 (2015: HK$201,877,000), travelling and other disbursements of approximately HK$38,186,000 (2015: HK$30,455,000) and staff costs of sales and marketing staff of approximately HK$42,724,000 (2015: HK$21,350,000).

The increase of 33.0% in selling and marketing costs in 2016 as compared with that of 2015 was mainly due to the growth in the Group's sales volume as well as the increases in transportation cost and salary expenses of sales and marketing staff as a result of an expanded sales coverage.

General and Administrative Expenses

General and administrative expenses amounted to HK$268,438,000 (2015: HK$277,992,000) for the year ended 31 December 2016 which mainly comprised staff costs of approximately HK$88,117,000 (2015: HK$103,343,000), depreciation and amortisation expenses of approximately HK$65,438,000 (2015: HK$47,343,000) and grant of share options of approximately HK$26,686,000 (2015: HK$39,431,000).

The Group's overall operation has been expanding, even so, the general and administrative expenses slightly decreased by 3.4% from last year due to smaller expenses related to grant of share options and discretionary bonus along with the Group's cost control measures.

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Profit from Operations

The Group's profit from operations in 2016 amounted to HK$640,523,000 (2015: HK$541,540,000) with its operating profit margin (defined as operating profit divided by total revenue) increased to 27.1% (2015: 24.4%). The increase in operating profit margin in 2016 by 2.7 percentage point comparing to that of 2015 was mainly attributable to a higher gross profit margin in 2016.

Finance Costs

The finance costs in 2016 decreased by 16.9% to HK$54,118,000 (2015: HK$65,118,000), which are mainly related to interest expense of bank borrowings. The decrease in finance costs was mainly attributable to a lower foreign exchange loss due to depreciation of RMB during 2016 as compared to that during 2015.

Income Tax Expense

Shijiazhuang No. 4 Pharma, Jiangsu Best and Hebei Guolong Pharmaceutical Co., Ltd. were qualified as the High and New Technology Enterprise and entitled to a 15% preferential Mainland China Corporate Income Tax rate in both 2016 and 2015. For the year ended 31 December 2016, the income tax expense increased by 30.5% to HK$97,677,000 (2015: HK$74,859,000).

Profit Attributable to Equity Shareholders

Profit attributable to equity holders of the Company increased by 21.3% to HK$489,535,000 (2015: HK$403,416,000) with a net profit margin (defined as profit attributable to equity holders of the Company from continuing operations divided by total revenue) increased to 20.7% (2015: 18.2%).

Dividends

For the year ended 31 December 2016, the Board recommended a final dividend of HK$0.03 per share (2015: nil) which, together with the interim dividend, will result in total dividends of HK$0.055 per share for the year ended 31 December 2016 (2015: HK$0.025 per share).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2016, the cash and cash equivalents aggregated to HK$447,036,000 (2015: HK$338,964,000), comprising HK$415,119,000 (2015: HK$267,969,000) of cash and cash equivalents denominated in RMB, HK$17,245,000 (2015: HK$64,672,000) in Hong Kong dollars and HK$14,672,000 (2015: HK$6,323,000) in other currencies.

The carrying amounts of the borrowings amounting to HK$1,567,863,000 (2015: HK$1,813,093,000) as at 31 December 2016, comprising HK$758,690,000 (2015: HK$760,343,000) of borrowings denominated in RMB and HK$809,173,000 (2015: HK$1,052,750,000) in Hong Kong dollars.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE *(Continued)*

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital less non-controlling interests) decreased from 38.1% as at 31 December 2015 to 29.5% as at 31 December 2016 due to a decrease in net debt level of the Group and an increase in the Group's net asset value as at 31 December 2016 as compared to 31 December 2015.

Current ratio (defined as current assets divided by current liabilities) improved from 1.14 as at 31 December 2015 to 1.53 as at 31 December 2016.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had approximately 3,500 employees, most of whom were based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The remuneration policy of executive Directors and senior management are reviewed and recommended for the Board's approval by the Remuneration Committee. The remuneration package is reviewed with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group. The total remuneration cost incurred by the Group for year ended 31 December 2016 was approximately HK$337,465,000 (2015: HK$308,273,000).

CHARGE ON ASSETS

As at 31 December 2016, the Group's land use right with carrying amount of HK$19,241,000 (2015: HK$49,247,000) and the Group's property, plant and equipment with carrying amount of HK$28,979,000 (2015: HK$57,119,000) were pledged as collateral for the Group's bank borrowings.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB. Except for the foreign currency translation risk arising from the translation into Hong Kong dollars for the financial statements of subsidiaries with the functional currencies of RMB, the Group does not expect any materially adverse effects of the exchange rate fluctuation. Hence, no financial instrument for hedging was employed. Nevertheless, the Group is closely monitoring the financial market and would consider appropriate measures if required.

As at 2016 and 2015, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2015	0.78887
31 December 2015	0.83778
31 December 2016	0.89451

MATERIAL ACQUISITIONS AND DISPOSALS

In 2015, the Group acquired 100% equity interest in Jiangsu Best. Pursuant to the supplemental agreements entered into between the Group and the former owners of Jiangsu Best (the "Vendors") in 2016, a total of 28,436,000 ordinary shares of the Company (representing approximately 1.00% of the Company's issued capital as enlarged by the issue of new shares) were allotted and issued to the Vendors on 11 April 2016 at the issue price of HK$2.429 per share (the "Consideration Shares"). The Consideration Shares were allotted and issued pursuant to the General Mandate granted to the Directors at the annual general meeting in 2015. Please refer to the Company's announcements dated 1 September 2015, 29 December 2015, 31 March 2016 and 11 April 2016 for details of the transactions.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

DIRECTORS

Executive directors

Mr. Qu Jiguang (曲繼廣), aged 62, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Qu is also the chief executive officer of the Company who is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has over 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress (河北省人大代表), Vice-Chairman of China Pharmaceutical Industry Association (中國化學製藥協會副會長), Vice-Chairman of Hebei Provincial Federation of Industry and Commerce (河北省工商聯副主席), Vice-Chairman of Hebei Provincial Association of Enterprise (河北省企業聯合會副會長), Vice-Chairman of Hebei Pharmaceutical Industry Association (河北省醫藥行業協會副會長).

Mr. Wang Xianjun (王憲軍), aged 54, an executive director. Mr. Wang has nearly 30 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

Mr. Su Xuejun (蘇學軍), aged 48, an executive director and is responsible for marketing and management functions of Shijiazhuang No.4 Pharma. Mr. Su joined No.1 Pharma as assistant to factory manager in 1990. And afterwards he served as deputy general manager of a subsidiary of the Shijiazhuang Pharmaceutical Group selling preparations. Since January 2002, Mr. Su acts as deputy general manager of Shijiazhuang No.4 Pharma. Since January 2007, Mr. Su acts as executive director of Shijiazhuang No.4 Pharma and New Orient. Since July 2013, Mr. Su acts as deputy chairman of Shijiazhuang No.4 Pharma. Mr. Su graduated from Hebei Normal University, majoring in biology, with a bachelor's degree. He focuses in the pharmaceutical market development, operations and management. He has extensive understanding and experience in the marketing and the policy in the related industries.

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wang Yibing (王亦兵), aged 54, an independent non-executive Director. Mr. Wang graduated from Shenyang Pharmaceutical University, majored in pharmacy (瀋陽藥科大學藥學). He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce (河北省醫藥行業協會). Mr. Wang joined Heibei Provincial Pharmaceutical Research Centre (河北省藥物研究所) in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine (河北省醫藥管理局綜合經濟處) as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration (河北省食品藥品監督管理局藥品註冊處，藥品安全監管處). Mr. Wang possesses over 30 years' experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun (梁創順), aged 51, an independent non-executive Director. Mr. Leung is also an independent non-executive director of China National Materials Company Limited (Stock code: 1893) and China Communications Construction Company Limited (Stock code: 1800), companies listed on the Stock Exchange. He served as an independent non-executive director of China Metal Recycling (Holdings) Limited (Stock code: 773) from May 2009 to August 2013. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

Mr. Chow Kwok Wai (周國偉), aged 50, an independent non-executive Director. Mr. Chow is currently a Deputy General Manager and the Company Secretary of Silver Grant International Industries Limited ("Silver Grant"). He has worked in Price Waterhouse, which is now known as PriceWaterhouseCoopers, and has accumulated valuable audit experience there. Mr. Chow has over 20 years' of experience in accounting, financial management and corporate finance. Mr. Chow received his bachelor degree in Social Sciences from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. He is also a Certified Tax Adviser and a Fellow member of the Taxation Institute of Hong Kong. Mr. Chow is currently a non-executive director of Cinda International Holdings Limited ("Cinda") (stock code: 111) and an independent non-executive director of Youyuan International Holdings Limited ("Youyuan") (stock code: 2268). He was also an executive director of Silver Grant (stock code: 171) during the period from 20 April 2004 to 28 December 2012. The shares of Silver Grant, Cinda and Youyuan are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Chow Hing Yeung (周興揚), aged 38, the Chief Financial Officer and Company Secretary of the Company. Mr. Chow is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chow obtained a Bachelor's degree of Business Administration from the Chinese University of Hong Kong. He has more than 15 years of experience in areas of auditing, accounting and financial management.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance. The Board believes that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests.

The Company has adopted various policies to ensure compliance with the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year, the Company has complied with all applicable provisions of CG Code with deviation from code provision A.2.1 as set out below under the heading "Chairman and chief executive officer".

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2016.

BOARD OF DIRECTORS

As at 31 December 2016, the Board comprises three executive Directors, namely, Mr. Qu Jiguang (Chairman), Mr. Wang Xianjun and Mr. Su Xuejun, and three independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions. The Board is also responsible for reviewing and monitoring the training and continuous professional development of directors and senior management, the policies and practices on compliance with legal and regulatory requirements of the Company, the code of conduct applicable to employees and directors as well as the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Board has delegated the day-to-day responsibility for the management of the Group to the management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown under the section headed "Biographical Details of Directors and Senior Management". There are sufficient numbers of independent non-executive Directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

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

BOARD OF DIRECTORS *(Continued)*

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company.

There are no financial, business, family and other material or relevant relationships among members of the Board.

During the year ended 31 December 2016, a total of four board meetings and one annual general meeting ("AGM") were held and the attendance of each Director was as follows:

	Number of meetings attended/held	
Name of Director	**Board meetings**	**AGM**
Executive Directors		
Mr. Qu Jiguang *(Chairman)*	3/4	1/1
Mr. Wang Xianjun	4/4	1/1
Mr. Su Xuejun	4/4	0/1
Independent non-executive Directors		
Mr. Wang Yibing	4/4	0/1
Mr. Leung Chong Shun	4/4	0/1
Mr. Chow Kwok Wai	4/4	1/1

Notice of at least 14 days was given of a regular board meeting. For all other board meetings, reasonable notice will be given. All Directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Agendas and accompanying board papers were sent to all Directors at reasonable time before the intended date of meetings.

Minutes of board meetings and meetings of board committee were kept by Company Secretary and such minutes are open for inspection at reasonable time and on reasonable notice by any Director. Such minutes were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of such minutes were sent to all directors for their comment and record respectively within a reasonable time after the board meeting was held.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. The Company has a procedure to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold. Independent non-executive Directors who have no material interest in the transaction shall be present at such Board meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board appointed Mr. Qu Jiguang as the Chairman, who was responsible for the leadership and effective running of the Board. Mr. Qu Jiguang has also assumed the role as the chief executive officer of the Company, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Company believes that vesting both roles in Mr. Qu Jiguang will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

All Directors including independent non-executive Directors are appointed for a specific term which may be extended as each Director and the Company may agree. The Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

Also, at each annual general meeting, one-third of the Directors including independent non-executive Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that each Director shall be subject to retirement at least once every three years.

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to directors will be arranged whenever necessary. A record of the training are kept and updated by the Company Secretary of the Company.

During the year, all directors namely Mr. Qu Jiguang, Mr. Wang Xianjun, Mr. Su Xuejun, Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai have complied with the code provision A.6.5 of the CG Code through participating in continuous professional development in one or more of the following manners:

1. reading materials or attending seminars in relation to corporate governance and regulatory requirements;
2. attending seminars/courses/conferences to develop professional skills and knowledge; and
3. site visit.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

NOMINATION COMMITTEE

The Board has established the Nomination Committee. The Nomination Committee is chaired by Mr. Wang Yibing and with committee members of Mr. Leung Chong Shun and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Nomination Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

The principal roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board, identifying candidates and/or making recommendations to the Board on candidates nominated for directorships taking into account the candidates' qualification, knowledge and experience in the relevant areas.

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31 December 2016. Issues including the structure, size and composition of the Board were discussed and no change or nomination was recommended to the Board. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Wang Yibing	1/1
Mr. Leung Chong Shun	1/1
Mr. Chow Kwok Wai	1/1

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Remuneration Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

Remuneration Committee is responsible for formulation, review and recommending to the Board of the remuneration policy of executive Directors and senior management. The overriding objective of the remuneration policy is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary.

