聯邦制藥國際控股有限公司
The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code: 3933)

2016
ANNUAL REPORT

讓 生 命 更 有 價 值
Our mission is to make life more valuable

Contents

CORPORATE CALENDAR OF 2016

January

The United Animal Healthcare (Inner Mongolia) Co., Ltd. passed the GMP certification for its powder injections and disinfectants (liquid).

March

The United Laboratories was granted the "2015 China Top Ten Membership Exporters of Active Pharmaceutical Ingredients" and the "2015 China Top Ten Membership Exporters of Pharmaceutical Formulations" by China Chamber of Commerce For Import & Export of Medicines and Health Products.

Zhuhai United Laboratories and BIOMERIEUX of France conducted the signing ceremony for establishment of the microbial demonstration laboratory.

April

Zhuhai United Laboratories was awarded the title of "Workers' Pioneer of Guangdong Province".

May

The Amoxicillin Workshop of United Laboratories (Inner Mongolia) successfully passed the second EU-GMP on-site inspection.

The United Laboratories was awarded the titles of "International Market Quality Supplier and Partner" and the "Leading Enterprise in Preparations Internationalization" in 2015 by China Chamber of Commerce For Import & Export of Medicines and Health Products.

The United Laboratories participated in the exchange meeting for economic and trade cooperation among China (Guangdong), the United States and Mexico and became one of the first batch of signatory enterprises.

The "United Laboratories Education Scholarship" was granted in Chongqing Medical University and Fujian Medical University.

June

The United Laboratories was ranked at No. 26 of 2015 Chinese Top 100 Pharmaceutical Enterprise published by the Southern Medical Economy Research Institute.

The United Laboratories was ranked at No. 30 of 2015 Chinese Top 100 Medical Enterprise published by the China Pharmaceutical Information Center.

CORPORATE CALENDAR OF 2016

July

The insulin detemir and injection of The United Laboratories obtained clinical trial approvals from the SFDA.

Zhuhai United Laboratories was awarded the "Social Responsibility Enterprise in Environmental Protection" by the Department of Environmental Protection of Guangdong Province.

September

The Amoxicillin Workshop of Zhuhai United Laboratories passed the fifth BGV (Ministry of Health and Consumer Protection in Hamburg of Germany) on-site inspection.

The United Laboratories Amoxicillin (branded capsules) was awarded "The Most Influential Pharmaceuticals Brand on the Internet" under the anti-infection category.

The Tenofovir Disoproxil Fumarate Project of The United Laboratories was granted the special subsidy for significant technology from Zhongshan Municipality.

The Meropenem finished products and sterile bulk medicines of The United Laboratories obtained approved access to the market of the United States.

November

The United Laboratories was granted the "2016 Top 100 Enterprisers among China Pharmaceutical Industry" and "Leading API Exporter's Brand among China pharmaceutical Industry in 2016".

The United Laboratories issued convertible bonds with total principal amount of US$130 million and a term of five years.

December

The Recombinant Human Insulin Project of The United Laboratories was awarded the Second Prize of the Science and Technology Progress Award of Guangdong Province.

The Memantine Hydrochloride Project of The United Laboratories was awarded the First Prize of the Science and Technology Progress Award of Zhongshan Municipality.

Ten series of products of The United Laboratories were recognized as high-tech products of Guangdong Province.

The United Laboratories was awarded as the "2016 Five-star Enterprise in Credit Risk Management".

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Mr. Huang Bao Guang
Ms. Fu Xiao Nan

RISK MANAGEMENT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Leung Wing Hon
Ms. Choy Siu Chit
Prof. Song Ming

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
Bank of China Limited, Zhuhai Branch
Huaxia Bank Co., Ltd, Zhuhai Branch
China Resources Bank of Zhuhai Co., Ltd., Zhuhai Branch

Hong Kong

China Development Bank Corporation,
Hong Kong Branch
The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Taipei Fubon Commercial Bank Co., Limited,
Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

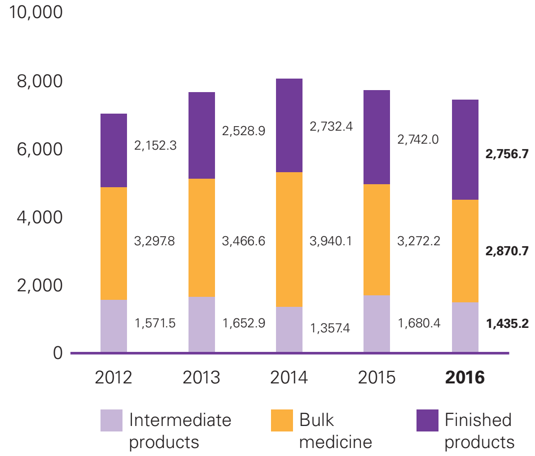
WEBSITE

www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

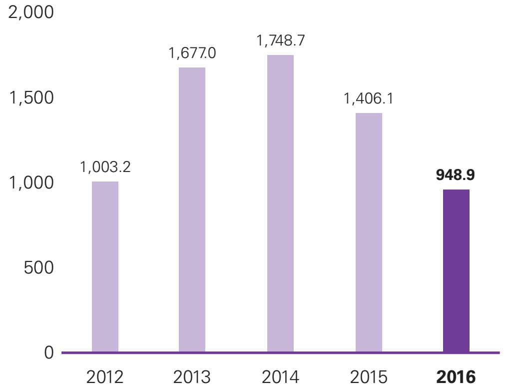
FINANCIAL HIGHLIGHTS

	2016 HK$'000	2015 HK$'000	Decrease %
Turnover	**7,062,571**	7,694,563	8.2%
EBITDA	**948,881**	1,406,145	32.5%
(Loss) profit before taxation	**(154,551)**	235,422	N/A
(Loss) profit for the year attributable to owners of the Company	**(311,294)**	110,358	N/A
(Loss) earning per share			
Basic	**HK(19.13)cents**	HK6.78cents	N/A
Diluted	**HK(19.13)cents**	HK6.78cents	N/A

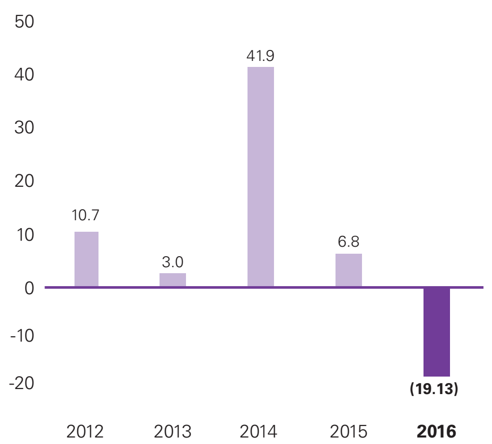
TURNOVER
(HK$ million)



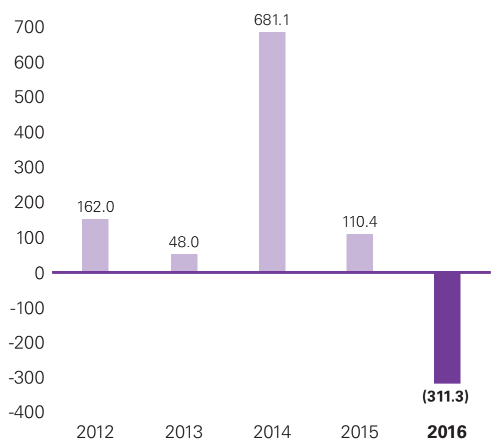
EBITDA
(HK$ million)



BASIC EARNINGS (LOSS) PER SHARE
(HK Cents)



PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY
(HK$ million)



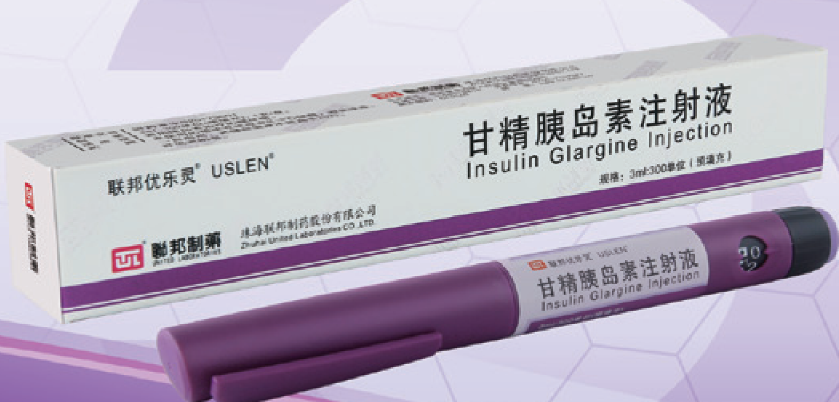
The United Laboratories USLEN®

Insulin Glargin Injection

Insulin Analog

Stable | Long-acting

Re-filled Pen-type ●



● Disposable Pen-type

CHAIRMAN'S STATEMENT

Tsoi Hoi Shan,
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "The United Laboratories") for the year ended 31 December 2016.

The year 2016 witnessed uncertainties in the world economy. After the American presidential election, close attention has been paid to whether there would be significant changes in the policies of the new government. The risk of economic downturn still haunted Europe where unemployment rate stayed at high level despite of the loose monetary policy of the European Central Bank, which was complicated by the refugee flow and terrorist attack. In Asia, the unsatisfactory economic performance in Japan has made its government to not only postpone its plan to raise consumption tax rate up to 2019 but also launch extensive fiscal stimulation measures. Against the backdrop of a stronger US dollar and a slowdown in Chinese economy, RMB continued to depreciate.

In the face of such unpredictable changes in macro economy, China's pharmaceutical market still witnessed a series of policy adjustments and struggled through various pressures such as economic downturn. Due to a number of factors such as market environment, the Group's turnover amounted to HK$7,062.6 million during the year, representing a decrease of approximately 8.2% over 2015. EBITDA was approximately HK$948.9 million, representing a decrease of 32.5% as compared with last year. Loss attributable to owners of the Company was approximately HK$311.3 million. Loss per share amounted to HK19.13 cents. The Board does not recommend payment of final dividend for the year ended 31 December 2016. However, due to the improved market demand and selling price of intermediate products and bulk medicine products in the fourth quarter, the Group's revenue and gross profit for the quarter increased significantly compared to the previous quarter.

CHAIRMAN'S STATEMENT

The finished products business of the Group went into a stage of stability. Among them, products such as insulin and carbapenems type continued to saw satisfactory growth. During the year, a total of 11.1 million vials (2015: 7.1 million vials) of recombinant human insulin products was sold with a sale revenue of HK$534.8 million. While continuing to be the major growth drivers of the Group, insulin products has for the first time become the biggest contributor to the sales revenue of finished products of the Group. Currently, our recombinant human insulin products had won the bids in more than twenty provinces in China which carry out pharmaceutical products procurement through open bidding, and received orders from the medium-to-large hospitals, OTC market, essential drugs market and rural market, among which the sale performance in Anhui, Shandong, Henan, Guangdong and Jilin provinces was particularly satisfactory. To our delight, the insulin glargine injection product of the Group has successfully obtained approval for production, including the prefilled specification and refilled pen-type injection, and we plan to start the production and sales of such products in 2017. At the same time, our antibiotics products recorded satisfactory sales. During the year, sales revenue from the Piperacillin Sodium and Tazobactam Sodium for Injection amounted to HK$450.6 million, and sales revenue from The United Laboratories Amoxicillin branded capsules amounted to HK$510.8 million. In addition, the high-end carbapenems antibiotics preparations including the Imipenem and Cilastatin Sodium for Injection and the Meropenem for Injection continued to saw high-speed growth in terms of sales, with a sales revenue of HK$145.0 million recorded in the year, representing an increase of 18.3% over last year. The Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

During the year, production capacity is limited due to the enhancement of environmental protection facilities in factories and hence the product supply decreased. Production cost increased as a result of reduced production, thus the gross profit decreased significantly and affected the annual results. Along with the improved market situation in fourth quarter, both price and sales volume of intermediate products and bulk medicine products improved.

The Group has been long committed to research and development. We currently have 42 new products under development and have obtained 9 clinical trial approvals during the year. Currently, we have 21 patents which have been successfully registered and 9 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. As for the research and development of biological preparations, we aim to further optimize our offerings of insulin products. Insulin glargin (the third generation insulin) has passed the stringent examination over the clinical information by China Food and Drug Administration and successfully obtained the approval for production, which is an evidence of the strong research capability of the Group and paved the way for our research and development of new products in the future. Clinical trials have been successfully completed for insulin aspart (the third generation insulin) and we are making preparation for application of production approval. The Group is the first manufacturer in China to work on the generic third generation of insulin detemir, and has successfully obtained such clinical trial approval in the year. Meanwhile, the Group is researching a variety of biological preparations, including insulin degludec and liraglutide, which will be gradually put in the market to benefit more diabetics in China in the future. With regard to the research and development of chemical

CHAIRMAN'S STATEMENT

pharmaceuticals, the Group has coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics. A total of eight chemical pharmaceuticals of the Group were granted clinical trial approval, including the Tadalafil Tablets to be used for treating male erectile dysfunction and benign prostatic hyperplasia and the pulmonary hypertension, and the Imatinib Mesylate Capsules to be used for fighting cancer, and relevant works are expected to be carried out gradually.

With regard to finance, the Group continued to seize market opportunities with an aim to optimising financial structure during the year and ensuring adequate working capital. The Company completed the issuance of convertible bonds with total principal amount of US$130,000,000 and a term of five years in December 2016. In addition, Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. The proceeds from such issuances will be used for repayment of bank loans and as general working capital.

Looking forward, the Group believes that China's pharmaceutical industry will still enjoy an optimistic prospect. According to the report of Frost & Sullivan, China's medical expenditure is expected to further increase from RMB3,926.8 billion in 2015 to RMB6,188.9 billion in 2020 at a compound annual growth rate of 9.5%. According to the estimates for 2016, China is still lagging far behind most of the major countries in terms of the percentage of the medical expenditure to GDP. In addition, as shown in the Report on Analysis of Development of China's Pharmaceutical Industry and the Investment Research (2014-2019) issued by Zhongshang Industry Institute, it is estimated that China's medical expenditure will further increase to RMB4,756.1 billion, representing 6.1% as a percentage of its GDP, indicating a plenty room for growth in the future.