Other roles and functions of the Remuneration Committee include consulting the Chairman and/or Chief Executive Officer about their remuneration proposals for other executive Directors and senior management, reviewing and approving remuneration proposals with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group, approving the terms of executive Directors' service agreements and making recommendations to the Board on the remuneration packages of individual Directors and senior management.

REMUNERATION COMMITTEE *(Continued)*

Meeting of the Remuneration Committee shall be held at least once a year. One meetings had been held during the year ended 31 December 2016. During the meeting, remuneration paid to the Directors and review of remuneration policy have been discussed and recommended to the Board. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Leung Chong Shun	1/1
Mr. Wang Yibing	1/1
Mr. Chow Kwok Wai	1/1

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK$180,000 for each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. All the Directors are entitled to participate in the Share Option Scheme. The emolument payable to Directors depends on their respective contractual terms under the service agreement with the Company, and as recommended by the Remuneration Committee. Details of the remuneration of Directors for the year ended 31 December 2016 are set out in the page 79 to 80 of the Annual Report.

AUDIT COMMITTEE

The Board has established the Audit Committee and its terms of reference are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited. In compliance with Rule 3.21 of the Listing Rules, the Audit Committee comprises three independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun. No member of the Audit Committee is a member of the former or the existing auditor of the Company.

The major functions of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the external audit and internal control review processes, and to review the Company's policies and practices on corporate governance.

According to its terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings had been held during the year ended 31 December 2016. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Chow Kwok Wai	2/2
Mr. Leung Chong Shun	2/2
Mr. Wang Yibing	2/2

AUDIT COMMITTEE *(Continued)*

During the year, in performing its duties in accordance with its terms of reference and under the CG code, the work performed by the Audit Committee included:

(a) review the financial information of the Company and its subsidiaries, including those contained in the Annual Report and the Interim Report;

(b) discuss the audit approach and audit issues with the external auditor at least twice a year;

(c) recommend to the Board, for the approval by shareholders, of the re-appointment of the external auditor and approval of its remuneration; and

(d) oversee the Company's financial reporting system and internal control procedures.

ACCOUNTABILITY AND AUDIT

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects. The management provides such explanation and information to the Board and reports regularly to the Board and financial position of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in pages 38 to 44 of this Annual Report under the section headed "Independent Auditor's Report") for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report.

AUDITOR'S REMUNERATION

The fees paid and payable to the Company's auditor, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2016 amounted to approximately HK$2,000,000 and HK$nil respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for overseeing the risk management and internal control systems of the Company. The Board is committed to maintain the effectiveness of such systems so as to manage the risk of failure to achieve business objectives, provide reasonable assurance against material misstatement or loss and to safeguard shareholders' interests and the assets of the Company. Detailed policies and procedures in various departments and functions are established to implement such systems and achieve their objectives.

The Board conducted annual review of the Company's risk management and internal control systems. Having assessed the current situation of the Group including its operation size, business risk level and resources required for setting up in-house internal audit, the Board considered the engagement of an external professional firm as internal control consultant is in the best interests of the Company. A risk management plan is set up by the internal control consultant and reported to the Audit Committee. The significant risks of the Group are then identified, assessed and documented, which are taken into consideration by the internal control consultant in the design of internal control system review. The review covers all material controls of the Group, including financial, operational and compliance controls. Results of the review are reported to the Audit Committee for making recommendation to the Board on the effectiveness of the risk management and internal control systems. Suggestions proposed in the review are also considered by the Board for improving the Company's internal control measures and resolve material internal control defects, if any.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

For the year ended 31 December 2016, a review on the effectiveness of the risk management and internal control systems of the Company has been conducted by the Board. Based on the information provided by the internal control consultant and its own observations and assessments, the Board concluded that the risk management and internal control systems are effective and adequate, and the overall resources of the accounting and financial reporting function are sufficient.

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary who is a full time employee of the Company. During the year, the Company Secretary had taken no less than 15 hours of relevant professional training requirement.

SHAREHOLDERS' RIGHTS

(1) Procedures for shareholders to convene an EGM

In accordance with the Company's Article 58, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionists and deposit it to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionists concerned at the EGM varies according to the nature of the proposal, as follows:

– At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

– At least 21 clear days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company in the EGM.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

(2) Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at the EGM. The requirements and procedures are set out above.

(3) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong.

COMMUNICATIONS WITH INVESTORS AND HANDLING OF INSIDE INFORMATION

The Company believes that effective communication is essential for enhancing investor relations and investors' understanding of the Group. The Company also recognises the importance of transparency and timely disclosure of its corporate information, which enables shareholders and potential investors to make informed decisions.

The Company issues guidance to Directors and officers on assessing whether material information that comes to their knowledge is inside information and escalating such information for the attention of the Board promptly. The Company discloses information and publish announcements in compliance with the Listing Rules and other relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, accurate and complete.

The Company uses a number of channels to communicate with its shareholders, investors and other stakeholders. These include the AGM, annual and interim reports and quarterly statements, announcements, circulars to shareholders, press releases and the Company's website www.ssygroup.com.hk.

During the year, there was no change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

As a pharmaceutical enterprise, the Group recognises the importance of environmental sustainability and green manufacturing. Combining its own experience, the Group mainly adopts the principles and the basis of "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 of the Listing Rules as the standard of the Group, with the objective of establishing a sound environmental, social and governance structure.

This report is the first "Environmental, Social and Governance Report" issued by the Group, covering the period from 1 January 2016 to 31 December 2016. This report sets out the Group's strategies and practices in two aspects, namely environmental and social, to enhance the comprehensive and in-depth understanding by the shareholders, investors and public towards the Company's governance and culture through this report.

ENVIRONMENTAL ASPECT

The Group has formulated policies to ensure the compliance of the production by its companies in the PRC (the "Company") with the environmental requirements under the GMP standards and relevant environmental laws and regulations of the PRC. In practice, the Company adopted low energy consumption and low pollution measures, and encouraged its employees to consider related environmental factors from time to time.

Taking the energy management approach of "conserving energy to increase efficiency, reducing consumption to increase production, reducing emission to improve environment and implementing green pharmaceutical production", the Company conscientiously implemented its energy management system to enhance its overall management level and environmental protection awareness, as well as to minimize operational risk. The Company also proactively advanced the technological renovation project of pollutant control, which effectively reduces the total emission of the main pollutants. Initiatives such as recycle and reuse of thermal energy from sterilization cabinets in infusion workshops, air compressors and thermal water dispenser, conserved energy, as well as reduced the sewage discharge.

In line with the committed pursuit for a "high growth, low consumption" economic growth model, the Company has introduced projects of resources reuses, economic recycles, energy conservation and consumption reduction with strenuous effort. Completion of the renovation of the "integrated bottle ring pull"for 17 units along the Company's plastic bottle production lines successfully reduced the electricity consumption and achieved cutback of raw materials, optimising the conservation of energy and resources. The Company has also completed the establishment of "energy management system", on the basis of the "four mechanisms" of energy conservation management, namely "planning, implementation, inspection, and improvement", optimising the establishment of the energy conservation and emission reduction management system, implemented continuous enhancement of energy conservation work, realised continuous enhancement of energy conservation management and continuous improvement of the efficiency levels, thereby ensuring the full completion of energy conservation and emission reduction objectives. During the reporting period, the aggregate energy consumption recorded a 9.57% decrease compared with 2015, thereby achieving 118% of the energy saving objective in 2016.

ENVIRONMENTAL ASPECT *(Continued)*

In respect of emission reduction, the Company devoted great effort in pollution prevention and control, protection of ecological system in strict compliance of each GMP standard and the relevant laws and regulations in the PRC, in an effort to strengthen the environmental management capability. Based on new techniques, new technologies and new products of zero or minimal pollution, the Company commenced integrated treatment for "three waste", details as below: for exhaust gas, "Alkaline wash+ multi-media catalysts and oxidants absorption tower" treatment was utilised to meet emission targets; for sewage, a newly built sewage treatment plant has commenced operation; for solid wastes, sorting and separation were conducted to implement full process supervision and management, covering production to treatment of hazardous waste. During 2016, the Group has not breached the above laws and regulations in relation to emission.

SOCIAL ASPECT

Employees

The Group appreciates its employees as a valuable asset. The Group provided competitive remuneration package to employees and periodically reviewed such packages with reference to industry practice. Discretionary bonuses and share options might be granted to employees based on the assessment of individual performance of the employees. The Group's companies in the PRC annually reviewed remuneration package of employees based on the development of the society, increase in consumer prices and corporate results to maintain the employee remuneration at reasonable level. In addition, pensions, work-related injury insurances, medical insurances, maternity insurances, unemployment insurances and housing provident funds are paid for employees as required by the laws to ensure various legitimate interests of its employees. At the same time, the Company advocated for fair competition and was against discrimination to ensure equal starting salary for same gender and equal pay for equal work.

SOCIAL ASPECT *(Continued)*

Employees *(Continued)*

The Group's companies in the PRC strictly complied with the relevant laws and regulations such as the Labour Law and the Labour Contract Law of the PRC, and timely optimised the management system of employment relationships pursuant to the changes and amendments of national policies and regulations. The Company strictly followed the relevant laws and regulations, such as the Labour Law and the Labour Contract Law in the signing, renewal, cancellation and termination of employment contracts with employees; deployed labour in accordance with procedures to reduce disputes and controversies related to employment contracts, and maintain the mutual interest of the parties to employment contracts. The Company also set up rigorous recruitment systems and procedures to prevent child and forced labour.

The Company persistently upheld occupational health and safety of employees, strictly complied with the requirements regarding production safety under GMP standard and the PRC laws, and provided trainings and educational seminars to its employees. The Company has also set up a health and safety committee to gradually optimize health and safely management through efforts in various areas, including setting up an accountability system for production safety for staff at all levels, performance evaluation, safety inspection, hazard assessment, emergency drills, personal protections and operation safety. The Company has also assessed and upgraded the fire-control facilities, machines and equipment for safety and medical emergency of all workshops to ensure a safe work place for its employees.

During 2016, the Group has not breached the laws and regulations regarding employee recruitment, labour standards or health and safety.

The Company focuses on the personal health of our staff, thus, body check is arranged for them every year. In addition, the Company actively responds to "One Day Donation (一日捐)", a mutual assistance activity for our staff organised by the government, which aims to make contributions and help staff and their families who are in difficulties due to serious illness or accidents.

The Company paid great attention to employee development. With the aim to enhance the individual capability of, and provide better development opportunities for its employees, the Group invested substantial amount of financial and human resources in the trainings for staff. During the reporting period, the Company arranged a total of 21,672 new employee training hours. Pursuant to the annual training plan, the training hours received by staff among the organization increased by 5,960 hours in total. The Company has also elected a total of 11 staff of middle-or-above level to receive trainings at the Renmin University of China and Peking University in relation to corporate operation and management.

SOCIAL ASPECT *(Continued)*

Production

The Group understands that a good relationship with its suppliers is crucial to the fulfillment of its short-term and long-term goals. The Group has been working continuously with its suppliers with the objectives of improving the quality of raw materials, and delivering high quality products to its customers. To reinforce the quality control of central tender for material procurement, the Group's companies in the PRC have implemented the "management system of tenders for material procurement" and "filing and management system of suppliers' quality" to specify the approval of suppliers for material procurement and the staff duties of each segment. In addition, by specifying the procedures such as the filing of material suppliers' quality, quality standard, on-site audit, quality assessment, inspections and trials as well as the handling of quality problems, the management of major raw materials and the environmental or social risk caused by suppliers have been stepped up, which has in turn strengthened the quality management of material supply.

The Company performed internal review at all levels regularly in accordance with the requirements of GMP to promptly identify problems throughout the actual production process and formulate practicable rectification and prevention measures. The Company has set up quality service department which was responsible for handling enquiries and follow up regarding customer feedbacks on quality, providing after-sales service on quality at all stages from pharmaceutical production, distribution to clinical usage. The department has set up a comprehensive after-sales service system and product-tracking system, including quality information feedback, assistance on recall of pharmaceutical products, quality tracking on substandard products and supervision of adverse reaction on pharmaceutical products. It has also developed a corresponding management system and standardised operation procedures in order to respond to different kinds complaints on the market and customer enquiries on quality information in a timely manner.

The Company also proactively participated in the inventory management of its customers to avoid return of goods due to overstock or sluggish inventory. For expired pharmaceutical products, the Company sought for a solution through active negotiation; as to inventory of expired pharmaceutical products, it strictly followed the "Substandard Pharmaceutical Products Management System" to determine, report and destroy the substandard pharmaceutical products. During 2016, the Group has not breached the above laws and regulations regarding product responsibility.

The Company strictly complied with the relevant national laws and regulations regarding anti-corruption such as "Anti-Unfair Competition Law". All unfair competition behaviours such as commercial bribery were prohibited in the sales and procurement processes, whereas employees were under strict supervision, management and training. The Company was dedicated to maintaining a sound competition environment and order in the pharmaceutical distribution industry through fair competition with its counterparts in the industry. During 2016, the Group has not breached the above laws and regulations regarding anti-corruption.

SOCIAL ASPECT *(Continued)*

Community

As an enterprise with a strong commitment to its social responsibilities, the Group has been dedicated to investing greater effort, physical, human and financial resources in its participation in social welfare activities, while ensuring the interest of shareholders and investors and the growth of the enterprise.

The companies of the Group in PRC has made both financial and physical donations in response to various natural disasters in the PRC in the past. In 2012, the "100-year rainstorm" hit Laiyuan and Laishui County, Baoding City, Heibei Province, creating huge losses of lives and property. To support the daily life of victims and aid the rebuilding endeavor, all staff of the Company made a generous amount of donation. In the Company's flood relief event for Hebei Province, we made donation to the area, backing the victims to rebuild their homes. In July 2016, the flood caused by heavy rainstorm in Shijiazhuang led to severe loss of lives and properties. The Company has promptly donated disinfectants to the stricken areas for sterilization and epidemic prevention, and initiated fund-raising activities to help local schools.

The Group believes that the commitment on social responsibilities shall be fully borne by enterprises. As an enterprise with integrity and social responsibility, the Group should stand at the forefront for the community and shoulder the responsibility for business, social and ecological civilization in the course of business growth and the protection of interest for pharmaceutical market and end-users, to achieve a balance between benefit and obligation and to fulfill the responsibility as a "corporate citizens".

In the adherence to its operational philosophy of "Openness basing on sincerity helps people by quality", the Group eagerly took up and performed its corporate social responsibilities to make a greater contribution to the harmonious development of society, economy and environment.

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") of SSY Group Limited (the "Company") present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 13 to the financial statements.

BUSINESS REVIEW

Discussions and reviews of the Group's business are contained in the Management Discussion and Analysis as set out on pages 7 to 12. These discussions form part of this Report of the Directors.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2016 is set out in note 4(b) to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 45 to 46.

DIVIDENDS

An interim dividend of HK$0.025 per share was declared on 30 August 2016 and paid on 30 September 2016 (2015: HK$0.025 per share).

For the year ended 31 December 2016, the Board recommended a final dividend of HK$0.03 (2015: nil) which, together with the interim dividend, will result in total dividends of HK$0.055 per share for the year ended 31 December 2016 (2015: HK$0.025 per share).

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 118.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the consolidated statement of changes in equity and in note 25(c) to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 25(a) to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company had distributable reserves of approximately HK$561,703,000 (2015: HK$500,041,000) calculated in accordance with the Companies Law of the Cayman Islands. This includes the Company's share premium account of approximately HK$504,605,000 (2015: HK$493,065,000) which is distributable to the shareholders of the Company 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. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There is no provision 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 5,672,000 shares which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2016.

During the year ended 31 December 2016, the Company acquired an aggregate of 5,672,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK$13,207,090 which details are set out below. All of the 5,672,000 shares were subsequently cancelled on 18 February 2016 and 10 January 2017.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share *(HK$)*	Lowest price paid per share *(HK$)*	Aggregate consideration *(HK$)*
21 January 2016	1,018,000	1.91	1.88	1,928,090
21 December 2016	4,654,000	2.45	2.40	11,279,000
	5,672,000			13,207,090

SHARE OPTION SCHEME

As approved by an ordinary resolution passed by the shareholders at the Extraordinary General Meeting held on 20 September 2012, the Board had terminated the old share option scheme adopted on 16 October 2005 and adopted the existing share option scheme ("Share Option Scheme").

Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the "Scheme Period") unless terminated earlier by shareholders in general meeting. The purpose of Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Pursuant to Share Option Scheme, the offer for grant of options ("Offer") must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Share Option Scheme and any conditions of grant as may be stipulated by the Board.

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the "Scheme Mandate Limit"). The Scheme Mandate Limit may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate Limit must not exceed 10% of the issued share capital of the Company at the date of the shareholders' approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders' approval is obtained under the terms of Share Option Scheme.

On 19 October 2015, the Company granted a total of 122,000,000 share options to two executive directors of the Company and other management staff of the Group under Share Option Scheme, representing about 4.33% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK$1.98. The exercisable period was from 19 October 2015 to 18 October 2018. During the year ended 31 December 2016, a total of 15,000,000 share options were exercised by one of management staff of the Group who was not a Director of the Company. As a result, a total of 15,000,000 ordinary shares of the Company was issued on 8 June 2016.

On 15 April 2016, the Company granted 122,000,000 share options to Mr. Qu Jiguang, the Chairman and the CEO of the Company, under Share Option Scheme, representing about 4.31% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK$2.58. The exercisable period was from 15 April 2016 to 14 April 2021. Such grant of share options was approved by the independent shareholders at the annual general meeting held on 27 May 2016. Please refer details of grant of share options to the Company's announcement dated 15 April 2016.

SHARE OPTION SCHEME *(Continued)*

The refreshment of Scheme Mandate Limit was approved at the annual general meeting held on 27 May 2016. Upon such approval, the Directors were authorised to grant share options to subscribe up to 10% of the issued share capital as at the date of such approval. Pursuant to the Listing Rules and the Share Option Scheme, share options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised share options) will not be counted for purpose of calculating the Scheme Mandate Limit as refreshed. The limit on the number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. No share options may be granted under the Share Option Scheme and any other schemes of the Company if this will result in the limit being exceeded. Please refer details of the refreshment of Scheme Mandate Limit to the Company's circular dated 26 April 2016.

The movement of total number of share options outstanding is shown as follows:

	2016	2015
Outstanding at the beginning of the year	**122,000,000**	—
Granted during the year	**122,000,000**	122,000,000
Exercised during the year	**(15,000,000)**	—
Lapsed during the year	**—**	—
Outstanding and exercisable at the end of the year	**229,000,000**	122,000,000

As at 31 December 2016, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of approximately HK$2.30 (2015: HK$1.98) and a remaining contractual life of approximately 3.13 years (2015: 2.80 years).

The details of share options movements during the year months ended 31 December 2016 are shown as follows:

(i) Directors of the Company

				Number of share options			
Name of Director	Date of grant	Exercise price per share	Exercisable period	Outstanding at 1 Jan 2016	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2016
Mr. Qu Jiguang	15 Apr 2016	HK$2.58	15 Apr 2016 — 14 Apr 2021	—	122,000,000	—	122,000,000
Mr. Wang Xianjun	19 Oct 2015	HK$1.98	19 Oct 2015 — 18 Oct 2018	24,416,000	—	—	24,416,000
Mr. Su Xuejun	19 Oct 2015	HK$1.98	19 Oct 2015 — 18 Oct 2018	24,416,000	—	—	24,416,000
				48,832,000	122,000,000	—	170,832,000

SHARE OPTION SCHEME *(Continued)*

(ii) Employees (other than directors of the Company)

			Number of share options			
Date of grant	Exercise price per share	Exercisable period	Outstanding at 1 Jan 2016	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2016
19 Oct 2015	HK$1.98	19 Oct 2015 — 18 Oct 2018	73,168,000	—	(15,000,000)	58,168,000
			73,168,000	—	(15,000,000)	58,168,000

For the 122,000,000 share options granted during the year ended 31 December 2016, the fair value as at date of grant was HK$26,686,000. Assuming that all share options outstanding as at 31 December 2016 are exercised, the Company will receive proceeds of HK$526,620,000.

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this Annual Report were:

Executive Directors

Mr. Qu Jiguang
Mr. Wang Xianjun
Mr. Su Xuejun

Independent Non-executive Directors

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 87 of the Company's articles of association, Mr. Leung Chong Shun and Mr. Chow Kwok Wai will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 13 to 14.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date renewable for successive terms of 3 years commencing from the day next after the expiry of the then current term of the appointment.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

PERMITTED INDEMNITY

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and Senior Management arising out of corporate activities. Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 29 to the financial statements, no transaction, arrangement or 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 a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2016 and up to the date of this Annual Report, none of the Directors are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2016, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to 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 ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Name of Director	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner *(Note 1)*	Long	122,000,000	4.29%
	Beneficial owner	Long	155,746,000	5.47%
	Interest in a controlled corporation *(Note 2)*	Long	733,856,000	25.80%
Mr. Wang Xianjun	Beneficial owner *(Note 3)*	Long	24,416,000	0.86%
Mr. Su Xuejun	Beneficial owner *(Note 3)*	Long	24,416,000	0.86%

Notes:

1. These shares represent the underlying interest in shares of the Company pursuant to share options granted to Mr. Qu Jiguang on 15 April 2016 under the Share Option Scheme.

2. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

3. These shares represent the underlying interest in shares of the Company pursuant to share options granted, among others, to Mr. Wang Xianjun and Mr. Su Xuejun on 19 October 2015 under the Share Option Scheme.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year ended 31 December 2016 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

As at 31 December 2016, the register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that the Company had been notified of the following interests, being 5% or more in the issued share capital and underlying shares of the Company.

Name of Shareholder	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner *(Note 1)*	Long	122,000,000	4.29%
	Beneficial owner	Long	155,746,000	5.47%
	Interest in a controlled corporation *(Note 2)*	Long	733,856,000	25.80%
CPCL *(Note 2)*	Beneficial owner	Long	733,856,000	25.80%
Sichuan Kelun Pharmaceutical Co., Ltd(四川科倫藥業股份有限公司)	Interest in a controlled corporation *(Note 3)*	Long	426,688,000	15.00%
	Beneficial owner	Long	1,560,000	0.05%
Kelun International Development Co., Ltd (科倫國際發展有限公司) *(Note 3)*	Beneficial owner	Long	426,688,000	15.00%
UBS Group AG *(Note 4)*	Interest in a controlled corporation	Long	175,917,639	6.19%
	Person having a security interest in shares	Long	3,248,685	0.11%
	Interest in a controlled corporation	Short	4,106,230	0.14%

Notes:

1. These shares represent the underlying interest in shares of the Company pursuant to share options granted to Mr. Qu Jiguang on 15 April 2016 under the Share Option Scheme.

2. These shares were registered in the name of and beneficially owned by CPCL. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

3. These shares were registered in the name of and beneficially owned by Kelun International Development Co., Ltd (科倫國際發展有限公司). Kelun International Development Co., Ltd (科倫國際發展有限公司) is held as to 100% by Sichuan Kelun Pharmaceutical Co., Ltd (四川科倫藥業股份有限公司).

4. Among the aggregate interests of UBS Group AG in the Company, 2,162,000 shares (short position) were held through cash settled derivatives (off exchange).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2016.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its turnover to its 5 largest customers and purchased less than 30% of its total purchases from its 5 largest suppliers.

None of the Directors, their associates or any shareholders, which to the knowledge of the Directors, owns more than 5% of the Company's shareholding, has interests in these customers and suppliers during the year.

MANAGEMENT CONTRACT

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 29 March 2017, and at all times during the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance. The Board believes that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 15 to 22.

AUDITOR

The consolidated financial statements for the year have been audited by KPMG. The audited consolidated financial statements have been reviewed by the Audit Committee of the Company.

ANNUAL GENERAL MEETING

The 2017 Annual General Meeting of the Company will be held at 2:00 p.m. on 24 May 2017 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 May 2017 to Wednesday, 24 May 2017, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Friday, 19 May 2017.

RECORD DATE FOR FINAL DIVIDEND

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all property completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 29 May 2017 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Friday, 9 June 2017.

On behalf of the Board

Qu Jiguang
Chairman

Hong Kong, 29 March 2017

KPMG

Independent auditor's report
to the shareholders of SSY Group Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of SSY Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 45 to 117, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgement, 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.

KPMG

Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on page 69.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of intravenous infusion solution to a significant number of distributors and hospitals. The Group enters into framework distribution agreements with certain of its major distributors which specify the terms of sales relating to pricing, goods acceptance and return, as well as credit terms. However, sales to the majority of the Group's customers are based on terms and conditions included in standard purchase orders, which terms and conditions can vary significantly in nature from customer to customer and even for sales to the same customer. The Group recognises revenue from the sale of intravenous infusion solution upon the transfer of the risks and rewards of ownership, which generally coincides with the time when the intravenous infusion solution is delivered to and has been accepted by the customer. We identified the timing of revenue recognition as a key audit matter because of the differing terms of trade offered by the Group to its customers which increases the risk that revenue may be recognised before the significant risks and rewards of ownership of the intravenous infusion solution have passed to the customers and because the impact of any errors in the timing of revenue recognition could be material to the consolidated financial statements.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting a sample of framework distribution agreements and purchase orders with key customers to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's policies in respect of the timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing the actual sales returns recorded during the financial year and after the financial year end with the sales return provisions made by management at the financial year end date and the prior financial year end date in order to assess if related the adjustments to revenue were recorded in the appropriate financial period; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, including goods delivery notes and goods acceptance notes, to assess whether revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework distribution agreements or purchase orders; and

The Key Audit Matter

How the matter was addressed in our audit

- inspecting manual journal entries relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

Valuation of goodwill

Refer to note 12 to the consolidated financial statements and the accounting policies on page 57.

The Key Audit Matter

The carrying value of the Group's goodwill as at 31 December 2016 was allocated to three separately identifiable cash-generating units ("CGUs").