The pharmaceutical industry in China has been subject to a tightening policy environment in recent years in China, and accordingly the control over medical expenses and industry practices have been the focus of the medical reform. Industry policy has paid more and more attention to enhance the quality and safety of medicine, in particular the consistency assessment of generic drugs. It is required that the existing generic drugs on the market shall have the quality and efficacy consistent with the original drugs and shall substitutable for each other clinically. This is conductive to reducing the medical expenses, enhancing product quality, phasing out backward capacity and increasing the overall competitiveness of domestic-made generic drugs, which will definitely result in structural adjustment and facilitate industrial upgrading in China's pharmaceutical industry. The Group will carry out the consistency assessment in batches with priority to be put on the existing core items on the market or items that is subject to the Group's vertical integration of industry chain, and more resources will be devoted to such items in 2017.

Meanwhile, the National Reimbursement Drug List was revised again after seven years since the previous revision made in 2009. The revised National Reimbursement Drug List (2017 version) shows a policy direction that is to "replenish shortage, select the excellent, support innovation and encourage competition", which gives top priority and support to drugs for work-related injury insurance, children drugs, innovation drugs, drugs for major illnesses and ethnic drugs, noticeably broadens the scope of insurance coverage of the medical insurance, uplifts the insurance standards and facilitates the innovative development of China's pharmaceutical industry.

The new National Reimbursement Drug List was officially promulgated in February 2017 and 49 drug items of the Group were included in this list. Especially, the memantine hydrochloride oral solution used for

CHAIRMAN'S STATEMENT

treating Alzheimer's disease of which the Group owns sole proprietorship was for the first time included in the list as western medicine under catalogue II, which is expected to facilitate the extensive marketing and sales of such medicine. In addition, the recombinant human insulin product was upgraded from catalogue II western medicine to catalogue I. As China further carries forward the new medical reform and the consistency assessment of the quality and efficacy of generic drugs and enforces the new National Reimbursement Drug List, China's pharmaceutical industry is expected to enjoy a healthy development in the long term, which will bring opportunities and challenges to the Group.

The Group will continue to take insulin series as its priority strategic products. Currently, the Group has become the pharmaceutical enterprise which owns both the second and third generation insulin products in China. It is expected that the insulin analogue series, particularly the insulin glargin, will speed up the development of the Group and will also bring considerable return to the Group and its shareholders in future. Currently, we have won bids in Chongqing and Fujian for our insulin glargin products and we expect to win bids or obtain qualification in supplementary tendering in additional provinces. Meanwhile, the Group will continue to put aggressive efforts in the research and development of medicine for treating diabetes mellitus, including insulin aspart, insulin detemir and liraglutid, with an aim to continuously optimize our insulin product offerings, so that the high-quality domestic-made insulin products could benefit more diabetics in China. In addition, the Group will also launch chemical medicine of various types and specifications to give impetus to the growth of our sales and profit. As for intermediate and bulk medicine business, prices of such products, in particular the 6-APA went up to various degrees due to the recovery in market environment and demand. Looking forward, the Group is modestly optimistic on its intermediate and bulk medicine business in 2017. The Group will continue to enhance its capacity utilisation rate and reduce production costs, with an aim to improve the profit.

With continuous efforts to enhance our competitiveness, we are confident that we can seize market opportunities, accelerate the cultivation of innovation ability and reinforce our scientific research ability by taking advantage of the great opportunity arising from industrial transformation and upgrading, and maintain the Group's sustainable growth momentum, hence creating the maximum value for our shareholders, clients and stakeholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support during the past year, as well as all staff for their persistent efforts. I hope we can join hands and create a better future together.

Tsoi Hoi Shan
Chairman

Hong Kong, 22 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Leung Wing Hon,
Vice-Chairman

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2016, the Group's turnover was approximately HK$7,062.6 million, a decrease of 8.2% as compared with last year. The loss attributable to shareholders was approximately HK$311.3 million for the year ended 31 December 2016 while the profit attributable to shareholders was approximately HK$110.4 million in 2015. The loss for 2016 is mainly attributable to a number of factors as below:

– Loss on fair value change on investment properties located in Chengdu, China of approximately HK$139.4 million;

– Loss on fair value change of embedded derivative components of convertible bonds issued in December 2016 of approximately HK$110.9 million which the change in the Company's share price from the date of issue to the year-end date as at 31 December 2016 is one of the major factors; and

– Decrease in turnover of major intermediate products 6-APA and decrease in production lead to higher production costs during the year thus resulting decrease in gross profit.

During the year, segmental turnover (including inter-segment sales) of intermediate products and bulk medicine decreased by 15.2% and 13.1% respectively as compared with last year. Segmental turnover of finished products increased by 0.5% as compared with last year. Segmental result of intermediate products turned from profit of HK$246.3 million in 2015 to loss of HK$233.8 million in 2016. Segmental result of bulk medicine and finished products increased by 8.7% and 13.8% respectively as compared with last year.

The Group's operations during the year are summarized as follows:

Decrease in sales and gross profit margin of intermediate and bulk medicine products

As China's pharmaceutical market still witnessed a series of policy adjustments and struggled through various pressures such as economic downturn, the sales of 6-APA (main product of intermediate products) decreased which affected the overall sales of the Group. In addition, due to decrease in demand in the market, decrease in production of lead to higher production costs during the year thus resulting decrease in gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS

Executive directors from left to right, Ms. Zhu Su Yan, Ms. Choy Siu Chit, Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Mr. Fang Yu Ping and Ms. Zou Xian Hong

Sales of finished products in line of expectation

The sales of the Group's finished products met expected target, especially for chemical pharmaceutical products such as recombinant human insulin, carbapenems type, etc continued to saw satisfactory growth. During the year, our recombinant human insulin products had won the bids in more than twenty provinces in China which carry out pharmaceutical products procurement through open bidding, and received orders from the medium-to-large hospitals, OTC market, essential drugs market and rural market, among which the sale performance in Anhui, Shandong, Henan, Guangdong and Jilin provinces was particularly satisfactory. The Group's antibiotics products recorded satisfactory sales during the year. Sales revenue from the Piperacillin Sodium and Tazobactam Sodium for Injection, The United Laboratories Amoxicillin branded capsules, the Imipenem and Cilastatin Sodium for Injection and the Meropenem for Injection, etc, continued to saw high-speed growth.

Cost savings by optimization of the Group's debt structure

The Group restructured the debt components during the year, enhanced more channel of fund financing by reducing financing of discounted bills and restructured to finance from middle to long term difference loans financing, reducing the interest expenses and therefore finance costs saved. The Group continued to seize market opportunities with an aim to optimising financial structure during the year and ensuring adequate working capital. The Group completed the issuance of convertible bonds with total principal amount of US$130,000,000 and a term of five years in December 2016. In addition, Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. The proceeds from such issuances are used to repay bank loans and as general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had pledged bank deposits and cash and bank balances amounted to approximately HK$3,060.2 million (2015: HK$2,084.9 million).

As at 31 December 2016, the Group had interest-bearing borrowings of approximately HK$4,718.9 million (2015: HK$5,022.6 million), which were denominated in Hong Kong dollars, Reminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately HK$2,887.7 million are fixed rates loans while the remaining balance of approximately HK$1,831.2 million is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2016, current assets of the Group amounted to approximately HK$6,402.1 million (2015: HK$5,760.7 million). The Group's current ratio was approximately 0.86 as at 31 December 2016, as compared with 0.68 as at 31 December 2015. As at 31 December 2016, the Group had total assets of approximately HK$16,669.3 million (2015: HK$17,407.9 million) and total liabilities of approximately HK$10,695.9 million (2015: HK$10,689.3 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less pledged deposit against finance leases, pledged bank deposits and cash and bank balances to total equity) of 55.4% as at 31 December 2016, as compared with 60.2% as at 31 December 2015.

CURRENCY EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly in Renminbi and Hong Kong dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

CONTINGENT LIABILITIES

As at 31 December 2015 and 2016, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK FOR 2017

Looking to the year 2017, we are optimistic about the development of China's pharmaceutical market. The Group will continue to increase market share in China and overseas, developing new products and optimize financing structure. Our strategies in various aspects are as follows:

Increasing market share

The Group will continue to take insulin series as its priority strategic products. Currently, the Group has become the pharmaceutical enterprise which owns both the second and third generation insulin products in China. It is expected that the insulin analog series, particularly the insulin glargin, will speed up the development of the Group and will also bring considerable return to the Group and its shareholders in future. Currently, we have won bids in Chongqing and Fujian for our insulin glargin products and we expect to win bids or obtain qualification in supplementary tendering in additional provinces. The Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

Developing new products

The Group will continue to put aggressive efforts in the research and development of medicine for treating diabetes mellitus, including insulin aspart, insulin detemir and liraglutid, with an aim to continuously optimize our insulin product offerings, so that the high-quality domestic-made insulin products could benefit more diabetics in China. The Group has been long committed to drugs research and development. We currently have 42 new products under development and obtained 9 clinical trial approvals during the year. Currently, we have 21 patents which have been successfully registered and 9 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. Meanwhile, the Group is researching a variety of biological preparations, including insulin degludec and liraglutide, which will be gradually put in the market to benefit more diabetics in China in the future. With regard to the research and development of chemical pharmaceuticals, the Group has coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics. A total of eight chemical pharmaceuticals of the Group were granted clinical trial approval, including the Tadalafil Tablets to be used for treating male erectile dysfunction and benign prostatic hyperplasia and the pulmonary hypertension, and the Imatinib Mesylate Capsules to be used for fighting cancer, and relevant works are expected to be carried out gradually.

MANAGEMENT DISCUSSION AND ANALYSIS

Strengthening productivity

As for intermediate and bulk medicine business, prices of such products, in particular the 6-APA went up to various degrees due to the recovery in market environment and demand. The Group will continue to enhance its utilisation rate and reduce production costs, with an aim to improve the profit.

Optimizing financing structure

The Group will continue to optimize the financing structure, to seek more mid to long-term financing opportunities and lower-cost financing channels to reduce its finance costs. Thus, the net current liabilities of the Group will have significant improvement.

EMPLOYEES AND REMUNERATION

As at 31 December 2016, the Group had approximately 11,700 (2015: 11,400) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (蔡海山), aged 39, is an executive director and the Chairman of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible to supervise the production process at the Hong Kong Yuen Long Plant and ensure that it is in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is the brother of Ms. Choy Siu Chit, who is an executive director of the Company.

Mr. Leung Wing Hon (梁永康), aged 55, is an executive director, the Vice-Chairman, the Chief Financial Officer and the Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of International Accountants and a fellow member of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom respectively. Mr. Leung had previously worked for an international accounting firm and had also held the position of accounting manager in a subsidiary of Chinney Investment Ltd., a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung has over 20 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Ms. Choy Siu Chit (蔡紹哲), aged 44, is an executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the sister of Mr. Tsoi Hoi Shan, an executive director and the Chairman of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Fang Yu Ping (方煜平), aged 54, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. Mr. Fang joined the Group in 1995 and was promoted to vice president of the Group in 2008. He is the general manager of China Sales Division.

Ms. Zou Xian Hong (鄒鮮紅), aged 52, is an executive director and a vice president of the Group. Ms. Zou graduated from Nanjing Medical College of China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science and engineering at the Business School of Central South University. Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group.

Ms. Zhu Su Yan (朱蘇燕), aged 52, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor of medicine and surgery degree in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu Province, manager and vice president of national hospital development department and the deputy general manager of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Independent non-executive directors

Mr. Chong Peng Oon (張品文), aged 68, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee and remuneration committee and a member of the nomination committee. Mr. Chong qualified as a Chartered Accountant in 1974 and has been in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small enterprises to large listed groups in the service and manufacturing sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax consulting for companies in Hong Kong and China. He has been a member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants since 1998 and a Registered Accountant of the Malaysian Institute of Accountants since 1981. He was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and has been a Fellow Member of the Institute since 1981.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Huang Bao Guang (黃寶光), aged 69, was appointed as an independent non-executive director on 25 May 2007, and is a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Huang has over 30 years' experience in the PRC pharmaceutical industry. Mr. Huang graduated from the PRC Party College in Guangdong Province with tertiary education qualification in July 2002. Mr. Huang was the deputy general manager of Zhuhai Pharmaceutical Corporation since April 1990, and was the general manager of Zhuhai Pharmaceutical Corporation from October 1992 to October 1997. Mr. Huang was the deputy head of the Administration Bureau of Pharmaceuticals of Guangdong Province from October 1997 to June 2001. From June 2001 to October 2004 Mr. Huang was the deputy head of the Zhuhai SFDA.

Prof. Song Ming (宋敏), aged 55, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Prof. Song Ming graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. He is now a university professor, a PhD supervisor and director of the Finance Department in School of Economics of Peking University. He has served as a professor of finance in Faculty of Business and Economics of The University of Hong Kong since 1997. He has been director of HKU-the Centre of China Financial Research since 2002, and vice-chairman of Chinese Financial Association of Hong Kong since 2008. Professor Song concurrently holds different positions such as a postdoctoral mentor of China Securities Regulatory Commission and Shenzhen Stock Exchange, and a member of the Advisory Committee of Qianhai Shenzhen-Hong Kong Modern Service Cooperation Zone of Shenzhen. He has published a number of monographs on his research fields of financial market, bank, financial regulation and management as well as the financial development of China. He also published dozens of academic articles in top international journals such as Journal of Financial Economics, The Journal of Business, The Economic Journal and well-known Chinese journals such as Social Sciences in China (《中國社會科學》) and Economic Research Journal (《經濟研究》). He also acts as editor in chief or a member of the editorial board of various domestic and international finance and economics journals. He often accepts interviews with domestic and foreign mainstream media. As an economic advisor to the government, He also participates in the advisory work and research on major economic and financial policies. Prof. Song is also an independent non-executive director of Guotai Junan International Holdings Limited (Stock Code: 1788) and Wuzhou International Holdings Limited (Stock Code: 1369), both are listed in the main board of the Stock Exchange of Hong Kong, are an independent director of Tande Co., Ltd., a company listed on the Shanghai Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Ms. Fu Xiao Nan（傅小楠）, aged 46, has been appointed as an independent non-executive director of the Company on 10 December 2012. She is a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Fu has over ten years of experience in investment banking and financial services. She is a partner of Phoenix Investment Company, which is incorporated in the PRC since March 2016. She joined the investment banking division of Huatai United Securities in May 2011 and left in March 2016. Prior to joining Huatai United Securities, Ms. Fu held senior management positions in various investment banks. Ms. Fu is a registered sponsor representative of China Securities Regulatory Commission since 2007. Ms. Fu is an independent nonexecutive director of V.S. International Group Limited (Stock Code: 1002), a company listed in the main board of the Stock Exchange of Hong Kong. From June 2008 to March 2010, Ms. Fu obtained a bachelor degree in Economics from Minzu University of China（中央民族大學）, a master degree in Accounting from the Central University of Finance and Economics（中央財經大學）and a degree in Executive Master in Business Administration (EMBA) from the Cheung Kong Graduate School of Business.