Management performs an impairment assessment of goodwill on an annual basis to estimate its recoverable amount by preparing discounted cash flow forecasts, which involves the exercise of significant management judgement and estimation, particularly in assessing the following:

- future revenue growth rates;
- future operating margins; and
- the discount rates applied.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of goodwill included the following:

- evaluating the management's identification of CGUs and the amounts of goodwill and other assets and liabilities allocated to each CGU and the methodology applied by management in its goodwill impairment assessment with reference to the requirements of the prevailing accounting standards;

- comparing the significant inputs adopted in the discounted cash flow forecasts, including forecast revenue, forecast cost of sales and forecast operating expenses with (1) the financial budget which was approved by the board of directors, (2) the historical performance of the Group; and (3) data from comparable companies and external market data;

The Key Audit Matter	How the matter was addressed in our audit
We identified assessing the valuation of goodwill as a key audit matter because of the significance of goodwill to the consolidated statement of financial position and because of the complexity of the judgemental assumptions made by management in its impairment assessments, particularly in respect of the long term growth rates and the discount rates applied, which could be subject to management bias.	• comparing revenue and operating costs included in the discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • involving our internal valuation specialists to assist us in assessing whether the discount rates applied in the discounted cash flow forecasts were within the range adopted by other companies in the same industry; • comparing the long term growth rates adopted in the discounted cash flow forecasts for each CGU with those of comparable companies and external market data; • obtaining from management sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements relating to the assessment of impairment of goodwill, including sensitivities of the key assumptions, with reference to the requirements of the prevailing accounting standards.

KPMG

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 the directors for the consolidated financial statements

The directors 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.

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 judgement and maintain professional scepticism 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.

We communicate with the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 the Audit Committee, 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.

The engagement partner on the audit resulting in this independent auditor's report is Tse, Wong Pui.

KPMG

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

29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	**2016** **HK$'000**	2015 HK$'000
Revenue	*4*	**2,361,250**	2,221,921
Cost of sales		**(1,143,808)**	(1,172,352)
Gross profit		**1,217,442**	1,049,569
Other income	*5*	**64,679**	50,485
Selling and distribution costs		**(373,160)**	(280,522)
General and administrative expenses		**(268,438)**	(277,992)
Profit from operations		**640,523**	541,540
Finance income		**2,260**	3,430
Finance costs		**(54,118)**	(65,118)
Finance costs — net	*6(a)*	**(51,858)**	(61,688)
Share of losses of a joint venture		**(2,211)**	(1,540)
Gain on deemed disposal of investment in a joint venture	*28*	**1,464**	—
Profit before taxation	*6*	**587,918**	478,312
Income tax	*7*	**(97,677)**	(74,859)
Profit for the year		**490,241**	403,453
Other comprehensive income for the year, net of nil tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		**(230,387)**	(178,302)
Other comprehensive income for the year		**(230,387)**	(178,302)
Total comprehensive income for the year		**259,854**	225,151

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	**2016** ***HK$'000***	2015 *HK$'000*
Profit attributable to:			
Equity shareholders of the Company		**489,535**	403,416
Non-controlling interests		**706**	37
Profit for the year		**490,241**	403,453
Total comprehensive income attributable to:			
Equity shareholders of the Company		**259,148**	225,156
Non-controlling interests		**706**	(5)
Total comprehensive income for the year		**259,854**	225,151
Earnings per share	*10*		
— Basic		**HK$0.1730**	HK$0.1384
— Diluted		**HK$0.1716**	HK$0.1381

The notes on pages 51 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Note	**31 December 2016** *HK$'000*	31 December 2015 *HK$'000*
Non-current assets			
Property, plant and equipment	*11*	**2,393,091**	2,693,812
Land use rights	*11*	**248,771**	271,794
Intangible assets	*12*	**418,509**	381,454
Deferred tax assets	*23(b)*	**3,053**	4,147
Investment in a joint venture	*14*	**—**	22,395
Long-term receivables		**1,118**	1,194
		3,064,542	3,374,796
Current assets			
Inventories	*15*	**278,228**	282,518
Trade and bills receivables	*16*	**857,387**	935,426
Prepayments, deposits and other receivables	*17*	**88,680**	75,531
Pledged bank deposits and time deposits	*18*	**8,201**	859
Cash and cash equivalents	*19*	**447,036**	338,964
		1,679,532	1,633,298
Current liabilities			
Borrowings	*20*	**633,126**	687,742
Trade payables	*21*	**173,746**	269,502
Advance receipts from customers		**15,530**	10,196
Accruals and other payables	*22*	**250,033**	445,154
Income tax payable	*23(a)*	**23,120**	21,723
		1,095,555	1,434,317
Net current assets		**583,977**	198,981
Total assets less current liabilities		**3,648,519**	3,573,777

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Note	**31 December 2016** ***HK$'000***	31 December 2015 *HK$'000*
Non-current liabilities			
Borrowings	*20*	**934,737**	1,125,351
Deferred tax liabilities	*23(b)*	**26,810**	23,631
Deferred revenue	*24*	**2,550**	5,743
Other non-current liabilities	*22*	**—**	23,873
		964,097	1,178,598
NET ASSETS		**2,684,422**	2,395,179
CAPITAL AND RESERVES			
Share capital	*25(c)*	**63,700**	62,851
Reserves		**2,612,774**	2,331,665
Total equity attributable to equity shareholders of the Company		**2,676,474**	2,394,516
Non-controlling interests		**7,948**	663
TOTAL EQUITY		**2,684,422**	2,395,179

Approved and authorised for issue by the board of directors on 29 March 2017.

Qu Jiguang
Director

Wang Xianjun
Director

The notes on pages 51 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
	Note	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserve *HK$'000*	Share-based payment reserve *HK$'000*	Currency translation differences *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2015		66,177	1,313,850	176,819	176,049	—	146,197	1,373,410	3,252,502	668	3,253,170
Changes in equity for 2015:											
Profit for the year		—	—	—	—	—	—	403,416	403,416	37	403,453
Other comprehensive income		—	—	—	(1,931)	—	(176,329)	—	(178,260)	(42)	(178,302)
Total comprehensive income		—	—	—	(1,931)	—	(176,329)	403,416	225,156	(5)	225,151
Purchase and cancellation of own shares		(3,326)	(538,197)	—	—	—	—	—	(541,523)	—	(541,523)
Grant of share options	*25(d)(iii)*	—	—	—	—	39,431	—	—	39,431	—	39,431
Dividends paid to equity shareholders of the Company	*25(b)*	—	(282,588)	—	—	—	—	(298,462)	(581,050)	—	(581,050)
Transfer to statutory reserve		—	—	—	49,879	—	—	(49,879)	—	—	—
Balance at 31 December 2015		62,851	493,065	176,819	223,997	39,431	(30,132)	1,428,485	2,394,516	663	2,395,179
Balance at 1 January 2016		**62,851**	**493,065**	**176,819**	**223,997**	**39,431**	**(30,132)**	**1,428,485**	**2,394,516**	**663**	**2,395,179**
Changes in equity for 2016:											
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**489,535**	**489,535**	**706**	**490,241**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**(230,387)**	**—**	**(230,387)**	**—**	**(230,387)**
Total comprehensive income		**—**	**—**	**—**	**—**	**—**	**(230,387)**	**489,535**	**259,148**	**706**	**259,854**
Purchase and cancellation of own shares	*25(c)(ii)*	**(20)**	**(20,095)**	**(11,417)**	**—**	**—**	**—**	**—**	**(31,532)**	**—**	**(31,532)**
Grant of share options	*25(d)(iii)*	**—**	**—**	**—**	**—**	**26,686**	**—**	**—**	**26,686**	**—**	**26,686**
Share issued under share option scheme	*25(c)(iii)*	**300**	**34,248**	**—**	**—**	**(4,848)**	**—**	**—**	**29,700**	**—**	**29,700**
Issue of new shares	*25(c)(iv)*	**569**	**68,502**	**—**	**—**	**—**	**—**	**—**	**69,071**	**—**	**69,071**
Acquisition of additional interests in a subsidiary		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(105)**	**(105)**
Acquisition of a subsidiary	*28*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,684**	**6,684**
Dividends paid to equity shareholders of the Company	*25(b)*	**—**	**(71,115)**	**—**	**—**	**—**	**—**	**—**	**(71,115)**	**—**	**(71,115)**
Transfer to statutory reserve		**—**	**—**	**—**	**4,119**	**—**	**—**	**(4,119)**	**—**	**—**	**—**
Balance at 31 December 2016		**63,700**	**504,605**	**165,402**	**228,116**	**61,269**	**(260,519)**	**1,913,901**	**2,676,474**	**7,948**	**2,684,422**

The notes on pages 51 to 117 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

for the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 HK$'000	2015 HK$'000
Operating activities			
Cash generated from operations	19(b)	**832,947**	703,754
Interest paid		**(49,886)**	(54,302)
Income tax paid		**(96,577)**	(86,758)
Net cash generated from operating activities		**686,484**	562,694
Investing activities			
Purchase of land use rights		—	(52,605)
Purchase of property, plant and equipment		**(279,380)**	(363,264)
Purchase of intangible assets		**(43,370)**	(14,058)
Proceeds from disposals of property, plant and equipment		**2,327**	41,418
Net payments for acquisition of subsidiaries		**(14,873)**	(127,991)
Payments for acquisition of equity interest in a joint venture	14	—	(24,883)
Payments for acquisition of additional interests in a subsidiary	13	**(105)**	—
Proceeds from government grants related to non-current assets		—	1,157
Proceeds from disposal of a subsidiary		—	272,000
Deposit received for proposed disposal of property and plant	22(b)	**55,897**	—
Interest received		**2,260**	3,371
Increase of time deposits	18	**(7,602)**	—
Net cash used in investing activities		**(284,846)**	(264,855)
Financing activities			
Proceeds from exercise of share options		**29,700**	—
Payments for repurchase of own shares of the Company	25(c)(ii)	**(31,532)**	(541,523)
Proceeds from borrowings		**1,004,310**	1,663,636
Repayments of borrowings		**(1,205,712)**	(830,151)
Dividends paid to equity shareholders of the Company	25(b)	**(71,115)**	(581,050)
Decrease of pledged bank deposits	18	**260**	13,030
Net cash used in financing activities		**(274,089)**	(276,058)
Net increase in cash and cash equivalents		**127,549**	21,781
Cash and cash equivalents at 1 January		**338,964**	325,224
Effect of foreign exchange rate changes		**(19,477)**	(8,041)
Cash and cash equivalents at 31 December	19(a)	**447,036**	338,964

The notes on pages 51 to 117 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

SSY Group Limited (the "Company") and its subsidiaries (together, the "Group") are engaged in the research, development, manufacturing and selling of a wide range of finished medicines, bulk pharmaceutical products and medical materials. The Group has manufacturing plants in Hebei Province and Jiangsu Province, the People's Republic of China (the "PRC"), and sells to customers mainly in the PRC.

The Company is an exempted company with limited liability established under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2005.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company, its subsidiaries and its joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS1, Presentation of financial statements: Disclosure initiative

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

— *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries *(continued)*

(i) Consolidation *(continued)*

— *Business combinations (continued)*

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts represented by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries *(continued)*

(i) ***Consolidation*** *(continued)*

— *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transaction that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

— *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(ii) ***Company's statement of financial position***

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required when there is any indication that the investment is impaired or upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(e) Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Joint arrangements *(continued)*

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. When the Group's share of loss in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

(g) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and New Orient Investments Pharmaceutical Holding (Hong Kong) Limited is HK dollars (HK$) and the functional currency of other Group's companies is Renminbi ("RMB"). The consolidated financial statements are presented in HK$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss and other comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within 'other gains — net'.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Foreign currency translation *(continued)*

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each financial position presented are translated at the closing rate at the end of the reporting period;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

—	Buildings	10 — 40 years
—	Plant, machinery and tools	5 — 10 years
—	Furniture, fixtures, office equipment and others	5 — 10 years
—	Vehicles	5 — 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, plant and equipment *(continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(k)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains — net', in the consolidated statement of profit or loss and other comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

(i) Land use rights

All land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights, which are amortised to profit or loss on a straight-line basis over the periods of the leases, or when there is impairment, the impairment losses is charged in profit or loss.

(j) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Intangible assets *(continued)*

(ii) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

—	Trademarks	50 years
—	Patents	6 — 10 years

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 — 5.25 years.

(iv) Computer softwares

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific softwares. These costs are amortised over their estimated useful lives of 5 years.

(v) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

— it is technically feasible to complete the intangible asset so that it will be available for use;

— management intends to complete the intangible asset and use it;

— there is an ability to use the intangible asset;

— it can be demonstrated how the intangible asset will generate probable future economic benefits;

— adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

— the expenditure attributable to the intangible asset during its development can be reliably measured.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Intangible assets *(continued)*

(v) Research and development costs *(continued)*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding ten years.

(k) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

— *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Financial assets *(continued)*

(i) Classification *(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. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and bill receivables', other receivables in the 'prepayments, deposits and other receivables', 'pledged bank deposits', and 'cash and cash equivalents' in the financial position (notes 2(p) and 2(q), respectively).

— *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of profit or loss and other comprehensive income within 'other gains — net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss and other comprehensive income as part of other gains and income when the Group's right to receive payments is established.

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss and other comprehensive income as part of 'other gains — net' when the Group's right to receive payments is established.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(n) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(p) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(q) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(r) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(s) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(u) Borrowing costs

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

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

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

Borrowing costs include interest expense and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

— *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

— *Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Current and deferred income tax *(continued)*

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(w) Employee benefits

(i) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

— *Defined contribution plan*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,500 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in the Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

— *Post-employment benefits*

Some group companies provide post-employment benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The liability recognised in the financial position in respect of post-employment benefits is the present value of these benefits obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. These obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of these obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss and other comprehensive income.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Employee benefits *(continued)*

(ii) Share-based compensation

— *Equity-settled share-based payment transactions*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

— *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Employee benefits *(continued)*

(iii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iv) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(x) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(y) Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to purchases of land use rights and property, plant and equipment are included in non-current liabilities and recognised in profit or loss over the life of depreciable assets by way of a reduced depreciation or amortisation charge.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

— Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when a group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

— Rental income is recognised on a straight-line basis over the terms of the leases.

— Services income is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(aa) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

(bb) Dividend income

Dividend income is recognised when the right to receive payment is established.

(cc) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) As a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(ii) As a lessor

When assets are leased out under an operating lease, the asset is included in the financial position based on the nature of the asset. The revenue from operating lease is charged to profit or loss on a straight-line basis over the period of the lease.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(dd) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(ee) Dividend distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. As the future is inherently uncertain, actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in note 2(j). The recoverable amount of CGUs has been determined based on the higher of value in use and fair value less costs of disposal.

The Group measured the value in use by discounting the future estimated cash flow deriving from the CGUs. These calculations required the Group to estimate the expected future cash flows from the CGUs and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(b) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. These estimates are based on the credit history of its customers and other debtors and current market condition. The Group's management reassesses the provision at each reporting period end.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of changes in industry environment and competitor actions. Management reassesses the estimates at each reporting period end.

(d) Estimated impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to profit or loss.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group derives revenue principally from the sale of finished medicines of mainly intravenous infusion solution to hospitals and distributors, bulk pharmaceutical products and medical materials. Revenue recognised as follows:

	2016	2015
	HK$'000	*HK$'000*
Sales of pharmaceutical products	**2,206,522**	2,152,290
Sales of medical materials	**140,602**	45,324
Services income	**6,416**	14,144
Rental income	**4,032**	3,718
Processing income	**—**	4,423
Sales of raw materials and by products	**3,678**	2,022
	2,361,250	2,221,921

For the year ended 31 December 2016, no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customers are set out in note 26(a).

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments, namely intravenous infusion solution and others and medical materials. The entire segment of medical materials was acquired on 30 September 2015. No operating segments have been aggregated to form the reportable segments.

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

Segment assets include all tangible, intangible assets and current assets. Unallocated assets mainly comprise corporate cash. Segment liabilities include operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

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

The measure used for reporting segment profit is profit from operations.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	2016			
	Intravenous infusion solution and others *HK$'000*	Medical materials *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue from external customers	2,219,056	142,194	—	2,361,250
Inter-segment revenue	—	95,960	—	95,960
Reportable segment revenue	2,219,056	238,154	—	2,457,210
Operating profit/(loss)/ segment results	656,894	26,706	(43,077)	640,523
Finance income	2,223	37	—	2,260
Finance costs	(45,611)	(2,507)	(6,000)	(54,118)
Profit/(loss) before taxation	612,759	24,236	(49,077)	587,918
Income tax	(92,771)	(4,906)	—	(97,677)
Reportable segment profit/ (loss) for the year	519,988	19,330	(49,077)	490,241
Amortisation of land use rights	5,658	380	—	6,038
Depreciation of property, plant and equipment	214,932	15,425	771	231,128
Amortisation of intangible assets	4,594	5,288	—	9,882
Provision for/(reversal of) impairment of receivables	1,345	(1,452)	—	(107)
Total assets/reportable segment assets	4,398,839	331,116	14,119	4,744,074
Additions to non-current assets	132,935	15,738	—	148,673
Total liabilities/reportable segment liabilities	1,261,682	99,002	698,968	2,059,652

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

	2015			
	Intravenous infusion solution and others *HK$'000*	Medical materials *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue from external customers	2,175,536	46,385	—	2,221,921
Inter-segment revenue	—	15,198	—	15,198
Reportable segment revenue	2,175,536	61,583	—	2,237,119
Operating profit/(loss)/ segment results	568,565	6,376	(33,401)	541,540
Finance income	2,155	237	1,038	3,430
Finance costs	(55,855)	(1,127)	(8,136)	(65,118)
Profit/(loss) before taxation	513,325	5,486	(40,499)	478,312
Income tax	(74,255)	(604)	—	(74,859)
Reportable segment profit/ (loss) for the year	439,070	4,882	(40,499)	403,453
Amortisation of land use rights	4,983	98	—	5,081
Depreciation of property, plant and equipment	198,410	6,443	812	205,665
Amortisation of intangible assets	4,070	1,370	—	5,440
Provision for write-down of inventories	—	238	—	238
Provision for/(reversal of) impairment of receivables	569	(499)	—	70
Total assets/reportable segment assets	4,575,882	376,138	56,074	5,008,094
Additions to non-current assets	468,258	5,680	91	474,029
Total liabilities/reportable segment liabilities	1,836,395	79,141	697,379	2,612,915

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

The total of non-current assets were as follows:

	2016	2015
	HK$'000	*HK$'000*
Non-current assets other than deferred tax assets		
— the PRC	**3,060,811**	3,369,217
— Hong Kong	**678**	1,432
Deferred tax assets	**3,053**	4,147
	3,064,542	3,374,796

The directors have also determined that no geographical segment information is presented as over 95% of the Group's revenue and operating profits are derived with the PRC and over 95% of the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

5 OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Government grants	**64,066**	49,399
Net gain on disposal of property, plant and equipment	**613**	1,086
	64,679	50,485

Government grants mainly represent subsidy income received from various government organisations to compensate the Group's research and development expenditures, and other incentives to support the operations of the Group.

6 PROFIT BEFORE TAXATION

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

(a) Finance income and costs

	2016 HK$'000	2015 HK$'000
Finance income:		
— Interest income on bank deposits	**(2,260)**	(3,371)
— Cash discount income	**—**	(59)
Finance income	**(2,260)**	(3,430)
Finance costs:		
— Interest expense of borrowings	**53,370**	58,245
— Other bank charges	**3,321**	2,581
— Net foreign exchange loss	**1,176**	19,584
	57,867	80,410
Less: interest expense capitalised into qualifying assets*	**(3,749)**	(15,292)
Finance costs	**54,118**	65,118
Finance costs — net	**51,858**	61,668

* The borrowing costs have been capitalised at a rate of 4.24% per annum (2015: 7.02%).

(b) Staff costs

	2016 HK$'000	2015 HK$'000
— Contributions to defined contribution retirement plan	**32,775**	31,919
— Equity-settled share-based payment expenses *(note 25(d)(iii))*	**26,686**	39,431
— Salaries, wages and other benefits	**278,004**	236,923
	337,465	308,273

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	2016 *HK$'000*	2015 *HK$'000*
Amortisation#		
— land use rights *(note 11(a))*	**6,038**	5,081
— intangible assets *(note 12)*	**9,882**	5,440
	15,920	10,521
Depreciation# *(note 11(a))*	**231,128**	205,665
(Reversal of)/provision for impairment of		
— trade and bills receivables *(note 16(b))*	**(107)**	375
Auditors' remuneration		
— audit services	**2,000**	1,920
— non-audit services	**—**	798
	2,000	2,718
Cost of inventories# *(note 15(b))*	**618,527**	697,654
Operating lease charges: minimum lease payments	**8,231**	9,663
Research and development costs (other than amortisation costs)	**76,041**	50,689
Less: Costs capitalised into intangible assets	**(34,659)**	(12,488)
	41,382	38,201
Other expenses		
— transportation expenses	**245,446**	205,842
— utility expenses	**142,237**	133,329
— travelling, meeting and entertainment expenses	**46,002**	35,595
— surcharges and other tax expenses	**45,453**	43,800
	479,138	418,566

Cost of inventories includes HK$360,503,000 (2015: HK$311,941,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX

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

	2016	2015
	HK$'000	*HK$'000*
Current tax — the PRC Corporate Income Tax ("CIT")	**98,427**	83,279
Deferred tax		
Origination and reversal of temporary differences	**(750)**	(8,420)
	97,677	74,859

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2016 and 2015 as the Group did not have any profits assessable to Hong Kong Profits Tax during the current and prior years.

All subsidiaries of the Company established and operate in the PRC are subject to the PRC CIT at an applicable rate of 25%.

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No.4"), Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best") and Hebei Guolong Pharmaceutical Co., Ltd. ("Hebei Guolong") have been recognised as High and New Technology Enterprises in 2015, 2014 and 2014, respectively. According to the tax incentives rules of the CIT Law of the PRC (the "CIT Law") for High and New Technology Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years.

The CIT Law and its relevant regulations also impose a withholding tax at 10% on the foreign investors with respect to dividend distributions made out of the PRC entities from earnings accumulated from 1 January 2008, unless the foreign investors meet certain requirements specified in the relevant tax regulations in the PRC and accordingly are entitled to a preferential rate of 5%. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

7 INCOME TAX *(continued)*

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

	2016 **HK$'000**	2015 HK$'000
Profit before taxation	**587,918**	478,312
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**88,716**	70,407
Effect of PRC preferential tax rate	**(1,849)**	(3,142)
Effect of non-deductible expenses	**6,679**	13,598
Effect of non-taxable income	**(2)**	(191)
Effect of unused tax losses not recognised	**176**	1,308
Effect of joint venture's results reported net of tax	**55**	231
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**—**	(8,149)
Withholding tax charge related to interests income	**343**	797
Withholding tax on profit distributions	**3,559**	—
Actual tax expense	**97,677**	74,859

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016							
Name	Directors' fees HK$'000	Salaries HK$'000	Discretionary bonuses *(a)* HK$'000	Housing allowance HK$'000	Estimated money value of other benefits *(b)* HK$'000	Retirement scheme contributions HK$'000	Share-based payment *(c)* HK$'000	Total HK$'000
Executive directors								
Mr. Qu Jiguang	—	5,982	—	—	—	18	26,686	32,686
Mr. Wang Xianjun	—	1,352	—	430	—	18	—	1,800
Mr. Su Xuejun	—	610	163	—	85	37	—	895
Independent non-executive directors								
Mr. Wang Yibing	180	—	—	—	—	—	—	180
Mr. Leung Chong Shun	180	—	—	—	—	—	—	180
Mr. Chow Kwok Wai	180	—	—	—	—	—	—	180
	540	7,944	163	430	85	73	26,686	35,921

8 DIRECTORS' EMOLUMENTS *(continued)*

	2015							
Name	Directors' fees *HK$'000*	Salaries *HK$'000*	Discretionary bonuses *(a)* *HK$'000*	Housing allowance *HK$'000*	Estimated money value of other benefits *(b)* *HK$'000*	Retirement scheme contributions *HK$'000*	Share-based payment *(c)* *HK$'000*	Total *HK$'000*
Executive directors								
Mr. Qu Jiguang	—	5,134	9,000	252	65	44	—	14,495
Mr. Wang Xianjun	—	1,266	—	516	—	18	7,813	9,613
Mr. Su Xuejun	—	683	—	—	81	34	7,813	8,611
Independent non-executive directors								
Mr. Wang Yibing	180	—	—	—	—	—	—	180
Mr. Leung Chong Shun	180	—	—	—	—	—	—	180
Mr. Chow Kwok Wai	180	—	—	—	—	—	—	180
	540	7,083	9,000	768	146	96	15,626	33,259

Notes:

(a) Discretionary bonuses are determined based on the business performance of selected subsidiaries of the Group but are limited to a prescribed percent of the net profit of these subsidiaries, which is subject to the approval of the board of directors of the Company.

(b) Other benefits include leave pay and medical insurance, etc.