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷), aged 50, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

Mr. Liu Bing Yang (劉炳楊), aged 66, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Zhang Wen Yu (張文玉), aged 48, is the general manager of United Laboratories (Inner Mongolia) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Inner Mongolia factory.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Dou Zhen Guo (竇振國), aged 41, is the factory manager of the Group's production plant in Zhuhai. Mr. Dou graduated from Shenyang Pharmaceutical University in July 1999, majoring in chemical pharmacy; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from Jilin University in 2010, with a master in pharmaceutical engineering. From 1999 to 2011, Mr. Dou worked on different positions in the Group's production plant in Zhuhai, such as technician, quality inspector, manager of production department, workshop supervisor and assistant factory manager, and received the Zhuhai Labour Model award in 2007. Since 2012, Mr. Dou has been chairman of the management committee as well as factory manager of the Group's production plant in Zhuhai, primarily responsible for the overall management and operation of the Group's bulk medicine plant in Zhuhai.

Mr. Zheng Shun Teng (鄭順騰), aged 40, is the operating general manager of the Group's intermediate and bulk medicine sales department. Mr. Zheng graduated from China Pharmaceutical University in 2002, majoring in Pharmacy. Joining in 1997, he worked successively as the head of the orally-taken solid workshop, the assistant to manager of the production department, the manager of the procurement department, and the director of the powder injection workshop of Zhongshan factory. In July 2006, he was re-designated to the Group's bulk medicine sales department as the manager of the Eastern China region, the manager of the senior region, the sales director of the Eastern China region and the Southern China region, and the sales director of the regions of India, Middle East and Africa. Mr. Zheng has been the operating general manager of the Group's bulk medicine sales department since 2014, primarily responsible for sales and management of the Group's intermediate and bulk medicine products on the Chinese market.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in note 41 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2016 is set out in note 6 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 51 of this annual report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2016.

FINANCIAL SUMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 143 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE PREMIUM AND RESERVES

In accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's articles of association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately HK$3,894.3 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 54 and 55 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarised in note 31 to the consolidated financial statements.

No option has been submitted and/or granted under the Scheme since its adoption.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPLIERS

In 2016, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

In 2016, the aggregate purchases attributable to the Group's largest and five largest suppliers accounted for 20.3% and 34.5% respectively of the Group's total purchases for the year.

None of the directors or chief executive or any of their associates or any shareholder (which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2016 and up to the date of this report were as follows:

Executive Directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent Non-Executive Directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

In accordance with article 87 of the Company's articles of association, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Zou Xian Hong, Mr. Chong Peng Oon will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors of the Company are set out on pages 16 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract with the Company. Mr. Tsoi shall be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$3,840,000 per annum.

Mr. Leung Wing Hon has entered into a service contract with the Company under which the annual salary payable by the Company to Mr. Leung Wing Hon is HK$3,720,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. He will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

REPORT OF THE DIRECTORS

Ms. Choy Siu Chit has entered into a service contract in November 2016 with the Company for a period of three years. Each party may terminate the service contract by giving not less than three months notice to other party. She is also required to retire by rotation at the annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Choy Siu Chit as an executive director is HK$3,000,000 per annum and will be entitled to a monthly travelling allowance of HK$50,000. She will also be entitled to a discretionary bonus as decided by the Board.

The basic emolument of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive directors of the Company with reference to performance of the Group. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company.

The amount of the annual salary increment and the bonus payable under such service contracts for executive directors is at the discretion of the Board and the remuneration committee of the Company, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the Board in relation to him or her.

Each of Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan has entered into a letter of appointment with the Company. The annual director's fee for each of the above independent non-executive directors is HK$240,000.

Save as disclosed in this annual report, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACT

No contracts concerning the management or administration of the whole or any substantial part of the business were entered into or in existence during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINES AND CONTRACTS

None of the directors have any interests in a business which competes with the business of the Group. Furthermore, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any 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 under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,306,875	Personal interest	1.00%
Mr. Leung Wing Hon	203,500	Personal interest	0.01%
Ms. Choy Siu Chit	12,523,875	Personal interest	0.76%
Mr. Fang Yu Ping	360,000	Personal interest	0.02%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	434,179	Personal interest	0.03%

Save as disclosed above, none of the directors, chief executive and their associates had any interests 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, as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long and short positions in the ordinary shares of the Company:

Name	*Notes*	Number of shares held	Percentage of Interest
Heren Far East Limited ("Heren")		1,006,250,000(L)	61.85%
	(1)	111,450,000(S)	6.85%
Heren Far East #3 Limited	*(2)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%
Heren Far East #4 Limited	*(2)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%
Nautilus Trustees Asia Limited	*(3)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%

L/S: Long position/short position

Notes:

(1) Heren lent a total of 111,450,000 shares to Credit Suisse AG, pursuant to a stock borrowing agreement entered into on 21 November 2016.

(2) Each of Heren Far East #3 Limited and Heren Far East #4 Limited is interested in more than one-third of the issued share capital of Heren, and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

(3) Nautilus Trustees Asia Limited is the trustee of the respective trusts holding entire interest in each of Heren Far East#2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited (which together hold the entire issued share capital of Heren), and is deemed to be interested in the 1,006,250,000 shares of the Company for the purposes of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2016.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 28 to 33 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Tsoi Hoi Shan
Chairman and Executive Director

Hong Kong, 22 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2016, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, except for certain deviations which are summarized below:

– Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2016, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Certain independent non-executive directors were unable to attend the annual general meeting of the Company held on 3 June 2016 due to other important engagement.

THE BOARD

The Board comprises six executive directors and four independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 16 to 20. The Board has established three Board committees namely Audit Committee, Remuneration Committee and Nomination Committee. The attendance rates of individual directors at board meetings, annual general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors						
Mr. Tsoi Hoi Shan	4/4	1/1	N/A	N/A	N/A	N/A
Mr. Leung Wing Hon	4/4	1/1	N/A	N/A	N/A	2/2
Ms. Choy Siu Chit	2/4	0/1	N/A	N/A	N/A	2/2
Mr. Fang Yu Ping	4/4	1/1	N/A	N/A	N/A	N/A
Ms. Zou Xian Hong	4/4	1/1	N/A	N/A	N/A	N/A
Ms. Zhu Su Yan	4/4	1/1	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Chong Peng Oon	4/4	1/1	2/2	1/1	1/1	2/2
Mr. Huang Bao Guang	4/4	1/1	2/2	1/1	1/1	N/A
Prof. Song Ming	3/4	0/1	2/2	1/1	1/1	2/2
Ms. Fu Xiao Nan	3/4	0/1	2/2	1/1	1/1	N/A

CORPORATE GOVERNANCE REPORT

The Board is responsible for setting the Group's objectives and strategies as well as to monitor the Group's performance. The Board also approves matters like annual and interim results, major transactions, appointment of directors, dividend and accounting policies and scrutinizes internal control procedures of the Group's operations. The Board has delegated the responsibility and authority of day-to-day operations to the management team.

All directors are provided with updated information in relation to governance and control matters regularly. The directors may seek independent professional advice according to prescribed procedures in order to assist them to discharge their duties at the expenses of the Company.

Four regular board meetings were held by the Board during the year. At least 14 days notices are given to all directors for all regular board meetings. Directors can include matters to be discussed in the agenda if necessary. Agenda of regular board meetings accompanied with board papers are dispatched to all directors within a reasonable time before the date of meeting. All draft minutes of the Board are circulated to all directors within a reasonable time for comments before being confirmed.

Minutes of the Board and Board committees are kept by the secretary duly appointed at such meetings. All directors are entitled to inspect the board papers and relevant information and to access to sufficient information on a timely basis so as to enable the Board to make informed decisions on matters to be brought before meetings.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the CG Code, directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meeting.

During the year, the Company has arranged for all directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

CHAIRMAN

The information of Mr. Tsoi Hoi Shan, the Chairman is set out in the Biographical Details of Directors and Senior Management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has four independent non-executive directors. Among the four independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All the independent non-executive directors of the Company are appointed for a fixed term subject to retirement and re-appointment pursuant to the Company's articles of association.

CORPORATE GOVERNANCE REPORT

Each of the independent non-executive directors has submitted a confirmation of his independence as required by Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors to be independent and that each of them satisfies the guidelines of independence set out in Rule 3.13 of the Listing Rules.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The members of the Remuneration Committee comprise of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the Chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the CG Code, but with a deviation from the code provision of the Remuneration Committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee held one meeting during the year. It undertook a review of the remuneration and benefits of the directors. The Remuneration Committee ensures that no director is involved in determining his/ her own emoluments.

AUDIT COMMITTEE

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the Chairman of the Audit Committee.

The major duties of the Audit Committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The Audit Committee held two meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the Audit Committee are consistent with the relevant provisions set out in the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

NOMINATION COMMITTEE

The Board has established Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee comprises four independent nonexecutive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Mr. Song Ming and Ms. Fu Xiao Nan. Prof. Song Ming is the Chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year to discuss re-election of directors. During selection and recommendation of candidates for directors, the Committee will consider about experience, qualification and suitability of the candidates. The Board will approve the appointments based on the same criteria. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

RISK MANAGEMENT COMMITTEE

The Company has established a risk management committee in February 2016. The Risk Management Committee comprises of two independent non-executive directors, namely Mr. Chong Peng Oon and Prof. Song Ming, and two executive directors, namely Mr. Leung Wing Hon and Ms. Choy Siu Chit. Mr. Chong Peng Oon is the Chairman of the Risk Management Committee.

The major duties of the Risk Management Committee include overseeing and reviewing the Group's risk management and internal control systems. The Risk Management Committee held two meetings during the year to review the Group's risk management and internal control systems. The terms of reference of the Risk Management Committee are posted on the Company's website.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

To comply with code provision A.6.4 of the CG Code, the Company has adopted standard code for the code of conduct for relevant employees' securities transactions to regulate certain employees of the Group who are deemed to be in possession of unpublished price sensitive information of the Company when dealing in the securities of the Company.

CORPORATE GOVERNANCE REPORT

ACOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2016, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

In the year under review, the Board considers the systems of internal control of the Company are sufficient and effective, hence the Company has complied with the code provisions relevant to the internal control in the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2016, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit service in 2016 amounted to approximately HK$4,700,000 and HK$1,521,000 respectively.

COMPANY SECRETARY

Mr. Leung Wing Hon is the company secretary of the Company. Mr. Leung report to Mr. Tsoi Hoi Shan, the Chairman of the Board. Mr. Leung Wing Hon was appointed as company secretary of the Company on 25 May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of International Accountants. He undertook no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

Pursuant to Article 58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Making Enquiry to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a range of communication channels between itself, its shareholders and investors, including answering questions through the annual general meeting, the publications of annual and interim reports, notices, announcements and circulars on the website of the Company at www.tul.com.cn/www.irasia.com/listco/hk/unitedlab. During the year, the Board is not aware of any significant changes in the Company's constitutional documents.

With the Company's Vice-Chairman, Mr Leung Win Hon, fully on board, the Company is well positioned with an experienced investor relations team supporting the various investor relations initiatives. Ms Karen Yang joined the team as the Investor Relations Officer in August 2014. The new team will continue to work towards further enhancing the communication with investors through various platforms such as roadshows, meetings, plant visits, conference calls and other forms of engagement. In addition, the investor relations department will continue to implement various exercises towards building a targeted shareholders base that supports the investment proposition of the company to correctly reflect its valuation.

Effective investor relations communication is an integral part of the Company's management philosophy. In 2017, the Company will continue to maintain effective communication with investors. Through the investor relations department's efforts, the Company aspired to instill further confidence among investors and enhance their understanding of our business.

On behalf of the Board

Leung Wing Hon
Vice-Chairman and Executive Director

Hong Kong, 22 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENT

Environmental protection is the lifeline of an enterprise. The United Laboratories, with a strong sense of social responsibility, adheres to the sustainable development concept of "environment priority" and properly handle the relationship between development and environment. Embracing the national environmental protection strategy, the Group invested resources, imported international advanced technology and equipment and assembled first-rate professional team to build green productivity and an economic industry chain of environmental friendliness and recycling and achieve a win-win for both environment and economic development.

Emissions

The United Laboratories always adheres to the concept of green environment and sustainable development and considers environment friendliness as a priority in the process of project construction, production operation and enterprise development. The United Laboratories (Inner Mongolia) Co., Ltd., mainly for the production of pharmaceutical intermediates and bulk medicines, is the Group's largest production base in terms of investment and scale, as well as with the most representative environmental protection system. Its environmental protection system, as compared with those of its peers in China, is among the better configured and has a higher proportion in the investment, and strictly complied with the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Pollution by Solid Waste and other relevant laws and regulations, with all the emission indexes accorded with national and local environmental protection standards. In order to elevate our level of environmental management, improve our environmental performance and environmental awareness of the staff, the Group has successfully adopted the ISO14001 International Standard for Environmental Management Systems in 2014, and passed the supervision and audit conducted by China Quality Certification Center in 2015 and 2016.

Governing Unit of China
Environmental Friendly Enterprise Alliance

Environmental Protection Social
Responsibility Enterprises

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater Treatment

The Company has built three sets of independent wastewater treatment system, combining biochemical, physicochemical, aerobic and anaerobic as a whole. Wastewater is treated with the "preprocessing – hydrolytic acidification – Upflow Anaeroic Sludge Blanket (UASB) – Cyclic Activated Sludge System (CASS) – catalytic oxidation – secondary sedimentation tank" procedure, equipped with relevant technical staff and assisted with contingency plans and management systems to ensure to the utmost extent the functioning of wastewater treatment facility and up-to-standard wastewater discharge. At the same time, the Company invested in and set up COD (chemical oxygen demand) and NH_3–N (ammonia nitrogen) online monitoring system which accorded with relevant national standards, at the total outfall of wastewater. The system is interconnected with the urban environmental information monitoring center and achieved real-time data transmission. In addition, the online monitoring data and monitoring and inspection data conducted by the Company itself will be published at specified information platform on time.