(c) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(w) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 25(d)(iii).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2015: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2015: two) individuals are as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries and other benefits	**1,410**	1,235
Equity-settled share-based payment	**—**	7,788
Discretionary bonuses	**52**	54
Retirement scheme contributions	**71**	66
	1,533	9,143

The emoluments of the two (2015: two) individuals with the highest emoluments are within the following bands:

	2016	2015
	Number of individuals	*Number of individuals*
Nil — HK$1,000,000	**2**	—
HK$1,000,001 — HK$1,500,000	**—**	1
HK$7,000,000 — HK$8,000,000	**—**	1

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$489,535,000 (2015: HK$403,416,000) and the weighted average of 2,830,071,000 ordinary shares (2015: 2,915,556,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January	**2,802,191**	2,968,527
Effect of purchase and cancellation of own shares	**(1,074)**	(52,971)
Effect of share options exercised	**8,443**	—
Effect of shares issued upon acquisition of a subsidiary	**20,511**	—
Weighted average number of ordinary shares at 31 December	**2,830,071**	2,915,556

10 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$489,535,000 (2015: HK$403,416,000) and the weighted average of 2,852,924,000 ordinary shares (2015: 2,922,039,000 ordinary shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2016	2015
	'000	*'000*
Weighted average number of ordinary shares at 31 December (basic)	**2,830,071**	2,915,556
Effect of deemed issue of shares under the Company's share option scheme	**22,853**	6,483
Weighted average number of ordinary shares at 31 December (diluted)	**2,852,924**	2,922,039

11 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

(a) Reconciliation of carrying amount

	Buildings	Plant, machinery and tools	Furniture, fixtures, office equipment and others	Vehicles	Construction-in-progress	Sub-total	Land use rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	908,097	1,034,411	125,336	18,540	465,514	2,551,898	223,715	2,775,613
Transfers	167,437	14,257	10,759	—	(192,453)	—	—	—
Additions	—	78,459	53,915	203	274,789	407,366	52,605	459,971
Additions through acquisition of a subsidiary	52,583	67,544	758	989	16,951	138,825	15,870	154,695
Disposals	(366)	(39,404)	(223)	(339)	—	(40,332)	—	(40,332)
Charge for the year	(43,398)	(136,059)	(21,365)	(4,843)	—	(205,665)	(5,081)	(210,746)
Exchange adjustments	(58,934)	(58,345)	(8,196)	(1,497)	(31,308)	(158,280)	(15,315)	(173,595)

11 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS *(continued)*

(a) Reconciliation of carrying amount *(continued)*

	Buildings *HK$'000*	Plant, machinery and tools *HK$'000*	Furniture, fixtures, office equipment and others *HK$'000*	Vehicles *HK$'000*	Construction-in-progress *HK$'000*	Sub-total *HK$'000*	Land use rights *HK$'000*	Total *HK$'000*
At 31 December 2015 and 1 January 2016	1,025,419	960,863	160,984	13,053	533,493	2,693,812	271,794	2,965,606
Transfers	318,334	62,878	15,940	—	(397,152)	—	—	—
Additions	13,166	79,241	6,501	3,174	3,221	105,303	—	105,303
Additions through acquisition of a subsidiary *(note 28)*	44	11	866	—	—	921	—	921
Disposals	(746)	(15,283)	(418)	(297)	—	(16,744)	—	(16,744)
Charge for the year	(70,010)	(128,272)	(28,721)	(4,125)	—	(231,128)	(6,038)	(237,166)
Exchange adjustments	(79,485)	(60,037)	(1,497)	(662)	(17,392)	(159,073)	(16,985)	(176,058)
At 31 December 2016	1,206,722	899,401	153,655	11,143	122,170	2,393,091	248,771	2,641,862

(b) The analysis of net book value of properties is as follows:

	2016 ***HK$'000***	2015 *HK$'000*
In the PRC — medium-term leases	**1,455,493**	1,297,213
Representing:		
Buildings	**1,206,722**	1,025,419
Land use rights	**248,771**	271,794
	1,455,493	1,297,213

Land use rights are located in Hebei Province and Jiangsu Province, the PRC, and are held on leases of 37 to 50 years from the dates of acquisition. Buildings are located in Hebei Province and Jiangsu Province, the PRC.

(c) As at 31 December 2016, the Group's land use rights and property, plant and equipment with a carrying amount of HK$19,241,000 (2015: HK$49,247,000) and HK$28,979,000 (31 December 2015: HK$57,119,000), respectively, were pledged as collateral for the Group's bank borrowings (note 20).

11 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS *(continued)*

(d) Assets leased out under operating leases

The Group leases out certain office premises and warehouses in the PRC under operating leases. The leases typically run for an initial period of one to six years with an option to review the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The future aggregate minimum lease receipts under non-cancellable operating leases are receivable as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 1 year	**1,614**	2,434
After 1 year but within 5 years	**3,018**	3,715
After 5 years	**—**	1,074
	4,632	7,223

12 INTANGIBLE ASSETS

	Goodwill	Trademark and patents	Softwares	Customer relationships	Internally generated research and development costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	255,490	64,747	1,968	—	16,629	338,834
Additions	—	—	1,570	—	12,488	14,058
Additions through acquisition of a subsidiary	24,052	21,083	—	11,227	—	56,362
Disposals	—	—	—	—	(1,094)	(1,094)
Charge for the year	—	(4,107)	(802)	(531)	—	(5,440)
Exchange adjustments	(15,403)	(4,063)	(146)	(220)	(1,434)	(21,266)
At 31 December 2015 and 1 January 2016	**264,139**	**77,660**	**2,590**	**10,476**	**26,589**	**381,454**
Additions	**—**	**2,594**	**6,117**	**—**	**34,659**	**43,370**
Additions through acquisition of a subsidiary *(note 28)*	**5,873**	**24,403**	**—**	**—**	**—**	**30,276**
Adjustments	**(1,188)**	**—**	**—**	**—**	**—**	**(1,188)**
Charge for the year	**—**	**(6,363)**	**(1,471)**	**(2,048)**	**—**	**(9,882)**
Exchange adjustments	**(16,682)**	**(4,769)**	**(359)**	**(579)**	**(3,132)**	**(25,521)**
At 31 December 2016	**252,142**	**93,525**	**6,877**	**7,849**	**58,116**	**418,509**

12 INTANGIBLE ASSETS *(continued)*

For the year ended 31 December 2016, amortisation of intangible assets of HK$9,882,000 was recognised in general and administrative expenses (2015: HK$5,440,000).

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's CGUs as follows:

	2016	2015
	HK$'000	*HK$'000*
Intravenous infusion solution and others	**225,317**	240,574
Medical materials	**20,952**	23,565
Biotechnology	**5,873**	—
	252,142	264,139

Goodwill of HK$5,873,000 arising from the acquisition of Hebei Hanlin was recorded during the year ended 31 December 2016 (note 28).

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year to a ten-year period with the final year representing a steady state in the development of the business. Cash flows beyond the five to ten-year period are extrapolated using an estimated weighted average growth rate. The key assumptions for the value-in-use calculations are as follows, which are based on either the past experience or external sources of information:

	Intravenous infusion solution and others		**Medical materials**		**Biotechnology**
	2016	2015	**2016**	2015	**2016**
Gross profit margin in the next five to ten years	**49.9%-50.8%**	44.7%-49.9%	**31.1%-33.4%**	31.1%-33.4%	**51.0%-59.5%**
Growth rate in the next five to ten years	**12%-16%**	13%-18%	**3%-19%**	4%-31%	**3%-50%**
Other operating cost (as of revenue)	**26%-28%**	23%-27%	**11%**	11%	**26%**
Perpetual growth rate	**3%**	3%	**3%**	3%	**3%**
Pre-tax discount rate	**14.3%**	14.2%	**14.4%**	14.5%	**17.3%**

Management determined the budgeted growth rate and gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

The recoverable amounts of the CGUs are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment of goodwill is recognised in profit or loss.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains all subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
New Orient Investments Pharmaceutical Holding (Hong Kong) Limited	Samoa/ Hong Kong	United States Dollar ("USD") 1	100%	100%	0%	Investment holding
Shijiazhuang No. 4 Pharmaceutical Co., Ltd.	The PRC	RMB400,000,000	100%	—	100%	Manufacturing and sale of pharmaceutical products
Hebei Guolong Pharmaceutical Co., Ltd.	The PRC	RMB80,000,000	100%	—	100%	Manufacturing and sale of pharmaceutical products
Hebei Jinmen Pharmaceutical Import and Export Co., Ltd.	The PRC	RMB5,000,000	100%	—	100%	Trading of pharmaceutical products
Hebei Guangxiang Pharmaceutical Technology Co., Ltd.	The PRC	RMB3,000,000	100%	—	100%	Pharmaceutical technology research and development and consulting
Hebei Guangxiang Logistics Co., Ltd. ("Hebei Guangxiang")(i)	The PRC	RMB3,000,000	86%	—	86%	Logistics of pharmaceutical products
Shijiazhuang Guangxiang Catering Co., Ltd.	The PRC	RMB500,000	100%	—	100%	Provision of food, beverages and catering
Jiangsu Best New Medical Material Co., Ltd.	The PRC	RMB49,980,000	100%	49%	51%	Manufacturing and sale of pharmaceutical products
Hebei Hanlin Biotechnology Co., Ltd. ("Hebei Hanlin") *(notes 14 and 28)*	The PRC	RMB15,000,000	75%	—	75%	Research and development of biotechnology and related products

(i) With the completion of the acquisition of additional 2.67% equity interest in Hebei Guangxiang from a non-controlling interest at a consideration of approximately HK$105,000 in 2016, the Group's effective interest in Hebei Guangxiang increased to 86% as at 31 December 2016.

The directors are of the view that the Group has no individually material non-controlling interests for the years ended 31 December 2016 and 2015.

14 INTEREST IN A JOINT VENTURE

On 13 February 2015, Shijiazhuang No. 4, a subsidiary of the Group, acquired 50% equity interest in a joint venture named Hebei Hanlin at a consideration of RMB20,000,000. Hebei Hanlin is engaged in the research and development of biotechnology and related products.

On 5 December 2016, the Group acquired an additional 25% equity interest in Hebei Hanlin at a consideration of RMB5,000,000. Upon the completion of the acquisition, Hebei Hanlin became a 75% owned subsidiary of the Group (note 28).

Summarised financial information of Hebei Hanlin adjusted for any differences in accounting policies and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below. The information for 2015 presented in the table includes the results of Hebei Hanlin for the period from 13 February 2015 to 31 December 2015. The information for 2016 includes the results of Hebei Hanlin only for the period from 1 January 2016 to 5 December 2016, because Hebei Hanlin became a subsidiary on 5 December 2016 and its results have been consolidated into the Group's consolidated financial statements since then.

	2016	2015
	HK$'000	*HK$'000*
Gross amounts of Hebei Hanlin		
Current assets	—	3,713
Non-current assets	—	20,832
Current liabilities	—	50
Non-current liabilities	—	176
Equity	—	24,319
Revenue	**233**	36
Loss for the period	**4,422**	3,080
Reconciled to the Group's interest in Hebei Hanlin		
Gross amount of Hebei Hanlin's net assets		24,319
Group's effective interest		50%
Group's share of Hebei Hanlin's net assets		12,160
Goodwill		10,235
Carrying amount in the consolidated financial statements		22,395

15 INVENTORIES

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

	2016	2015
	HK$'000	*HK$'000*
Raw materials	**103,056**	108,998
Work in progress	**8,320**	17,270
Finished goods	**166,852**	156,250
	278,228	282,518

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

	2016	2015
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**603,728**	687,503
Write down of inventories	**—**	238
Cost of inventories sold	**603,728**	687,741
Cost of inventories directly recognised as research and development costs and selling and distribution costs	**14,799**	9,913
	618,527	697,654

16 TRADE AND BILLS RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**676,076**	688,705
Bills receivable	**185,701**	251,500
	861,777	940,205
Less: Allowance for doubtful debts *(note 16(b))*	**(4,390)**	(4,779)
	857,387	935,426

All of the trade and bills receivables are expected to be recovered within one year.

16 TRADE AND BILLS RECEIVABLES *(continued)*

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date is as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 3 months	**719,969**	824,016
4 to 6 months	**109,746**	95,599
7 to 12 months	**31,045**	19,171
1 to 2 years	**1,017**	1,419
	861,777	940,205

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see note 2(n)).

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**4,779**	2,580
Impairment loss (reversed)/recognised	**(107)**	375
Written off	**—**	(209)
Acquisition of a subsidiary	**—**	2,249
Exchange adjustments	**(282)**	(216)
At 31 December	**4,390**	4,779

As at 31 December 2016, impaired trade receivables amounting to approximately HK$4,390,000 (2015: HK$4,779,000) were assessed for impairment and a provision of HK$4,390,000 (2015: HK$4,779,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year.

16 TRADE AND BILLS RECEIVABLES *(continued)*

(c) Trade and bills receivables that are not impaired

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

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**719,969**	824,016
Less than 3 months past due	**109,746**	95,599
More than 3 months past due	**27,672**	15,811
	137,418	111,410
	857,387	935,426

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

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

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Amounts due from agent companies *(note 22(a))*	**56,195**	51,615
Prepayments for purchases of inventories	**5,046**	6,199
Other deposits	**5,378**	2,737
Staff advances	**1,896**	1,333
Amounts due from a related party *(note 29(b))*	**—**	940
Others	**20,311**	12,819
	88,826	75,643
Less: Provision for impairment	**(146)**	(112)
	88,680	75,531

18 PLEDGED BANK DEPOSITS AND TIME DEPOSITS

	2016	2015
	HK$'000	*HK$'000*
Current		
Deposits with original maturities over three months	**7,602**	—
Pledged bank deposits	**599**	859
	8,201	859

Pledged bank deposits as at 31 December 2016 were pledged for letters of credit facilities.