Wastewater treatment facility

Waste Gas Treatment

There are two kinds of waste gas produced by the Company, including technology gas and boiler flue gas. Technology gas treatment: The Company uses a variety of technologies for treating the organic waste gas which was produced in the process of production, and related technologies comprise the double or multiple combinations of activated carbon and activated carbon fiber adsorption, alkali spray, low temperature plasma, catalytic oxidation and so on. For odor gas which was produced in the process of wastewater treatment, we use the technology of "alkali spray + ozone oxidation". Boiler flue gas treatment: The dust and sulfur dioxide in boiler flue gas was treated by the technology of "(spraying calcium inside the furnace) + SNCR + cloth bag dusting + limestone-gypsum desulfurization".


Waste gas treatment facility

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company conducted sealed collection treatment to the emission source of waste gas and odorous gas originating from production, wastewater treatment and related processes. All the emissions were consistent with the limits of Comprehensive Emission Standard of Air Pollutants GB16297-1996, Emission Standard of Air Pollutants for Thermal Power Plants GB13223-2011, Emission Standards for Odor Pollutants GB14554-93 and other related standards.

Solid Waste Treatment

The Group, strictly in compliance with the national administrative regulations on hazardous and solid waste, classified and treated the different kinds of solid waste. Fermented mushroom residue and so on to have dangerous waste management qualification unit for disposal of use; waste activated carbon and enzymes are treated by internal comprehensive incineration boiler facilities, and has reached harmless standard; general solid wastes are transferred and disposed of at a company with hazardous waste business license qualification. All the treatment with corresponding management system, records and contingency plans for hazardous and solid waste, disposes its wastes in a appropriate, legal and explicit manner.

Use of Resources

The Group persists the production and business model which is "safe, environmentally friendly and efficient", with an aim to improve its production process in both advancement and environment-friendliness, committed to achieving the goal of green production and sustainable development, as well as the energy consumption which also obviously improved.

Our "Green Enzymatic Method" of Amoxicillin bulk medicine is the most advanced production process in the world. It efficiently decreased the use of organic solvent and the production of wastes, underwent significant improvements in energy use compared with the traditional chemical processes. "Green Enzymatic Method" achieved to protect the environment at the uttermost.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The United Laboratories (Inner Mongolia) Co., Ltd. has established a cyclic economic & industrial chain that runs Corn Fermentation – 6-APA Intermediate Products – Amoxicillin Bulk Medicine – Amoxicillin Finished Products, the upper end of which connects with the origins of corn and starch processors, the middle section connects with intermediate bulk medicine and finished products, and the lower end connects with the organic fertilizer producers, with the by-products (fungi residue) turned into organic compound fertilizer after non-hazardous treatment, undergoing a circular utilization of resources. In addition, the methane, which produced in the treatment process of solid waste, can be burned as energy and realized the saving of standard coals with a total amount of 5,000 tons per year.

By forging such a beneficial cyclic economy & industrial chain, the Group strive to achieve higher standard.

The Environment and Natural Resources

The Group took the impact of production and business operation and decisions on the environment into overall considerations, through continuously improving production technology, completing the environmental management system, strengthening the supervision of environmental protection measures, made efforts to minimize the impact of production and business operation on the environment.

The plant of The United Laboratories (Inner Mongolia)

We strictly control the wastes production process and gradually improve discharge requirements. In view of the high concentration wastewater treatment, the Company adopted the MVR technology (high concentration wastewater hyperconcentration), and completed the installation and operation of the crystallization mother liquor MVR system and waste acid water MVR system. The technology can greatly reduce the emission of COD (chemical oxygen demand) and ammonia nitrogen into the water. The wastewater, with reaching the standards after testing, will be discharged to the local wastewater treatment plant for reprocessing and the wastewater will be reused once reaching the recycling standard. We strive to reduce the waste of water resources by strengthening the water reuse and reducing the use of the one-time water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment and Labour Practices

Employment

The Group has 5 production bases in China, including The United Laboratories Co., Ltd., Zhuhai United Laboratories Co., Ltd., Zhuhai United Laboratories (Zhongshan) Co., Ltd., The United Laboratories (Inner Mongolia) Co., Ltd. and Guangdong Kaiping Kingly Capsule Co., Ltd., and a total of 11,700 staff. Our united, hardworking and energetic staff enables the Group to fully grasp every development opportunities. The Group has always dedicated to cultivate talents and provide fair remuneration, benefits, training and promotion prospect for each staff. In the meantime, the Group assesses its staff remuneration system from time to time to ensure its fairness and competitiveness. The Group implements the national legal working hour system and ensures the employees to possess public holidays. Furthermore, the Group purchases various insurances for its staff, including medical, endowment and maternity insurances.

Product	Production Base
Intermediate products, bulk medicines and finished products	The United Laboratories (Inner Mongolia) Co., Ltd.
Bulk medicines, biological and finished products	Zhuhai United Laboratories Co., Ltd.
Finished products	Zhuhai United Laboratories (Zhongshan) Co., Ltd.
Finished products	The United Laboratories Co., Ltd.
Empty capsule casings	Guangdong Kaiping Kingly Capsule Co., Ltd.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Health and Safety

The United Laboratories persists in safe production and devotes itself to providing a healthy and safe working environment for its staff. The Group has put in place safe production SOP for all production-related positions, and organized activities on safety for staff regularly, such as safe production fire drill, workshop safety training and occupational health training. The safety awareness and skills of the staff are constantly improved, ensuring safe operation for the Group and building a satisfying and safe production environment. In addition, the Group regularly arranges full medical check-up for its staff, invites experts to lecture on health and hygiene and provide comprehensive health guidelines and related trainings for our staff.


Fire drill

Development and Training

Staff training and education is key to maintain an energetic enterprise. The United Laboratories considers staff training a constant propeller for the enterprise to improve efficiency and thus provides induction training and a variety of training opportunities for each staff. The Group has included the professional training, team training, GMP training and management training into our daily training plan, and in accordance with the training needs of each functional department, the Group formulates annual training program to continually enhance our staff's professional standard. Drug safety concerns the life and health of the public, therefore, The United Laboratories aims to produce the best quality products, foster deeper understanding of each management standard for our staff, prudently handle each step of the drug manufacturing process and ensure the quality and safety of our product.


New employee induction training

The Group encourages its staff to engage in advanced studies and acquire relevant professional qualifications. As of this date, our staff comprises graduate degree holders, undergraduate degree holders and college degree holders and others, hundreds of which possess licensed pharmacist qualification.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

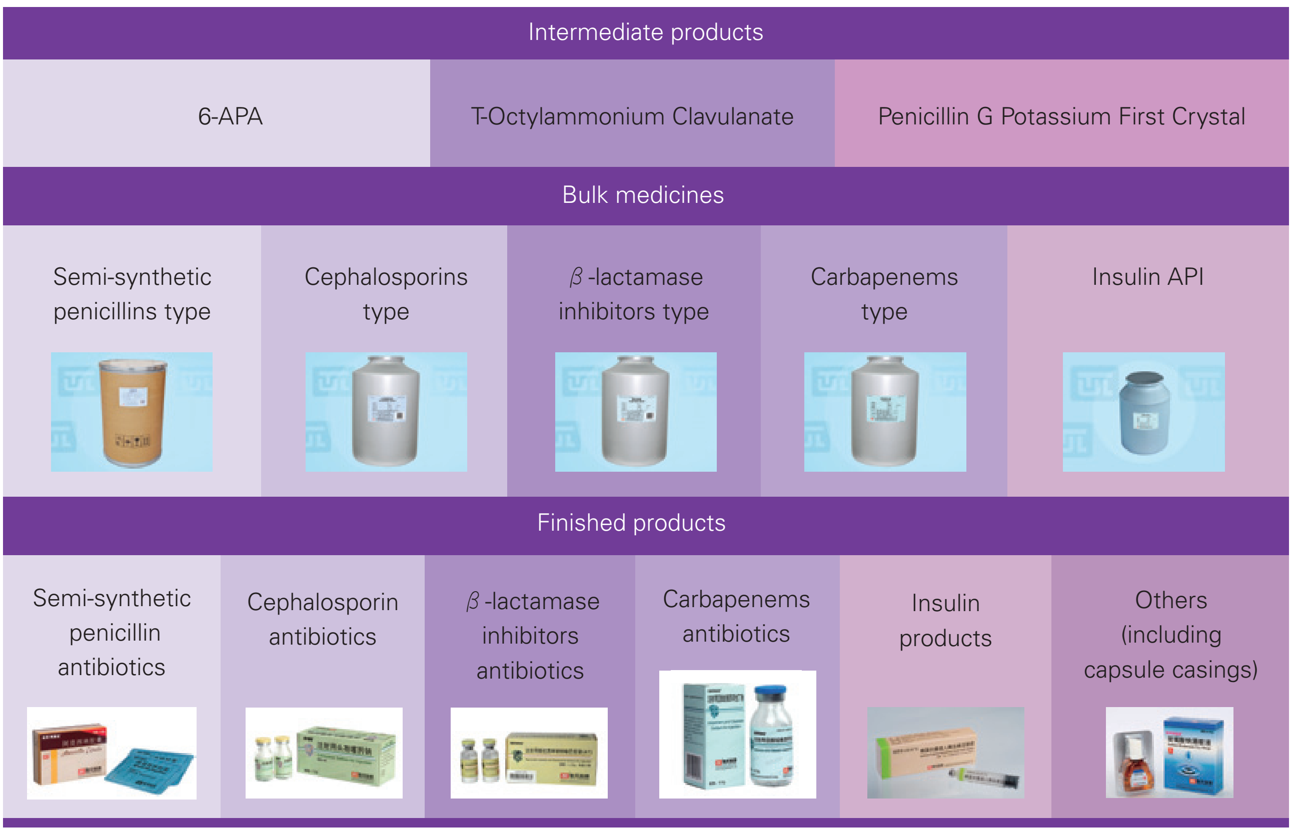
Labor Standards

The Group strictly obeys the national relevant labor laws and regulations and manages its employment practice according to related laws. We are committed to ensuring to avoid forced and child labor in any form of our business.

Operating Practices

Since its inception, the Group has established an operation management and supervision mechanism and has been constantly improving it, so as to ensure its sustainable development. It is the common goal of the United Laboratories people to develop products of superior quality for the benefit of human life, and "making life more valuable" is our perpetual endeavour.

Vertically-integrated Production and Operating Model



Note: areas in the same color represent products of the same series, which will go through the production process of intermediates products – bulk medicine – finished products from upstream to downstream.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supply Chain Management

We have a perfect internal control system in place. To make sure the quality of all the raw materials, accessories and packing materials, the Group, which strictly in compliance with "Pharmaceutical Administration Law of the People's Republic of China", GMP and relevant laws and regulations, made the supplier management system. Our selection of suppliers is based on a number of criteria, i.e. demand, price and quality. In selecting our suppliers, we always resort to fair and transparent bidding process and conduct regular audits and values to our cooperated suppliers. We believe in fair competition under good business practices, and aim to establish long-term cooperation with our suppliers and partners based on mutual trust. In addition, we have a vertically integrated production model, and the pharmaceutical intermediate products and bulk medicine we produce can be directly used in the production of finished products at the lower section of the chain, with which the costs are under good control while the product quality can be assured, giving us remarkable competitive advantages.

Product Responsibility

We explore the market under the brand of The United Laboratories and secure it with quality. We carry out our production and management in strict compliance with the GMP standards. We have established a complete quality assurance system and after-sales service system, and we are the first pharmaceutical company in China that passed GMP certification. In addition, we have many bulk medicine products which have obtained certification of EU CEP and USFDA as well as the authorities of Japan and Russia. The Group cooperates with the first-class domestic pharmaceutical distributors, with our own sales and service team, to ensure perfect delivery and after-sales service.

Certificates of high-tech products of Guangdong Province

There were ten series of products including the Group's amoxicillin capsules and recombinant human insulin were recognized as high-tech products of Guangdong Province, as well as the recombinant human insulin and memantine hydrochloride were awarded the science and technology progress award of Guangdong Province and Zhongshan Municipality, respectively. We are committed to providing consumers with safe, effective and high quality drugs.

Anti-corruption

We place great emphasis on integrity and impartiality, which is reflected in our policies and operational procedures. We have set up a comprehensive internal control mechanism, which aims to prevent the occurrence of corruption and fraud.

Our internal auditing and supervision departments perform independent audits in a timely manner, conducting in-depth analysis of the causes of events, processes and solutions, and continue to seek and promote preventive and management measures with better effects, and make regular arrangements for the staff to receive training and education in relation to the subjects, which works to make the mechanism more reliable and effective, and protect the assets and interests of our shareholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Community

We have adhered to our motto known as "Love China and For China" since the Group's inception. While providing our customers with quality drugs, we got actively involved in the charity cause, repaying the society whole-heartedly. By the end of 2016, we have made over 30 donations, amounting to nearly RMB100 million, mainly for education, disaster relief and social welfare projects.

The United Laboratories Education Scholarship

The United Laboratories always concern and support to the development of Chinese medical education. Since 1998, the Group has donated a total of RMB46 million and set up dedicated "The United Laboratories Education Scholarship" in 38 medical and pharmaceutical universities all over China, benefiting 48,000 students in more than 50 colleges and universities, including China Medical University, Capital Medical University, China Pharmaceutical University, Shenyang Pharmaceutical University, Chongqing Medical University, Tongji Medical College. The Group held "The United Laboratories Education Scholarship" ceremonies in Chongqing Medical University and Fujian Medical University and donated RMB220,000 which benefiting 110 students. We will continue to champion the cause of medical education and support the training of medical personnel in the future.

Scholarship award ceremony

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Connection to Disaster-Stricken Areas

For over 20 years from the early days of the Group to 2010, we have donated money and supplies amounting to RMB28 million to the people suffering from serious disasters, such as SARS, the earthquake in Wenchuan and Yushu in Qinghai province. In 2008, we donated RMB12 million to build a United Laboratories Hospital in the eastern earthquake-stricken area of Sichuan, in addition to the medical and supporting equipment including X-ray machines, multi-function anesthetic machine, fully-automatic biochemical analyzer and ambulances worth RMB1.2 million, with an aim to better cater for the needs of the hospital. In 2012, the Group donated RMB1.8 million to help Bayan Nur, Inner Mongolia with flood relief and reconstruction. In 2013, the Group donated medicine worth RMB1 million to the earthquake-stricken area in Ya'an, Sichuan in support of the disaster relief efforts. In 2015, the Group donated the carbapenems drug worth RMB506,000 for the treatment of respiratory tract and skin tissue infection to Dangerous Goods Warehouse in Tianjin Port International Logistic Centre. We adhered to our motto known as "Love China and For China", and won widespread recognition of all the sectors of society.