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2016	2015
	HK$'000	*HK$'000*
Cash on hand	**105**	145
Cash at bank	**446,931**	338,819
	447,036	338,964

19 CASH AND CASH EQUIVALENTS *(continued)*

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

	Note	**2016** **HK$'000**	2015 HK$'000
Profit before taxation		**587,918**	478,312
Adjustments for:			
(Reversal of)/provision for impairment of trade and bills receivables	*16(b)*	**(107)**	375
Reversal of impairment of other receivables		**—**	(305)
Provision for write-down of inventories	*15(b)*	**—**	238
Amortisation of land use rights	*6(c)*	**6,038**	5,081
Amortisation of intangible assets	*6(c)*	**9,882**	5,440
Amortisation of deferred revenue	*24*	**(2,952)**	(3,172)
Depreciation	*6(c)*	**231,128**	205,665
Finance costs	*6(a)*	**52,942**	47,394
Interest income	*6(a)*	**(2,260)**	(3,371)
Net gain on disposal of property, plant and equipment	*5*	**(613)**	(1,086)
Share of losses of a joint venture		**2,211**	1,540
Gain on deemed disposal of investment in a joint venture	*28*	**(1,464)**	—
Equity-settled share-based payment expenses	*6(b)*	**26,686**	39,431
Changes in working capital:			
Decrease in inventories		**6,626**	29,395
Decrease/(increase) in trade receivables		**78,234**	(145,968)
(Increase)/decrease in prepayments, deposits and other receivables		**(12,910)**	82,892
Decrease in trade payables		**(111,127)**	(29,346)
Increase in advance receipts from customers		**5,334**	2,072
Decrease in accruals and other payables		**(42,619)**	(10,833)
Cash generated from operations		**832,947**	703,754

20 BORROWINGS

As at 31 December 2016, the Group's borrowings were repayable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year or on demand	**633,126**	687,742
After 1 year but within 2 years	**866,543**	283,845
After 2 years but within 5 years	**68,194**	834,344
After 5 years	**—**	7,162
	934,737	1,125,351
	1,567,863	1,813,093

As at 31 December 2016, the Group's borrowings were secured as follows:

	2016 HK$'000	2015 HK$'000
Bank borrowings		
— secured	**110,675**	322,280
— unsecured	**1,457,188**	1,459,778
	1,567,863	1,782,058
Unsecured other borrowings	**—**	31,035
	1,567,863	1,813,093

As at 31 December 2016, the Group's borrowings of HK$110,675,000 (2015: HK$322,280,000) were secured by the Group's land use rights with a carrying amount of HK$19,241,000 (2015: HK$49,247,000), and property, plant and equipment with a carrying amount of HK$28,979,000 (2015: HK$57,119,000).

The Group's bank facilities of HK$875,897,000 (2015: HK$1,070,000,000) is subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenants, drawn down would become payable on demand. The Group regularly monitors its compliance with covenants. As at 31 December 2016, none of the covenants relating to drawn down facilities had been breached.

21 TRADE PAYABLES

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2016 *HK$'000*	2015 *HK$'000*
Within 3 months	**157,751**	186,821
4 to 6 months	**9,761**	55,824
7 to 12 months	**3,490**	22,481
1 to 3 years	**1,917**	3,520
More than 3 years	**827**	856
	173,746	269,502

22 ACCRUALS AND OTHER PAYABLES

	2016 *HK$'000*	2015 *HK$'000*
Current		
Payables for purchase of property, plant and equipment	**69,165**	243,362
Withholding individual income tax payables (a)	**56,195**	61,192
Deposit received for proposed disposal of property and plant (b)	**55,897**	—
Accrued salaries and wages	**23,906**	27,558
Deposits from constructors	**7,829**	5,265
Value-added tax payable	**22,787**	20,117
Other taxes payables	**2,825**	3,481
Welfare payables	**3,192**	3,542
Professional fee payables	**1,453**	2,131
Acquisition consideration payable *(note 25(c)(iv))*	**—**	64,152
Others	**6,784**	14,354
	250,033	445,154
Non-current		
Acquisition consideration payable *(note 25(c)(iv))*	**—**	23,873

22 ACCRUALS AND OTHER PAYABLES *(continued)*

(a) Withholding individual income tax payables

According to the relevant the PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from the disposal of their shares of the Company acquired through the option scheme. Settlement of such individual income tax is handled through certain agent companies. In this regard, HK$56,195,000 (31 December 2015: HK$51,615,000) payables relating to the PRC individual income taxes in total have been recorded in the consolidated financial statements. Meanwhile, the same amount of receivables is also recorded (note 17).

As at 31 December 2015, the carrying amount of the withholding individual income tax of exercising the share options under Hong Kong tax laws is HK$9,577,000, which has been fully paid during the year ended 31 December 2016.

(b) Deposit received for proposed disposal of property and plant

In December 2016, the Group entered into an agreement (the "Agreement") with a third party, pursuant to which, the Group agreed to transfer certain property and plant located in Hebei Province to the third party. The Group has received the deposit of RMB50,000,000 (equivalent to HK$55,897,000) from the third party according to the Agreement. The proposed disposal is subject to regulatory approvals and was yet to complete as at 31 December 2016.

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2016 ***HK$'000***	2015 *HK$'000*
At beginning of the year	**21,723**	23,746
Provision for the year *(note 7(a))*	**98,427**	83,279
Tax paid	**(96,577)**	(86,758)
Exchange adjustments	**(453)**	1,456
At end of the year	**23,120**	21,723

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised:

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

	Accrued expenses *HK$'000*	Deferred revenue *HK$'000*	Provision for asset impairment *HK$'000*	Amortisation of assets *HK$'000*	Deductible losses *HK$'000*	Revaluation of assets on acquisition *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
At 1 January 2015	(729)	(1,448)	(387)	—	(27)	22,642	1,455	21,506
Additions through acquisition	—	—	(1,202)	(1,830)	—	10,511	—	7,479
(Credited)/charged to profit or loss	(158)	696	702	59	9	(9,728)	—	(8,420)
Exchange adjustments	35	56	40	36	1	(1,164)	(85)	(1,081)
At 31 December 2015 and 1 January 2016	**(852)**	**(696)**	**(847)**	**(1,735)**	**(17)**	**22,261**	**1,370**	**19,484**
Additions through acquisition *(note 28)*	**—**	**—**	**—**	**—**	**—**	**6,201**	**—**	**6,201**
Charged/(credited) to profit or loss	**358**	**280**	**5**	**209**	**17**	**(1,619)**	**—**	**(750)**
Exchange adjustments	**26**	**33**	**65**	**101**	**—**	**(1,344)**	**(59)**	**(1,178)**
At 31 December 2016	**(468)**	**(383)**	**(777)**	**(1,425)**	**—**	**25,499**	**1,311**	**23,757**

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised: *(continued)*

Reconciliation to the consolidated statement of financial position:

	2016 HK$'000	2015 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(3,053)**	(4,147)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**26,810**	23,631
	23,757	19,484

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(v), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$67,136,000 (2015:HK$66,069,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to the undistributed profits of subsidiaries in the PRC amounted to HK$2,439,097,000 (2015: HK$1,952,361,000). Deferred tax liabilities of HK$121,955,000 (2015: HK$97,618,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings as the Group controls the dividend policy of these subsidiaries and it had been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 DEFERRED REVENUE

Deferred revenue represented subsidies received from municipal governments represented for the construction of laboratories and plants of the Group, and are recognised in profit or loss when the depreciation expense of the laboratories and plants are recognised in profit or loss.

The movement of deferred revenue are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**5,743**	8,153
Additions	**—**	1,157
Government grant recognised as other revenue	**(2,952)**	(3,172)
Exchange adjustments	**(241)**	(395)
At 31 December	**2,550**	5,743

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share-based payment reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
Balance at 1 January 2015		66,177	1,313,850	173,703	—	298,462	1,852,192
Changes in equity for 2015:							
Total comprehensive income for the year		—	—	—	—	(32,455)	(32,455)
Purchase and cancellation of own shares		(3,326)	(538,197)	—	—	—	(541,523)
Grant of share options		—	—	—	39,431	—	39,431
Dividends paid to equity shareholders of the Company	*25(b)*	—	(282,588)	—	—	(298,462)	(581,050)
Balance at 31 December 2015 and 1 January 2016		62,851	493,065	173,703	39,431	(32,455)	736,595
Changes in equity for 2016:							
Total comprehensive income for the year		—	—	—	—	28,284	28,284
Purchase and cancellation of own shares	*25(c)(ii)*	(20)	(20,095)	(11,417)	—	—	(31,532)
Grant of share options	*25(d)(iii)*	—	—	—	26,686	—	26,686
Share issued under share option scheme	*25(c)(iii)*	300	34,248	—	(4,848)	—	29,700
Issue of new shares	*25(c)(iv)*	569	68,502	—	—	—	69,071
Dividends paid to equity shareholders of the Company	*25(b)*	—	(71,115)	—	—	—	(71,115)
Balance at 31 December 2016		63,700	504,605	162,286	61,269	(4,171)	787,689

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2016 **HK$'000**	2015 *HK$'000*
Interim dividend declared and paid of HK2.5 cents per ordinary share (2015: HK2.5 cents per ordinary share)	**71,115**	70,463
Final dividend proposed after the end of the reporting period of HK$3.0 cents per ordinary share (2015: nil)	**85,200**	—
	156,315	70,463

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2016 **HK$'000**	2015 *HK$'000*
Special dividend in respect of the previous financial year, approved and paid during the year, of nil (2015: HK17.2 cents per share)	—	510,587

(c) Share capital

(i) Issued share capital

	2016 **No. of shares '000**	**2016** **HK$'000**	2015 No. of shares *'000*	2015 *HK$'000*
Ordinary shares of HK$0.02 each, issued and fully paid:				
At 1 January	**2,802,191**	**62,851**	2,968,527	66,177
Purchase and cancellation of own shares *(note 25(c)(ii))*	**(1,018)**	**(20)**	(166,336)	(3,326)
Share issued under share option scheme *(note 25(c)(iii))*	**15,000**	**300**	—	—
Share issued upon acquisition of a subsidiary *(note 25(c)(iv))*	**28,436**	**569**	—	—
	2,844,609	**63,700**	2,802,191	62,851

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

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

(ii) Purchase and cancellation of own shares

In January and December 2016, the Group repurchased 1,018,000 and 4,654,000 ordinary shares of the Company respectively through the Stock Exchange at an aggregate consideration of approximately HK$31,532,000 (including HK$18,325,000 expenses directly attributable to the repurchases).

In February 2016, the Company cancelled 1,018,000 ordinary shares repurchased in accordance with the Companies Law of the Cayman Islands.

4,654,000 repurchased ordinary shares were subsequently cancelled in January 2017 and treated as treasury shares as at 31 December 2016. The consideration paid on such repurchase of HK$11,417,000 was charged to capital reserve.

In August, October and November 2015, the Company repurchased a total of 166,336,000 ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately Hk$541,532,000 including HK$14,770,000 expenses directly attributable to the repurchases). These repurchased shares were cancelled in September and November 2015, respectively.

(iii) Shares issued under share option scheme

In June 2016, 15,000,000 share options were exercised by a management staff of the Group, who is not a director of the Company (2015: no share options were exercised) with an exercise price of HK$1.98 for 15,000,000 ordinary shares in the Company at a total consideration of HK$29,700,000, all of which was credited to share capital and share premium, HK$4,848,000 was transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 2(w).

(iv) Shares issued upon acquisition of a subsidiary

On 30 September 2015, the Group completed the acquisition of 100% equity interests in Jiangsu Best at cash consideration of RMB181,500,000. According to the payment schedule in the equity sales and purchase agreement, the first payment consideration of RMB107,755,000 (equivalent to approximately HK$131,281,000) was paid in 2015. The contingent considerations of RMB73,745,000 (equivalent to approximately HK$89,845,000) (the "Contingent Considerations") shall be payable by the Group to the former owners of Jiangsu Best (the "Vendors") under certain conditions.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

(iv) Shares issued upon acquisition of a subsidiary *(continued)*

In 2016, the Group and the Vendors entered into further supplemental agreements (the "Further Supplemental Agreements"), pursuant to which the parties agreed to amend the payment terms and payment methods from cash payments to a combination of cash and ordinary shares of the Company (the "Consideration Shares").

The Contingent Considerations shall be satisfied in the following manner:

(A) RMB15,000,000 shall be payable in cash; and

(B) the remaining balance shall be payable by the Company by issuing new Consideration Shares.

The Vendors warrant that the audited profit after tax before extraordinary items of Jiangsu Best (the "ANP") for 2016 will be not less than RMB25,000,000 and agree to provide certain collateral on the guaranteed ANP.

Based on the unaudited management accounts of Jiangsu Best, the ANP for the year ended 31 December 2016 expected to meet the conditions above. The Group paid RMB15,000,000 (equivalent to approximately HK$17,928,000) to the Vendors in 2016 and issued 28,436,000 Consideration Shares to the Vendors at the issue price of HK$2.429 per share on 11 April 2016. Accordingly, HK$568,720 was credited to share capital and HK$68,502,324 was credited to share premium.