The United Laboratories Hospital in Sichuan Province

Repay the Society

Volunteer Activities

As an enterprise enthusiastic about public welfare cause and with a strong sense of social responsibility, The United Laboratories has organized its employees to donate blood for a number of times. According to the statistics, over 120 employees answered the call and donated blood, showing their great love in selfless dedication and serving the community. The Group was dubbed a company with love "enthusiastic at charity and blood donation".

The group organized its staffs to participate in the twelfth "Zhuhai charity hiking", and all the donations of the activity will be used to help poor students and improve their school constructions, etc. We are advocated to the healthy life and low carbon travel, moreover, contribute to the society.


Charity hiking

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Charity donation

We advocate the spirit of "Enjoying helping and loving people". In 2015, we initiated the movement of clothing donation to the poverty-stricken areas in Bome, Nyingchi, Tibet for the first time, and a wide range of items totalling over 1,000 pieces were gathered, including clothing, stationery, books and sporting equipment. We were honoured by the Seventh Tibet Support Workgroup of Guangdong Province with the award of "Helping Tibet with Love". The Group continued to encourage our employees to participate in the donation and got positive support and response.

Charity donation

Care for Our Staffs

The Group paid special attention to our employees, and we strive the principle of "equality, care and joint development".

The subordinate units of the Group has in succession set up cultural groups and to organize various activities, seminars and rites of enhancement on a regular basis to help our employees participate and enrich the corporate culture. In addition, the Group set up special prize of "Chun Miao Award", "Loyalty Award" and other awards to honor new employees and the outstanding employees. The Group has set up in-house publications since 1997, namely "The TUL's People" and "Pictorials", and registered the corporate blog and wechat official account. Such publications provide a valuable platform to promptly follow news and trends of the enterprise, and enhanced our cohesion in a considerable manner.

Yoga course

The United Laboratories Kindergarten

The Group attaches great importance to the work-life balance of its staff. In order to enrich staff's leisure time, the Group provide the staffs with the fitness and entertainment venues and assisted in setting up various clubs and hobby groups and has held a variety of cultural and sports activities, such as yoga course, basketball game, badminton game, Mid-Autumn Festival Garden Party, evening party for New Year. For the female employees, we especially carried out care for women activities. In addition, to effectively meet the education requirements of staffs' children, The United Laboratories (Inner Mongolia) Co., Ltd. invested RMB20 million to build the "The United Laboratories Kindergarten" in staff live region. The kindergarten, covering an area of 8,300 square meters and holding 360 children, has officially operated in September 2016. With reasonable design and completed facilities, the kindergarten has fully met the demand of all the teachers and students.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of The United Laboratories International Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 51 to 142, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 Certificated Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matters
Valuation of Embedded Derivative Components of Convertible Bonds	
We identified the valuation of the embedded derivative components of the convertible bonds issued by the Group during the year as a key audit matter as the valuation model is sensitive to changes in certain key inputs including credit risk, volatility of share price and dividend yield that require significant management estimates. As at 31 December 2016, the carrying value of the embedded derivative components of the convertible bonds was approximately HK$461,231,000, with a loss on fair value change of approximately HK$110,910,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income. Details relating to the Group's embedded derivative components of the convertible bonds are set out in note 28 to the consolidated financial statements.	Our audit procedures in relation to the valuation of the embedded derivative components of the convertible bonds included: • Reading the terms of the subscription agreement that constitute embedded derivatives; • Evaluating the independent external valuer's competence, capabilities and objectivity; and • Involving our internal valuation experts to review and assess whether the valuation model used by the independent external valuer was appropriate and whether the key assumptions used in the valuation model including the credit risk, volatility of share price and dividend yield were reasonable.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matters
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter as the valuation model is sensitive to changes in certain key assumptions including expected selling price, construction cost, construction period, finance cost, developers’ profit and ratio of commercial/residential portion, that require significant management judgment. As at 31 December 2016, the carrying value of the Group’s investment properties was approximately HK$1,261,925,000, with a fair value loss of approximately HK$139,440,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income. Details relating to the Group’s investment properties is set out in note 17 to the consolidated financial statements.	Our audit procedures in relation to the valuation of investment properties included: • Making inquiries with management on their plan for the development of the investment properties and the bases of assumptions for the preparation of the valuation model; • Evaluating the independent external valuer’s competence, capabilities and objectivity; • Assessing the reasonableness of the key assumptions used in the valuation model by comparing the estimates made by the management in the past year against the current year and taking into account future development plans of the investment properties; • Checking, on a sample basis, the reasonableness, appropriateness and relevance of the input data used in the valuation model to market comparables and supporting documents; and • Evaluating the sensitivity analysis performed by the management on the expected selling price of completed units, construction cost, construction period, finance cost, developers’ profit margin and ratio of commercial/residential portion to evaluate the extent of impact on the fair value of the investment properties.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any 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 judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Gladys Fung Suet Ngan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Turnover	6	**7,062,571**	7,694,563
Cost of sales		**(4,545,930)**	(4,733,378)
Gross profit		**2,516,641**	2,961,185
Other income	7	**112,246**	174,451
Other gains and losses	8a	**(130,798)**	(249,929)
Selling and distribution expenses		**(1,235,798)**	(1,289,856)
Administrative expenses		**(710,851)**	(733,683)
Other expenses	8b	**(183,203)**	(203,474)
Impairment loss recognised in respect of property, plant and equipment	16	**–**	(564)
Donation of properties	17	**–**	(29,782)
Loss on fair value change on investment properties	17	**(139,440)**	(50,173)
(Loss) gain on fair value change of embedded derivative components of convertible bonds		**(110,910)**	6,755
Finance costs	9	**(272,438)**	(349,508)
(Loss) profit before taxation		**(154,551)**	235,422
Tax expense	10	**(156,743)**	(125,064)
(Loss) profit for the year attributable to owners of the Company	11	**(311,294)**	110,358
Other comprehensive expense			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(433,912)**	(360,842)
Total comprehensive expense for the year attributable to owners of the Company		**(745,206)**	(250,484)
(Loss) earning per share (HK cents)	15		
– Basic		**(19.13)**	6.78
– Diluted		**(19.13)**	6.78

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	16	**8,201,265**	9,263,771
Investment properties	17	**1,261,925**	1,482,789
Properties held for development	17	**268,188**	297,153
Prepaid lease payments	18	**237,153**	248,950
Goodwill	19	**3,370**	3,605
Intangible assets	20	**160,336**	95,994
Deposit for land use rights		**8,075**	7,597
Deposits for acquisition of property, plant and machinery		**28,906**	54,446
Pledged deposits against finance leases	26	**83,400**	154,674
Available-for-sale investment		**556**	595
Deferred tax asset	29	**14,041**	37,663
		10,267,215	11,647,237
Current assets			
Inventories	21	**1,071,734**	1,415,109
Trade and bills receivables, other receivables, deposits and prepayments	22	**2,180,432**	2,195,214
Prepaid lease payments	18	**5,509**	6,021
Pledged deposits against finance leases	26	**84,228**	59,490
Pledged bank deposits	24	**1,077,596**	970,316
Bank balances and cash	24	**1,982,565**	1,114,537
		6,402,064	5,760,687
Current liabilities			
Trade and bills payables, other payables and accrued charges	25	**3,319,638**	3,294,663
Derivative financial instruments	23	**95,511**	203,665
Obligations under finance leases – due within one year	26	**417,715**	698,999
Tax payables		**32,384**	33,950
Borrowings – due within one year	27	**3,613,650**	4,109,911
Convertible bonds	28	**–**	105,365
Embedded derivative components of convertible bonds	28	**–**	11,459
		7,478,898	8,458,012
Net current liabilities		**(1,076,834)**	(2,697,325)
Total assets less current liabilities		**9,190,381**	8,949,912

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Deferred tax liabilities	*29*	**641,157**	713,035
Deferred income in respect of government grants	*25*	**69,824**	98,096
Obligations under finance leases			
– due after one year	*26*	**283,330**	507,451
Borrowings – due after one year	*27*	**1,105,282**	912,697
Convertible bonds	*28*	**656,130**	–
Embedded derivative components of convertible bonds	*28*	**461,231**	–
		3,216,954	2,231,279
		5,973,427	6,718,633
Capital and reserves			
Share capital	*30*	**16,269**	16,269
Reserves		**5,957,158**	6,702,364
Equity attributable to owners of the Company		**5,973,427**	6,718,633

The consolidated financial statements on pages 51 to 142 were approved and authorised for issue by the Board of Directors on 22 March 2017 and are signed on its behalf by:

Mr. TSOI HOI SHAN	**Mr. LEUNG WING HON**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Revaluation reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	16,269	2,656,294	286,032	619,570	121,968	797,784	2,471,200	6,969,117
Changes in equity during the year:								
Exchange differences arising on translation to presentation currency	–	–	–	–	–	(360,842)	–	(360,842)
Profit for the year	–	–	–	–	–	–	110,358	110,358
Total comprehensive expense for the year	–	–	–	–	–	(360,842)	110,358	(250,484)
Appropriations	–	–	–	39,058	–	–	(39,058)	–
At 31 December 2015	16,269	2,656,294	286,032	658,628	121,968	436,942	2,542,500	6,718,633
Changes in equity during the year:								
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**–**	**(433,912)**	**–**	**(433,912)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(311,294)**	**(311,294)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(433,912)**	**(311,294)**	**(745,206)**
Appropriations	**–**	**–**	**–**	**57,001**	**–**	**–**	**(57,001)**	**–**
At 31 December 2016	**16,269**	**2,656,294**	**286,032**	**715,629**	**121,968**	**3,030**	**2,174,205**	**5,973,427**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided for before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective subsidiaries.

Included in special reserve is an amount of HK$208,792,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of HK$77,240,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquiring additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity. Details of which is set out in Note 17.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Operating activities		
(Loss) profit before taxation	**(154,551)**	235,422
Adjustments for:		
Provision of allowances for inventories	**12,210**	8,290
Write-down of long-aged deposit and prepayment	**27,529**	34,296
Provision of allowance for doubtful debts	**28,146**	3,474
Amortisation of intangible assets	**3,502**	3,687
Amortisation of prepaid lease payments	**6,866**	7,385
Depreciation of property, plant and equipment	**820,626**	810,143
Fair value loss on investment properties	**139,440**	50,173
Impairment loss recognised in respect of property, plant and equipment	**–**	564
Finance costs	**272,438**	349,508
Other subsidy income	**(68,356)**	(31,717)
Interest income	**(23,091)**	(43,638)
Net loss (gain) on disposals of property, plant and equipment	**36,508**	(20,297)
Net loss on disposals of prepaid lease payment	**166**	–
Unrealised (gain) loss on change in fair value of derivative financial instruments	**(107,412)**	172,035
Loss (gain) on fair value change of embedded derivative components of convertible bonds	**110,910**	(6,755)
Reversal of impairment loss recognised in respect of property, plant and equipment	**–**	(18,760)
Donation of properties	**–**	29,782
Overprovisions of payables	**–**	(25,774)
Overprovision of accrued expenses	**–**	(13,357)
Operating cash flows before movements in working capital	**1,104,931**	1,544,461
Decrease (increase) in inventories	**255,690**	(60,340)
(Increase) decrease in trade and bills receivables, other receivables, deposits and prepayments	**(167,668)**	670,011
Change in derivative financial instruments	**(742)**	4,267
Increase (decrease) in trade and bills payables, other paybles and accrued charges	**342,890**	(183,234)
Cash generated from operations	**1,535,101**	1,975,165
Income taxes paid	**(159,576)**	(165,614)
Net cash from operating activities	**1,375,525**	1,809,551

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Investing activities		
Payments for purchase of property, plant and equipment	**(463,547)**	(722,890)
Proceeds on disposal of property, plant and equipment	**69,034**	89,809
Proceeds on disposal of prepaid lease payment	**581**	–
Placement of pledged bank deposits	**(955,964)**	(2,467,166)
Receipts of other subsidies	**37,718**	54,543
Release of pledged bank deposits	**790,583**	2,676,830
Interest received	**23,091**	43,638
Addition to intangible assets	**(77,296)**	(49,017)
Payment for deposit of land use rights	**(1,019)**	(350)
Payment for available-for-sale investment	**–**	(595)
Net cash used in investing activities	**(576,819)**	(375,198)
Financing activities		
Interest paid	**(310,833)**	(365,431)
Proceeds from finance leases	**290,500**	596,715
Repayments of obligations under finance leases	**(736,543)**	(714,962)
Placement of pledged deposits against finance leases	**(29,050)**	(61,360)
Receipts of pledged deposits against finance leases	**63,045**	–
New borrowings raised	**3,907,161**	4,001,695
Repayment of borrowings	**(3,902,319)**	(4,734,692)
Repayment of convertible bond	**(110,357)**	–
Proceeds on issue of convertible bonds	**979,466**	–
Net cash used in financing activities	**151,070**	(1,278,035)
Net increase in cash and cash equivalents	**949,776**	156,318
Effect of foreign exchange rate changes	**(81,748)**	(44,860)
Cash and cash equivalents at beginning of the year	**1,114,537**	1,003,079
Cash and cash equivalents at end of the year	**1,982,565**	1,114,537
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,982,565**	1,114,537

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company is Heren Far East Limited, while the ultimate holding companies are Heren Far East#2 Limited, Heren Far East#3 Limited and Heren Far East#4 Limited. All of those are companies incorporated in the British Virgin Islands and are ultimately controlled by The Choy's Family Trust. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 41.