Further details are respectively set out in the Company's announcements dated 1 September 2015, 29 December 2015, 31 March 2016 and 11 April 2016.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. The share premium account may be applied by the Company to pay distributions or dividends to the equity shareholders of the Company.

(ii) Statutory reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained earnings to statutory general reserve at the rate of 10% of its net profit each year, until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Share-based payment reserve

Apart from the share options in issue carried forward from 2015, 122,000,000 share options were granted to Mr. Qu Jiguang, who is the chairman of the Board, chief executive officer, an executive director and also a controlling shareholder of the Company at a consideration of HK$1.00 (2015: 122,000,000 share options were granted). Each option entitles the holder to subscribe for one ordinary share in the Company. The exercise price is HK$2.58, being the highest of (i) the closing price of HK$2.58 per share as stated in the daily quotations sheet issued by the Stock Exchange on 15 April 2016; (ii) the average closing price of HK$2.504 per share as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding 15 April 2016; and (iii) the nominal value of a share. The share options granted in 2016 were approved by shareholders at the annual general meeting of the Company held on 27 May 2016. The Group has no legal or constructive obligation to repurchase or settle the share options in cash.

The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Average exercise price *(HK$ per share)*	**Number of options *('000)***	Average exercise price *(HK$ per share)*	Number of options *('000)*
Outstanding at 1 January	**1.98**	**122,000**	—	—
Granted	**2.58**	**122,000**	1.98	122,000
Exercised	**1.98**	**(15,000)**	—	—
Outstanding and exercisable at 31 December	**2.30**	**229,000**	1.98	122,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.66 (2015: not applicable).

The option outstanding at 31 December 2016 had an exercise price of HK$1.98 to HK$2.58 (2015: HK$1.98) and a weighted average remaining contractual life of 3.13 years (2015: 2.80 years).

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Share-based payment reserve *(continued)*

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The fair value of share options granted during the year ended 31 December 2016 is HK$26,686,000 (2015: HK$39,431,000). The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	**2016**	2015
Fair value at measurement dates	**HK$0.22**	HK$0.32
Share price	**HK$2.58**	HK$1.98
Exercise price	**HK$2.58**	HK$1.98
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**45%**	41%
Option life	**5 years**	3 years
Suboptimal exercise factor	**1.10**	1.26
Expected dividend yield	**3.51%**	2.31%
Average risk-free interest rate	**1.00%**	0.98%

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as the Group.

Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

In respect of share options granted during the years ended 31 December 2016 and 2015, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

(iv) Currency translation differences

The currency translation differences comprises all foreign exchange differences arising from the translation of the financial statements of certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 2(g).

(e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$561,703,000 (2015: HK$500,041,000).

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital less non-controlling interests. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital less non-controlling interests is calculated as total equity less non-controlling interests plus net debt.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016	2015
	HK$'000	*HK$'000*
Total borrowings *(note 20)*	**1,567,863**	1,813,093
Less: Cash and cash equivalents *(note 19)*	**(447,036)**	(338,964)
Net debt	**1,120,827**	1,474,129
Total equity less non-controlling interests	**2,676,474**	2,394,516
Total capital less non-controlling interests	**3,797,301**	3,868,645
Gearing ratio	**29.5%**	38.1%

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade, bills and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade, bills and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within three months from the date of billing. A regular review is carried out and follow up actions are taken on overdue amounts to minimise the Group's exposure to credit risk. Normally, the Group does not obtain collateral from customers.

As at 31 December 2016, 22% (2015: 27%) of the Group's total trade and bills receivables are bank acceptance notes, the credit risks of which rest with the issuing banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the issuing banks.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 2.01% (2015: 5.14%) and 4.35% (2015: 9.33%) of the total trade and bill receivables was due from the Group's largest customer and the five largest customers respectively.

As at 31 December 2016, 85% (2015: 87%) of the Group's bank deposits are placed in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

	2016 ***HK$'000***	2015 *HK$'000*
State-owned banks	**304,137**	133,258
Listed banks other than state-owned banks	**80,582**	163,528
Other financial institutions	**70,413**	42,892
Total	**455,132**	339,678

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade, bills and other receivables are set out in notes 16 and 17.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

Besides, it summarises the maturity analysis of a term loan with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreement. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it was probable that the bank would exercise its discretion to demand immediate repayment. The directors believe that such term loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	2016					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount at 31 December**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Borrowings	**681,108**	**889,364**	**78,218**	**—**	**1,648,690**	**1,567,863**
Trade payables	**173,746**	**—**	**—**	**—**	**173,746**	**173,746**
Accruals and other payables	**168,226**	**—**	**—**	**—**	**168,226**	**168,226**
	1,023,080	**889,364**	**78,218**	**—**	**1,990,662**	**1,909,835**

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Borrowings subject to repayment on demand clauses	175,243	80,400	127,931	—	383,574	367,610
Other borrowings	379,431	325,965	860,397	7,331	1,573,124	1,445,483
Trade payables	269,502	—	—	—	269,502	269,502
Accruals and other payables	326,977	—	—	—	326,977	326,977
	1,151,153	406,365	988,328	7,331	2,553,177	2,409,572
Adjustments to disclose cash flow on borrowings based on lender's right to demand repayment	192,367	(80,400)	(127,931)	—	(15,964)	—
	1,343,520	325,965	860,397	7,331	2,537,213	2,409,572

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, deposits with banks and interest-bearing borrowings. Borrowings issued at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings, cash at banks and deposits with banks at the end of the reporting period.

	2016		2015	
	Effective interest rate %	***HK$'000***	Effective interest rate %	*HK$'000*
Net fixed rate instruments:				
Cash at banks	**1.65-1.75**	**7,602**	1.65-1.75	27,931
Bank loans	**3.80-4.47**	**(1,160,936)**	3.14-5.15	(1,203,147)
		(1,153,334)		(1,175,216)
Net variable rate Instruments:				
Cash at banks	**0.00-0.35**	**447,467**	0.00-0.35	311,606
Interest-bearing borrowings	**3.92-5.75**	**(406,927)**	4.35-6.00	(571,262)
		40,540		(259,656)
		(1,112,794)		(1,434,872)

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit for the year and retained earnings by approximately HK$326,000 and HK$326,000 respectively (2015: decreased/increased the Group's profit for the year and retained earnings by approximately HK$2,268,000 and HK$2,268,000).

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis *(continued)*

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained earnings) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2015.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency are excluded.

	2016			2015		
	RMB	**US$**	**Euro**	RMB	US$	Euro
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other receivables	**—**	**5,738**	**—**	—	563	—
Cash and cash equivalents	**782**	**12,048**	**2,625**	2,481	6,658	1,014
Trade and other payables	**—**	**(30,140)**	**(1,936)**	—	(22,477)	(1,184)
Net exposure arising from recognised assets and liabilities	**782**	**(12,354)**	**689**	2,481	(15,256)	(170)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates %	**Effect on profit after tax and retained earnings *HK$'000***	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained earnings *HK$'000*
USD$ (against RMB)	**3%**	**359**	3%	60
	(3)%	**(359)**	(3)%	(60)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Fair value measurement

The three-level fair value hierarchy of financial instruments are defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs

As at 31 December 2016, the Group did not have any assets or liabilities that were measured at fair value.

The carrying values of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2015 and 2016.

For the year ended 31 December 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments. Moreover, there were no significant reclassifications of financial instruments.

27 COMMITMENTS

(a) Capital commitments in regard of property, plant and equipment and intangible assets outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016	2015
	HK$'000	*HK$'000*
Contracted for	**54,478**	17,070
Authorised but not contracted for	**10,076**	21,160
	64,554	38,230

27 COMMITMENTS *(continued)*

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 1 year	**2,058**	3,059
After 1 year but within 5 years	**936**	3,586
After 5 years	**4,912**	5,608
	7,906	12,253

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under operating leases. None of the leases includes contingent rentals.

28 ACQUISITION OF EQUITY INTEREST IN HEBAI HANLIN

The Group acquired 50% equity interest in Hebei Hanlin on 13 February 2015 at a consideration of RMB20,000,000. As disclosed in note 14, on 5 December 2016, the Group acquired an additional 25% equity interest in Hebei Hanlin at a consideration of RMB5,000,000. Upon completion of the acquisition, the Group holds in aggregate 75% of the equity interest in Hebei Hanlin and Hebei Hanlin became a subsidiary of the Group. Hebei Hanlin is principally engaged in research and development of biotechnology and related products in the PRC.

According to the Group's accounting policies set out in note 2(d)(i), if the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interests in the acquiree is remeasured to fair value at the acquisition date, the gain arising from such re-measurement on deemed disposal of interest in a joint venture of HK$1,464,000 is recognised in profit and loss for the year, being the difference between the fair value of existing interest in Hebei Hanlin of HK$20,335,000 and the carrying amount of the investment in a joint venture of HK18,871,000.

28 ACQUISITION OF A SUBSIDIARY *(continued)*

The fair value of the identifiable assets acquired and liabilities assumed of Hebei Hanlin recognised at the acquisition date are as follows:

	HK$'000
Property, plant and equipment	921
Intangible assets	24,403
Cash and cash equivalents	8,645
Inventories	2,336
Trade and bills receivables	88
Prepayments, deposits and other receivables	239
Trade payables	(341)
Accruals and other payables	(3,354)
Deferred tax liabilities	(6,201)
Net identifiable assets and liabilities	26,736
Non-controlling interests	(6,684)
Goodwill	5,873
Total consideration transferred	25,925
Represented by:	
– Fair value of existing interest in Hebei Hanlin	20,335
– Cash consideration transferred	5,590

If the above acquisition had occurred on 1 January 2016, management estimates that consolidated revenue would have been HK$2,361,482,000 and consolidated profit for the year would have been HK$483,973,000. In determining these amounts, management have assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2016.

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries, bonus, allowance and other benefits	**9,540**	17,862
Equity-settled share-based payment expenses	**26,686**	16,429
	36,226	34,291

Total remuneration is included in "staff costs" (see note 6(b)).

(b) Other related party transactions

The directors are of the view that China Pharmaceutical Co., Ltd. ("CPCL") is a related party of the Group, as CPCL is a substantial shareholder of the Company.

Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transaction and balance with CPCL:

	2016	2015
	HK$'000	*HK$'000*
Payment on behalf of CPCL	**—**	940
Amounts due from CPCL, included in other receivables	**—**	940

The related party balance is unsecured, interest-free and has no pre-determined terms of repayment.

30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2016		2015	
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment		**678**		1,432
Investments in subsidiaries		**944,179**		945,054
		944,857		946,486
Current assets				
Dividends receivable	**130,336**		130,336	
Prepayments, deposits and other receivables	**1,857**		1,326	
Amounts due from subsidiaries	**88,160**		13,634	
Amounts due from related parties	**—**		940	
Cash and cash equivalents	**7,004**		52,375	
	227,357		198,611	
Current liabilities				
Accruals and other payables	**6,523**		12,239	
Amounts due to subsidiaries	**378,002**		396,263	
	384,525		408,502	
Net current liabilities		**(157,168)**		(209,891)
Total assets less current liabilities		**787,689**		736,595
NET ASSETS		**787,689**		736,595
Capital and reserves *(note 25(a))*				
Share capital		**63,700**		62,851
Reserves		**723,989**		673,744
TOTAL EQUITY		**787,689**		736,595

(Expressed in Hong Kong dollars unless otherwise indicated)

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) After the end of the reporting period, the directors proposed a final dividend of HK$3.0 cents per ordinary share (see note 25(b)).

(b) Treasury shares of 4,654,000 repurchased in December 2016 (see note 25(c)(ii)) were cancelled in January 2017.

No adjustments have been made to these financial statements as a result of the above events.

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider the immediate parent and ultimate controlling party of the Group to be CPCL, which is incorporated in the Cayman Islands. This entity does not produce financial statements available for public use.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

HKFRS 16, Leases

As disclosed in note 2(cc), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease. As disclosed in note 27(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$7,906,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue					
— Continuing operations	1,418,174	1,723,256	2,091,471	2,221,921	**2,361,250**
— Discontinued operations	1,012,510	1,022,060	831,904	—	**—**
	2,430,684	2,745,316	2,923,375	2,221,921	**2,361,250**
Profit before income tax					
— Continuing operations	286,299	442,292	580,150	478,312	**587,918**
— Discontinued operations	50,205	51,185	149,168	—	**—**
	336,504	493,477	729,318	478,312	**587,918**
Profit attributable to equity holders of the Company					
— Continuing operations	237,163	369,301	491,525	403,416	**489,535**
— Discontinued operations	43,840	42,513	111,404	—	**—**
	281,003	411,814	602,929	403,416	**489,535**

	As at 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	3,991,438	5,083,908	4,797,655	5,008,094	**4,744,074**
Total liabilities	(1,502,342)	(2,217,012)	(1,544,485)	(2,612,915)	**(2,059,652)**
Non-controlling interests	(604)	(627)	(668)	(663)	**(7,948)**
Shareholder's equity	2,488,492	2,866,269	3,252,502	2,394,516	**2,676,474**