The functional currency of the Company and its subsidiaries (the "Group") in the People's Republic of China (the "PRC") is Renminbi ("RMB"). The consolidated financial statements of the Group are presented in Hong Kong dollars because the Company is a public company with the shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and a majority of its investors are based in Hong Kong and therefore, the directors consider that Hong Kong dollars ("HK$") is a preferred currency to be used in presenting the operating results and financial position of the Group.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016, the Group had net current liabilities of HK$1,076,834,000 which included borrowings due within one year of HK$3,613,650,000. The directors believe the existing bank borrowings included in current liabilities at the end of the reporting period could be successfully renewed on maturity date based on prior experiences. In addition, the Group had available unutilised borrowing facilities of HK$2,797,788,000 at the date of these consolidated financial statements which can be utilised before maturity of the facilities and will be subject to renewal upon maturity, together with a fixed bond of approximately HK$1,241,350,000 issued on 1 March 2017 (see Note 43). The total financial resources available for use as at the date of these consolidated financial statements is HK$4,039,138,000. The directors are of the opinion that the Group has a good track record and maintains good relationship with banks which enhance the Group's ability to renew the borrowing facilities upon expiry.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Taking into account the Group's cash flow projection, including the Group's unutilised bank facilities, ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that it will have sufficient working capital to meet in full its financial obligations as they fall due for the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

New and amendments to HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 *Financial Instruments*

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

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 39 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss ("FVTPL") or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

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

HKFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKAS 7 *Disclosure Initiative*

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are measured at fair values at the end of reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not longer than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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

Revenue recognition

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the lease term or the operation period of the relevant company of 50 years
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 25%
Motor vehicles	20% – 25%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

The Group as lessee

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Sale and leaseback resulting in a finance lease

If a sale and leaseback transaction results in a finance lease, the present value of minimum lease payments is credited to a liability account representing the initial net obligation under finance lease. Any excess of sales proceeds over the carrying amount is not immediately recognised as income by the Group. Instead, it is deferred and amortised over the lease term. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined use, which is regarded as held for capital appreciation purpose. Investment properties are initially measured at cost, including any directly attributable expenditure.

Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Leasehold land and building

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

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

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the shorter of the relevant lease/land use right or the operation period of the relevant entity.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired separately *(Continued)*

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

Research and development expenditures

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to the present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Properties held for development

Properties held for development are stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights or the fair value of investment properties upon the date of transfer and other directly attributable costs.

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into financial assets at loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, pledged bank deposits, pledged deposit against finance leases and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated its investment in unlisted equity security as an available-for-sale financial asset. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Other financial liabilities including trade and bills payables, other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds contains liability component, conversion option and early redemption option derivative components

Convertible bonds issued by the Group that contain the liability, conversion option and early redemption option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments and that gives the Company a choice over how it is settled is a conversion option derivative. Early redemption option that results in redemption other than by an amount which approximates the amortised cost of the liability on each exercise date is a redemption option derivative. At the date of issue, the liability, conversion option and early redemption option derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option derivatives in proportion to their relative fair values. Transaction costs relating to the conversion option and redemption option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses as the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the foreign exchange reserve).

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme or state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to experience of the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimates due to changes in the commercial and technological environment, such difference will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. The carrying amount of property, plant and equipment is disclosed in Note 16.

Impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. The management is satisfied that no impairment loss is required to be recognised during both years.

The carrying amount of intangible assets is set out in Note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of property, plant and equipment

No impairment loss was recognised in respect of property, plant and equipment during the year ended 31 December 2016. During the year ended 31 December 2015, impairment loss of HK$564,000 was recognised in respect of property, plant and equipment. Management is confident that the carrying amount of the other property, plant and equipment will be recovered in full based on the results of assessment of the estimates of anticipated cash flow generated by those property, plant and equipment. The situation will be closely monitored, and further impairment will be made in future periods when an indication of such adjustments arises.

Investment properties situated in the PRC

As described in Note 17, investment properties situated in the PRC are stated at fair value by reference to valuations performed by independent professional valuers. The valuation model is sensitive to changes in certain key assumptions including expected selling price, construction cost, construction period, finance cost, developers' profit and ratio of commercial/residential portion, that require significant management judgement. Any changes in the market conditions will affect the fair value of the investment properties of the Group.

Estimated allowance for write-down of inventories to net realisable value

The Group makes allowance for the write-down of inventories based on assessments of the net realisable values of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value of certain items is lower than the cost of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. During the year ended 31 December 2016, allowance of inventories of HK$12,210,000 (2015: HK$8,290,000) was recognised. The carrying amount of inventories is disclosed in Note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables, and other receivables. Allowances are applied to trade and bills receivables, and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade and bills receivables, and other receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables, and other receivables and allowance for doubtful debts in the year in which such estimate has changed. During the year ended 31 December 2016, allowance of HK$28,146,000 (2015: HK$3,474,000) was recognised and an amount of HK$9,092,000 (2015: nil) was written off as uncollectible. The carrying amount of trade and bills receivables, and other receivables and change of the allowance for doubtful receivables are disclosed in Note 22.

Valuation of the embedded derivatives in convertible bonds

The fair values for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the personnel that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. The valuation model is sensitive to changes in certain key inputs including credit risk, volatility of share price and dividend yield that require significant management estimates. Any changes in the estimates and assumptions will affect the fair value of the embedded derivatives in convertible bonds. The carrying amount of embedded derivatives is disclosed in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes.

	2016	2015
	HK$'000	HK$'000
Sales of pharmaceutical products	**7,062,571**	7,694,563

Segment information

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. executive directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

The Group is currently organised into three revenue streams – (i) sale of intermediate products ("Intermediate products"); (ii) sale of bulk medicine ("Bulk medicine"); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products"). These three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment turnover and results:

Year ended 31 December 2016

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,435,194	2,870,718	2,756,659	7,062,571	–	7,062,571
Inter-segment sales	1,206,918	284,157	–	1,491,075	(1,491,075)	–
	2,642,112	3,154,875	2,756,659	8,553,646	(1,491,075)	7,062,571
RESULT						
Segment (loss) profit	(234,404)	179,686	671,400			616,682
Unrealised profit elimination	633	(13,101)	(18,501)			(30,969)
	(233,771)	166,585	652,899			585,713
Unallocated other income						64,670
Unallocated corporate expenses						(151,348)
Other gains and losses						(130,798)
Loss on fair value change of embedded derivative components of convertible bonds						(110,910)
Loss on fair value change on investment properties						(139,440)
Finance costs						(272,438)
Loss before taxation						(154,551)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment turnover and results: *(Continued)*

Year ended 31 December 2015

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,680,418	3,272,179	2,741,966	7,694,563	–	7,694,563
Inter-segment sales	1,434,541	357,182	–	1,791,723	(1,791,723)	–
	3,114,959	3,629,361	2,741,966	9,486,286	(1,791,723)	7,694,563
RESULT						
Segment profit	323,761	187,973	577,560			1,089,294
Unrealised profit elimination	(77,425)	(34,749)	(4,004)			(116,178)
	246,336	153,224	573,556			973,116
Unallocated other income						72,142
Unallocated corporate expenses						(136,638)
Other gains and losses						(249,926)
Impairment loss recognised in respect of property, plant and equipment						(564)
Donation of properties						(29,782)
Gain on fair value change of embedded derivative components of convertible bonds						6,755
Loss on fair value change on investment properties						(50,173)
Finance costs						(349,508)
Profit before taxation						235,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment turnover and results: *(Continued)*

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4. Performance is measured based on segment results that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

The turnover and profit or loss of the Group are allocated based on the operations of the segments.

Other than the segment revenue and segment results analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment turnover is charged at prevailing market rates.

Reportable segment results represents the profit earned or loss incurred by each segment without allocation of certain other income, impairment loss recognised in respect of property, plant and equipment, donation of properties, gain or loss on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties, other gains and losses, corporate expenses and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2016

	Intermediate products HK$'000	**Bulk medicine HK$'000**	**Finished products HK$'000**	**Unallocated, expenses/ (income) HK$'000**	**Consolidated HK$'000**
Amortisation of prepaid lease payment	**5,292**	**1,217**	**357**	**–**	**6,866**
Amortisation of intangible assets	**–**	**–**	**3,502**	**–**	**3,502**
Depreciation of property, plant and equipment	**664,599**	**103,340**	**50,218**	**2,469**	**820,626**
Loss on disposal of property, plant and equipment	**26,420**	**10,088**	**–**	**–**	**36,508**
Write-down of long aged deposit and prepayment	**27,529**	**–**	**–**	**–**	**27,529**

For the year ended 31 December 2015

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Unallocated, expenses/ (income) HK$'000	Consolidated HK$'000
Amortisation of prepaid lease payment	5,722	1,285	378	–	7,385
Amortisation of intangible assets	–	–	3,687	–	3,687
Depreciation of property, plant and equipment	654,057	99,771	51,674	4,641	810,143
Loss (gain) on disposal of property, plant and equipment	–	880	(6,938)	(14,239)	(20,297)
Write-down of long aged deposit and prepayment	–	3,288	–	31,008	34,296
Impairment loss recognised in respect of property, plant and equipment	–	564	–	–	564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information

The turnover by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Turnover from external customers	
	2016	2015
	HK$'000	HK$'000
PRC (country of domicile)	**5,158,585**	5,279,534
Europe	**500,546**	688,478
India	**598,259**	557,511
Hong Kong	**50,391**	122,333
Middle East	**38,260**	111,889
South America	**87,853**	211,977
Other Asian regions	**452,126**	534,869
Other regions	**176,551**	187,972
	7,062,571	7,694,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information *(Continued)*

The information about its non-current assets is presented based on the geographical location of the assets, as below:

	Non-current assets	
	2016	2015
	HK$'000	HK$'000
PRC (country of domicile)	**10,066,188**	11,355,180
Hong Kong	**103,030**	99,125
	10,169,218	11,454,305

Note: Non-current assets exclude pledged deposits against finance leases, available-for-sale investment and deferred tax assets.

(d) Information about major customers

There is no customer who represents more than 10% of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. OTHER INCOME

	2016	2015
	HK$'000	HK$'000
Other subsidy income *(Note 33)*	**68,356**	31,717
Bank interest income	**23,091**	43,638
Sundry income	**9,972**	15,287
Sales of raw materials	**8,405**	23,475
Sales of scrap materials	**2,422**	2,443
Reversal of impairment loss on property, plant and equipment *(Note 16)*	**–**	18,760
Overprovision of accrued expenses (Note)	**–**	39,131
	112,246	174,451

Note: Overprovision of accrued expenses mainly include the reversal of over-accrued staff related expenses and other expenses for sales and production provided for during prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. OTHER GAINS AND LOSSES/OTHER EXPENSES

	2016 HK$'000	2015 HK$'000
(a) Other gains and losses		
Unrealised (gain) loss from changes in fair value of forwards contracts	**(107,412)**	172,036
Realised loss on forwards contracts	**109,589**	2,439
Net foreign exchange loss	**90,645**	95,976
Loss (gain) on disposal of property, plant and equipment	**36,508**	(20,297)
Others	**1,468**	(225)
	130,798	249,929
(b) Other expenses		
Research and development expenditures	**86,171**	73,205
Staff redundancy costs and removal costs upon cessation of production	**–**	3,344
Temporary production suspension costs	**59,032**	83,703
Write-down of long aged deposits and prepayments	**27,529**	34,296
Others	**10,471**	8,926
	183,203	203,474

9. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on borrowings	**219,965**	339,518
Interest on convertible bonds *(Note 28)*	**25,734**	16,317
Interest on finance leases	**45,964**	49,243
	291,663	405,078
Less: amounts capitalised in property, plant and equipment	**(19,225)**	(55,570)
	272,438	349,508

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.10% (2015: 5.59%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. TAX EXPENSE

	2016	2015
	HK$'000	HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**836**	673
PRC Enterprise Income Tax	**134,941**	132,112
PRC withholding tax	**3,866**	5,963
	139,643	138,748
Under(over) provision in prior years		
Hong Kong	**761**	(211)
Sub-total	**140,404**	138,537
Deferred tax *(Note 29)*	**16,339**	(13,473)
	156,743	125,064

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

PRC Enterprise Income Tax ("EIT") is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007, respectively, the tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled a reduced rate of 15% and such qualification is subject to renew for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. TAX EXPENSE *(Continued)*

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity to non-PRC tax resident shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Details of withholding tax on the distributable earnings recognised in both years are set out below.

The tax charge for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 **HK$'000**	2015 HK$'000
(Loss) profit before taxation	**(154,551)**	235,422
Tax at PRC Enterprise Income Tax rate of 25% (2015: 25%)	**(38,638)**	58,855
Tax effect of expenses not deductible for tax purpose	**94,724**	97,743
Tax effect of income not taxable for tax purpose	**(35,341)**	(28,671)
Under(over) provision in prior years	**761**	(211)
Tax effect of land appreciation tax ("LAT") and other associated tax arising on fair value change of investment properties	**(10,336)**	(35,320)
Tax effect of tax losses not recognised	**163,224**	22,169
Utilisation of tax losses previously not recognised	**(6,122)**	(3,729)
Tax effect of deductible temporary difference not recognised	**16,971**	20,068
PRC withholding tax on distributable profits of PRC subsidiaries	**39,351**	29,050
PRC withholding tax on interest income	**3,866**	5,819
Effect of tax concessionary rates granted to the PRC subsidiaries	**(91,469)**	(70,149)
Effect of different tax rates of subsidiaries	**23,115**	30,190
Others	**(3,363)**	(750)
Income tax expense for the year	**156,743**	125,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. (LOSS) PROFIT FOR THE YEAR

	2016 HK$'000	2015 HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Provision of allowances for inventories (included in cost of sales)	**12,210**	8,290
Provision of allowance for doubtful debts, net	**28,146**	3,474
Auditor's remuneration	**5,670**	5,633
Amortisation of prepaid lease payments	**6,866**	7,385
Depreciation and amortisation		
Depreciation of property, plant and equipment	**820,626**	810,143
Amortisation of intangible assets (included in administrative expenses)	**3,502**	3,687
	824,128	813,830
Less: amount included in temporary production suspension costs in other expenses	**(45,678)**	(70,490)
Less: amount included in research and development expenditures in other expenses	**(7,229)**	(10,255)
	771,221	733,085
Operating lease payments in respect of rented premises	**2,263**	2,411
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**936,492**	946,362
Retirement benefit costs	**108,598**	114,720
	1,045,090	1,061,082
Less: amount included in research and development expenditures in other expenses	**(22,872)**	(21,218)
Less: amount included in temporary production suspension costs in other expenses	**(1,715)**	(2,555)
	1,020,503	1,037,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

2016

(a) Executive directors

	Tsoi Hoi Shan HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	3,840	3,720	2,100	1,800	1,800	1,800	15,060
Bonus *(Note)*	–	–	–	837	837	837	2,511
Contributions to retirement benefit schemes	18	18	18	27	17	38	136
Sub-total	3,858	3,738	2,118	2,664	2,654	2,675	17,707

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

(b) Independent non-executive directors

	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Fu Xiao Nan HK$'000	Total HK$'000
Fees	240	240	240	240	960

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	18,667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

2015

(a) Executive directors

	Tsoi Hoi Shan HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	3,840	3,700	1,800	1,800	1,800	1,800	14,740
Bonus *(Note)*	–	–	–	884	884	884	2,652
Contributions to retirement benefit schemes	18	18	18	17	16	42	129
Sub-total	3,858	3,718	1,818	2,701	2,700	2,726	17,521

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

(b) Independent non-executive directors

	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Fu Xiao Nan HK$'000	Total HK$'000
Fees	240	240	240	240	960

The independent non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

Total	18,481

Note: The bonus is recommended by the remuneration committee of the Group and is approved by the board of directors, having regard to the individual's contribution to the Group.

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2016 and 2015, all the five highest paid individuals of the Group are directors of the Company, details of which are included in Note 12.

14. DIVIDENDS

The board of directors do not recommend payment of final dividend for the year ended 31 December 2016 (2015: nil).

15. (LOSS) EARNING PER SHARE

The calculation of the basic and diluted (loss) earning per share attributable to the owners of the Company is based on the following data:

(Loss) earning

	2016 **HK$'000**	2015 HK$'000
(Loss) earning for the purposes of basic and diluted earning per share being (loss) profit for the year attributable to owners of the Company	**(311,294)**	110,358

Number of shares

	2016 **'000**	2015 '000
Basic and diluted		
Number of ordinary shares for the purpose of basic and diluted (loss) earning per share	**1,626,875**	1,626,875

The computation of diluted (loss) earning per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share and increase in earning per share for the year ended 31 December 2016 and 31 December 2015, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2015	4,590,425	8,715,618	146,841	68,414	788,350	14,309,648
Exchange adjustments	(222,518)	(395,316)	(7,055)	(3,056)	(14,785)	(642,730)
Additions	154,509	336,239	7,014	2,497	598,932	1,099,191
Disposals	(28,360)	(445,292)	(307)	(2,491)	–	(476,450)
Reclassification	350,058	506,690	6,434	511	(863,693)	–
At 31 December 2015	**4,844,114**	**8,717,939**	**152,927**	**65,875**	**508,804**	**14,289,659**
Exchange adjustments	**(326,507)**	**(578,209)**	**(10,394)**	**(3,847)**	**(20,331)**	**(939,288)**
Additions	**129,770**	**137,789**	**5,194**	**322**	**175,556**	**448,631**
Disposals	**(156,187)**	**(152,582)**	**(5,540)**	**(10,223)**	**–**	**(324,532)**
Reclassification	**253,377**	**200,155**	**9,590**	**–**	**(463,122)**	**–**
At 31 December 2016	**4,744,567**	**8,325,092**	**151,777**	**52,127**	**200,907**	**13,474,470**
DEPRECIATION						
At 1 January 2015	676,003	3,058,533	115,450	59,164	–	3,909,150
Exchange adjustments	(35,410)	(151,115)	(5,313)	(2,695)	–	(194,533)
Charge for the year	174,151	620,518	11,511	3,963	–	810,143
Eliminated on disposals	(9,909)	(180,946)	(271)	(1,810)	–	(192,936)
At 31 December 2015	**804,835**	**3,346,990**	**121,377**	**58,622**	**–**	**4,331,824**
Exchange adjustments	**(57,630)**	**(244,637)**	**(7,911)**	**(3,639)**	**–**	**(313,817)**
Charge for the year	**163,696**	**640,813**	**12,068**	**4,049**	**–**	**820,626**
Eliminated on disposals	**(40,178)**	**(87,265)**	**(10,752)**	**(9,309)**	**–**	**(147,504)**
At 31 December 2016	**870,723**	**3,655,901**	**114,782**	**49,723**	**–**	**4,691,129**
IMPAIRMENT						
At 1 January 2015	**359,133**	**404,358**	**470**	**700**	**19,052**	**783,713**
Exchange adjustments	**(15,766)**	**(17,828)**	**(21)**	**(35)**	**(309)**	**(33,959)**
Addition	**–**	**–**	**–**	**–**	**564**	**564**
Eliminated on disposals	**(16,901)**	**(20,586)**	**(7)**	**–**	**–**	**(37,494)**
Reversal *(Note)*	**–**	**–**	**–**	**–**	**(18,760)**	**(18,760)**
At 31 December 2015	**326,466**	**365,944**	**442**	**665**	**547**	**694,064**
Exchange adjustments	**(18,741)**	**(21,676)**	**(25)**	**(47)**	**(13)**	**(40,502)**
Eliminated on disposals	**(60,560)**	**(10,379)**	**(13)**	**–**	**(534)**	**(71,486)**
At 31 December 2016	**247,165**	**333,889**	**404**	**618**	**–**	**582,076**
CARRYING AMOUNTS						
At 31 December 2016	**3,626,679**	**4,335,302**	**36,591**	**1,786**	**200,907**	**8,201,265**
At 31 December 2015	3,712,813	5,005,005	31,108	6,588	508,257	9,263,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

The carrying amount of land and buildings shown above comprises properties situated on:

	2016	2015
	HK$'000	HK$'000
Leasehold land and buildings in Hong Kong	**86,087**	95,097
Buildings located on the leasehold land in the PRC	**3,540,592**	3,617,716
	3,626,679	3,712,813

The impairment loss for the year ended 31 December 2015 amounted to approximately HK$564,000.

Note:

A reversal of an impairment loss of the construction-in-progress of HK$18,760,000 was recognised in relation to the production plant in Zhongshan due to a change in use of the facilities from producing antibiotics products and anti-cancer products that ceased original operation during the year ended 31 December 2014 to a research and development plant during the year ended 31 December 2015. The construction-in-progress has been transferred to plant and machineries and started depreciation during the year ended 31 December 2016.

At 31 December 2016, the Group was in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of HK$1,872,545,000 (2015: HK$1,732,200,000).

At 31 December 2016, the carrying value of plant and machinery included an amount of HK$1,501,445,000 (2015: HK$2,159,644,000) in respect of assets held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES

Movement of investment properties:

	HK$'000
At 1 January 2015	1,634,245
Exchange adjustments	(76,361)
Fair value change	(50,173)
Donation of properties	(24,922)
At 31 December 2015	1,482,789
Exchange adjustments	(81,424)
Fair value change	(139,440)
At 31 December 2016	1,261,925

During the year ended 31 December 2014, the Group made the full land premium payment of RMB484,050,000 (equivalent to approximately HK$609,129,000) to respective authority and obtained all land use right certificates indicating that the period for which the lands could be used for commercial and residential purposes would expire on 27 December 2053 and 2083, respectively.

Pursuant to the Group's development plan as at 31 December 2014, certain lands will be developed into residential properties for sale. Accordingly, the respective portion of lands of approximately HK$318,707,000 had been reclassified to "Property held for development" carried at the deemed costs equivalent to the fair value measured at 31 December 2014 immediately prior to its reclassification.

In 2014, the Group applied to local authority for extension of the commencement date of property development which was approved by respective government authority in February 2015, with an extended period to no later than 31 December 2017 (the "Extension Document").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES *(Continued)*

Pursuant to Article 26 of Chapter II of the Urban Real Estate Administration Law of the PRC (the "UREAL") and the Extension Document, when the development has not started one year later than the date for starting the development as prescribed by the Extension Document, an idle land fee not more than 20 percent of the lease fees for land use ("Idle Land Fee") may be collected and when the development has not started two years later, the right to use the land may be taken back without any compensation, except that the delays are caused by force majeure, the activities of government or governmental departments, or the necessary preparatory work for starting the development.

As of the date of this consolidated financial statements, the Group's development plan remains the same as prior years despite the Group has yet to submit a comprehensive real estate development plan for government's approval. The Group is in progress of applying a further extension of the commencement date of property development, however, failure to do so may lead to the Group be subject to the Idle Land Fee if the real estate development work is not commenced on or before 31 December 2018 (i.e. one year after 31 December 2017 pursuant to the UREAL). Further, the lands will be taken back by the government without compensation if the real estate development work is not commenced on or before 31 December 2019.

As at 31 December 2016, the carrying amount of the properties held for development for sales purposes amounted to HK$268,188,000 (2015: HK$297,153,000). The carrying amounts of investment properties represent land held for development for investment purposes for which no development work has yet been commenced.

On 31 December 2016, the fair value loss of Chengdu Lands determined by the directors of the Company by reference to a valuation performed by Roma Appraisals Limited ("ROMA") was approximately HK$139,440,000 (2015: HK$50,173,000). ROMA, a member of the Hong Kong Institute of Surveyors, is an independent qualified professional valuer listed on the Hong Kong Stock Exchange which is not connected with the Group and has appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations.

In determining the fair value of the relevant properties, the management of the Group determines the appropriate valuation techniques and inputs for fair value measurements. The Group engages and works closely with third party qualified valuers to perform the valuation and establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company every year to explain the cause of fluctuations in the fair value of the assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES *(Continued)*

During the year ended 31 December 2015, the Group had donated investment properties and properties held for development amounting to HK$24,922,000 and HK$4,860,000, respectively, with an aggregate amount of HK$29,782,000, located at Chengdu to the local government at nil consideration.

There was no comparable recent sales transactions of lands available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the estimated development costs to be incurred to arrive at the residual value.

The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost, developer's profit margin and commercial/residential portion, which would expose the Group to fair value measurement risks.

The expected selling price per square meter upon completion of construction and the construction periods have been revisited by the directors of the Company taking into account the market conditions and construction complexity as at the valuation date.

During the year ended 31 December 2016, the management revisited the expected average selling price and adjusted the input to the model from an average of RMB9,282 per square meter for the year ended 31 December 2015 to RMB8,986 per square meter for the year ended 31 December 2016 resulting in a decrease in fair value of the investment properties.

During the year ended 31 December 2015, the decrease in fair value of the investment properties of approximately HK$50,173,000 was due to a longer construction period from 4-6 years estimated as at 31 December 2014 to 4-7 years estimated as at 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES *(Continued)*

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Leasehold land in Chengdu, PRC	Level 3	Residual Method	– Expected average selling price of completed units: at an average of RMB8,986 per square meter (an average of RMB9,282 as at 31 December 2015) – Average construction period: 4-7 years (2015: 4-7 years) – Finance cost: 4.75-4.9% per annum (2015: 4.75-4.9% per annum) – Average construction cost: RMB5,215 per square meter (2015: RMB5,215 per square meter) – Developer's profit margin: 40% (2015: 40%) – Commercial/Residential portion: 1.2 (2015: 1.2)	– The higher the transaction price of properties in similar locality, the higher the fair value; – The longer the construction period, the lower the fair value; – The higher the costs for completion of the construction, the lower the fair value; – The higher the developer's profit margin, the lower the fair value; – The higher the ratio of commercial over residential portion of the properties, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES *(Continued)*

The sensitivity analysis below shows the sensitivity of the fair value measurement to reasonably possible changes in the key unobservable inputs underlying the valuation, while all other inputs or factors are held constant:

As at 31 December 2016:

Unobservable inputs	**Increase/decrease by**	**Fair value of investment properties (decrease)/ increase by** HK$' million
Construction period	1 year	(105)/112
Finance Cost	10% (to 5.23-5.39%/4.28-4.41%)	(61)/64
Developer's margin	10% (to 44%/36%)	(36)/37

As at 31 December 2015:

Unobservable inputs	**Increase/decrease by**	**Fair value of investment properties (decrease)/ increase by** HK$' million
Construction period	1 year	(122)/122
Finance Cost	10% (to 5.23-5.39%/4.28-4.41%)	(74)/69
Developer's margin	10% (to 44%/36%)	(44)/41

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. PREPAID LEASE PAYMENTS

	2016 HK$'000	2015 HK$'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC	**242,662**	254,971
Analysed for reporting purposes as:		
Non-current asset	**237,153**	248,950
Current asset	**5,509**	6,021
	242,662	254,971

19. GOODWILL

	HK$'000
COST	
At 1 January 2015	3,777
Exchange adjustments	(172)
At 31 December 2015	**3,605**
Exchange adjustments	**(235)**
At 31 December 2016	**3,370**

Goodwill with indefinite useful life has been allocated to two individual cash-generating units (CGUs), including one subsidiary which operates in the bulk medicine segment and one subsidiary which operates in the finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2016 HK$'000	2015 HK$'000
Bulk medicine	**860**	920
Finished products	**2,510**	2,685
	3,370	3,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2015 *(Note a)*	86,150
Exchange adjustments	(5,399)
Addition *(Note b)*	49,017
At 31 December 2015	**129,768**
Exchange adjustments	**(11,812)**
Addition (Note b)	**77,296**
At 31 December 2016	**195,252**
AMORTISATION	
At 1 January 2015	31,633
Exchange adjustments	(1,546)
Charge for the year	3,687
At 31 December 2015	**33,774**
Exchange adjustments	**(2,360)**
Charge for the year	**3,502**
At 31 December 2016	**34,916**
CARRYING AMOUNTS	
At 31 December 2016	**160,336**
At 31 December 2015	95,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INTANGIBLE ASSETS *(Continued)*

Notes:

The costs of intangible assets comprise:

a. An amount of RMB20,237,000, being development costs incurred in obtaining licences for manufacturing finished products granted by the relevant PRC authorities. The licenses granted allow the Group to apply the relevant technical know-how to manufacture finished products for five years from the date of granting relevant licenses. The costs of these intangible assets are therefore amortised over the useful lives of five years and were fully amortised in prior years.

   An amount of RMB47,100,000, being three externally acquired technical know-how ("Know-how") in identifying processes for manufacturing finished products and protocols for fermentation/purification methodology. During the year ended 31 December 2015, two of the Know-how at a total cost of RMB29,140,000 have commenced amortisation starting from the date when they were put into production process over 10 years which is the expected period for which they will bring future economic benefits to the Group. Another Know-how has yet to commence amortisation as its technology is in registration process as at 31 December 2016 and 2015.

b. During the year ended 31 December 2016, an amount of RMB66,139,000 (2015: RMB39,853,000) being the capitalised development costs incurred in obtaining licenses for manufacturing finished products including insulin glargine and insulin. There has been no amortisation of the amount as at 31 December 2016 as the licenses for insulin glargine and insulin are in the registration and clinical trial process stage. Subsequently in January 2017, the applications of the insulin glargine and insulin have been approved and the management expected that the relevant insulin products will be launched to the market soon. Please refer to the Company's announcements dated 6 January 2017 and 1 February 2017 for details.

21. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Raw materials	**354,607**	387,386
Work in progress	**139,939**	206,937
Finished goods	**577,188**	820,786
	1,071,734	1,415,109

22. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	HK$'000	HK$'000
Trade and bills receivables	**2,009,878**	1,986,634
Value added tax receivables	**51,184**	66,126
Other receivables, deposits and prepayments	**174,147**	181,553
Less: allowance for doubtful receivables		
– trade	**(10,428)**	(11,053)
– non-trade	**(44,349)**	(28,046)
	2,180,432	2,195,214

The Group normally allows a credit period of between 30 days and 120 days (2015: between 30 days and 120 days) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

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

	2016 **HK$'000**	2015 HK$'000
Trade receivables		
0 to 30 days	**544,422**	458,121
31 to 60 days	**260,262**	349,407
61 to 90 days	**120,632**	118,582
91 to 120 days	**36,111**	54,836
121 to 180 days	**13,524**	21,748
Over 180 days	**26,628**	19,634
	1,001,579	1,022,328
Bills receivables		
0 to 30 days	**234,224**	145,306
31 to 60 days	**228,306**	171,957
61 to 90 days	**145,718**	183,048
91 to 120 days	**177,242**	170,406
121 to 180 days	**210,310**	278,173
Over 180 days	**2,071**	4,363
	997,871	953,253

91% (2015: 91%) of the trade and bills receivables balance as at 31 December 2016 that are neither past due nor impaired have either been subsequently settled or there have not been a significant change in credit quality and the amounts are still recoverable based on historical experience.

Included in the Group's trade and bills receivable are debtors with a carrying amount of HK$181,213,000 (2015: HK$173,470,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and subsequently, has been substantially settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Ageing of trade and bills receivables which are past due but not impaired

	2016 **HK$'000**	2015 HK$'000
61 – 90 days	**102,879**	72,889
91 – 120 days	**36,111**	54,836
121 – 180 days	**13,524**	21,748
Over 180 days	**28,699**	23,997
	181,213	173,470

In determining the recoverability of trade and bills receivables and other receivables, the Group considers any change in the credit quality of the trade and bills receivables, and other receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Movement in the allowance for doubtful debts

	2016 **HK$'000**	2015 HK$'000
Balance at beginning of the year	**39,099**	37,427
Exchange adjustments	**(3,376)**	(1,802)
Impairment losses recognised on receivables	**28,146**	3,474
Amounts written off as uncollectible	**(9,092)**	–
Balance at end of the year	**54,777**	39,099

At 31 December 2016, trade and other receivables balance totalling HK$54,777,000 (2015: HK$39,099,000) were individually determined to be impaired, which related to customers that were in financial difficulties or the management considered the recoverability is highly unlikely based on historical payment pattern. The management assessed that the full amount of these trade and other receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Movement in the allowance for doubtful debts *(Continued)*

As at 31 December 2016, the Group had HK$744,372,000 (2015: HK$71,737,000) of bills receivables discounted to several banks with full recourse, of which HK$162,054,000 (2015: HK$52,043,000) bills receivables were issued by the Group's debtors, and the remaining HK$582,318,000 (2015: HK$19,694,000) were issued by certain subsidiaries of the Company for the purposes of settlement or prepayment of inter-group purchase. Accordingly, the Group continues to recognise the full carrying amount of the Group's receivables from the debtors and has recognised the cash received on such discounting arrangement as a secured borrowing (see Note 27). In addition, as at 31 December 2016, the Group continues to recognise an amount of HK$331,285,000 (2015: HK$271,565,000) representing bills receivables issued by the Group's external debtors which had been endorsed to the Group's creditors for settlement (see Note 25).

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 **HK$'000**	2015 HK$'000
Foreign currency forward contracts – liabilities	**(95,511)**	(203,665)

The Group had entered into several United States Dollar ("USD") foreign currency forward contracts (sell USD for RMB) with banks and financial institutions to reduce its exposure to currency fluctuation risk of settlement from trade receivables that are denominated in USD. These derivatives were not accounted for under hedge accounting. At the end of the reporting period, the Group had outstanding foreign currency forward contracts with notional amount in aggregate of USD98,500,000 (equivalent to HK$761,996,000) (2015: USD356,500,000 (equivalent to HK$2,755,745,000)). The contracts are subject to net settlement at each maturity date and were measured at fair value at the end of the reporting period. The major terms of these foreign currency forward contracts were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31 December 2016

Notional amount	**Maturity date**	**Exchange rate**
USD98,500,000	Settlement between 18 January 2017 to 14 August 2017	RMB6.15/USD to RMB6.31/USD

31 December 2015

Notional amount	Maturity date	Exchange rate
USD356,500,000	Settlement between 7 January 2016 to 14 August 2017	RMB6.15/USD to RMB6.31/USD

The fair value of derivative financial instruments represents values quoted by the relevant banks and financial institutions at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PLEDGED BANK DEPOSITS AND BANK BALANCES

Pledged deposits amounting to HK$1,077,596,000 (2015: HK$970,316,000) have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see Note 36). The range of effective interest rates of the pledged deposits at 31 December 2016 was 0.35% to 2.75% (2015: 0.35% to 2.75%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The range of effective interest rates of the bank balances at 31 December 2016 was 0.001% to 1.50% (2015: 0.001% to 0.35%) per annum.

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

	2016	2015
	HK$'000	HK$'000
Pledged bank deposits and bank balances		
– HK$	**23,652**	25,551
– USD	**1,119,750**	136,831
– EUR	**10,869**	1,817

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days of trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	2016 **HK$'000**	2015 HK$'000
Trade payables		
0 to 90 days	**702,690**	782,912
91 to 180 days	**256,806**	163,882
Over 180 days	**126,297**	113,163
	1,085,793	1,059,957
Bills payables		
0 to 90 days	**161,095**	257,140
91 to 180 days	**449,631**	366,069
	610,726	623,209
Other payables and accruals	**662,364**	633,080
Deferred income in respect of government grants *(Note 33)*	**146,792**	188,433
Payables in respect of the acquisition of property, plant and equipment	**883,787**	888,080
	3,389,462	3,392,759
Less: Amount due within one year shown under current liabilities	**(3,319,638)**	(3,294,663)
Amount shown under non-current liabilities	**69,824**	98,096

Included in the trade payables and other payables above are HK$221,829,000 and HK$109,456,000 (2015: HK$228,720,000 and HK$42,845,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills have not yet fallen due as at the end of the reporting period (see Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**458,798**	774,146	**417,715**	698,999
In more than one year but not more than two years	**252,237**	383,929	**235,288**	354,798
In more than two years but not more than five years	**49,987**	162,916	**48,042**	152,653
	761,022	1,320,991	**701,045**	1,206,450
Less: future finance charges	**(35,747)**	(72,701)	**N/A**	N/A
Present value of lease obligations	**725,275**	1,248,290	**701,045**	1,206,450
Less: Amount due for settlement within one year (shown under current liabilities)			**(417,715)**	(698,999)
Amount due for settlement after one year			**283,330**	507,451

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.95% to 6.66% (2015: 4.27% to 6.22%) per annum.

Deposits of HK$167,628,000 (2015: HK$214,164,000), carrying nil interest, were pledged to respective lessors against finance leases. The deposits will be released upon expiry of respective leases.

Pledged deposits against finance lease of HK$84,228,000 (2015: HK$59,490,000) will be released in the coming year upon the expiry of respective leases in 2017 and are therefore classified as current assets with the remaining balance of HK$83,400,000 (2015: HK$154,674,000) being included in non-current assest as the deposits will be released after one year from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. BORROWINGS

	2016	2015
	HK$'000	HK$'000
Bank loans	**3,745,192**	3,834,235
Discounted bills with recourse *(Note 22)*	**744,372**	71,737
Bonds	**229,368**	1,116,636
	4,718,932	5,022,608
Analysed as:		
Secured	**3,071,910**	1,949,862
Unsecured	**1,647,022**	3,072,746
	4,718,932	5,022,608
Carrying amount repayable within one year	**3,420,834**	3,543,073
Carrying amount repayable more than one year, but not exceeding two years	**254,453**	668,467
Carrying amount repayable more than two years but not more than five years	**850,829**	244,230
Carrying amount of bank loans that contain a repayment on demand clause:		
Repayable within one year from the end of reporting period*	**74,352**	374,275
Not repayable within one year from the end of reporting period but shown under current liabilities*	**118,464**	192,563
	4,718,932	5,022,608
Less: Amount due within one year shown under current liabilities	**(3,613,650)**	(4,109,911)
Amount shown under non-current liabilities	**1,105,282**	912,697

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are analysed as follows:

Interest rate

	2016 HK$'000	2015 HK$'000
People's Bank of China lending rate – floating rate	–	511,614
Fixed rate	2,887,748	1,776,134
Hong Kong Interbank Offered Rate plus 2.20% to 3.00% (2015: 2.25% to 3.50%)	1,377,177	1,746,042
US dollar London Interbank Offered Rate plus 3.60% (2015: 1.25% to 3.60%)	153,590	790,434
EURO London Interbank Offered Rate plus 0.70% (2015: 1.50%)	300,417	198,384
	4,718,932	5,022,608

The range of effective interest rates of the floating rate borrowings at 31 December 2016 is 0.70% to 4.02% (2015: 1.50% to 4.75%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2016 is 1.00% to 6.81% (2015: 4.79% to 7.85%) per annum.

On 12 January 2015, the Group established a bond issue programme for issuance from time to time, of bonds with a term of three years. During the year ended 31 December 2016, the Group issued fixed rate bonds of HK$229,368,000 (2015: HK$167,652,000) which are unsecured, carrying a fixed coupon rate of 6% per annum are payable semi-annually in arrears on 31 May and 30 November. The bonds issued at par, carry interest at effective interest rate of 6.81% (2015: 6.81%) per annum. Subsequently in March 2017, the Group issued fixed rate bonds of RMB1,100,000,000 (equivalent to approximately HK$1,241,372,000) carrying a fixed coupon rate of 5.5% per annum.

During the year ended 31 December 2015, an indirectly owned subsidiary of the Company issued a fixed rate bond of HK$948,984,000, equivalent to RMB800,000,000 which was unsecured, carrying fixed coupon rate of 7.20% per annum and had been repaid at its maturity date in July 2016. The bond issued at par, carried effective interest rate of 7.85% per annum.

Other than HK$176,994,000 (2015: HK$867,775,000), HK$1,606,545,000 (2015: HK$1,836,354,000) and HK$1,219,185,000 (2015: HK$198,384,000) borrowings are denominated in USD, HK$ and EUR, respectively, the remaining borrowings are all in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. CONVERTIBLE BONDS

On 14 November 2011, the Company issued RMB denominated USD settled 7.5% unsecured convertible bonds at par with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK$7.2 (subject to adjustments) per share at a fixed exchange rate of HK$1.00 to RMB0.8137 (the "RMB denominated Convertible Bonds"). An adjustment had been made to the conversion price from HK$7.2 to HK$6.4 as a result of the rights share issued during the year ended 31 December 2012. The RMB denominated Convertible Bonds would be settled in a fixed amount of their RMB principal amount and paid in USD equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest. The RMB denominated Convertible Bonds were listed in the Singapore Exchange Securities Trading Limited.

The RMB denominated Convertible Bonds bear interest from (and including) the issued date at the rate of 7.5% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrear on 14 November and 14 May of each year, commencing with the first interest payment date falling on 14 May 2012. The RMB denominated Convertible Bonds was matured on 14 November 2016 (the "Maturity Date") and was redeemed by the Company at par on the Maturity Date.

On 5 December 2016, the Company issued another USD denominated HKD settled 4.5% unsecured convertible bonds at par with the aggregate principal amount of USD130,000,000 with initial conversion price of HK$5.35 (subject to adjustments) per share at a fixed exchange rate of HK$7.7563 to USD1.00 (the "USD denominated Convertible Bonds", together with the RMB denominated Bonds referred to as Convertible Bonds). An adjustment has been made to the conversion price from HK$5.35 to HK$4.86 on a one-time basis on 13 December 2016 pursuant to the terms and condition as prescribed in the subscription agreement dated 21 November 2016. The USD denominated Convertible Bonds are listed in the Stock Exchange.

The USD denominated Convertible Bonds bear interest from (and including) the issued date at the rate of 4.5% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrears on 5 June and 5 December of each year, commencing with the first interest payment date falling on 5 June 2017. The USD denominated Convertible Bonds will mature on 5 December 2021 and shall be redeemed by the Company at par, together with accrued interet thereone, on December 2021.

Conversion at the option of the bondholder may occur at any time between 15 January 2017 and 27 November 2021. The Company will, at the option of the bondholder, redeem all or some of the USD denominated Convertible Bonds on 5 December 2019 at their principal amount, with accrued but unpaid interest excluding the date fixed for redemption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. CONVERTIBLE BONDS *(Continued)*

The Company may at any time after 5 December 2019 and prior to 5 December 2021, the date of maturity, redeem the USD denominated Convertible Bonds in whole, but not in part, at their principal amount, together with accrued but unpaid interest excluding the date fixed for redemption, provided that the closing price of the shares of the Company, translated into US dollars at the prevailing rate applicable to the relevant trading day, for 30 consecutive trading days prior to the date upon which notice of such redemption is published is at least 130% of the conversion price then in effect, translated into US dollars at the fixed exchange rate of HK$7.7563 to USD1.00.

The Company may at any time redeem the Convertible Bonds in whole, but not in part, at their principal amount together with interest accrued but unpaid to but excluding the date fixed for redemption if, immediately prior to the date of notice, at least 90% in principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Convertible Bonds contain liability component, conversion option and early redemption option derivatives. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option, the Company's and the bond holder's early redemption option derivatives are measured at fair value with change in fair value recognised in profit or loss.

At the date of issue, the debt component was recognised at fair value, calculated based on the present value of the redemption amount at maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component is 14.6% (2015: 15.8%).

The derivatives components of the Convertible Bonds are measured at fair values at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

As at 31 December 2015, RMB denominated Convertible Bonds in an aggregate principal amount of RMB98,188,000 (equivalent to approximately HK$116,824,000) remained outstanding with a maturity date of 14 November 2016 and was reclassified as a current liability.

As at 31 December 2016, the USD denominated Convertible Bonds in an aggregate principal amount of USD144,475,000 (equivalent to approximately HK$1,117,361,000) remain outstanding with a maturity date of 5 December 2021 and is reclassified as a non-current liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer on 31 December 2015 and 2016. The movement of debt component and embedded derivatives of the Convertible Bonds for the year is set out as below:

	Debt component HK$'000	**Derivative components HK$'000**
At 1 January 2015	104,387	19,136
Exchange realignment	(6,374)	(922)
Interest charged	16,317	–
Interest paid	(8,965)	–
Gain arising on changes of fair value	–	(6,755)
At 31 December 2015	**105,365**	**11,459**
Exchange realignment	**288**	**3,083**
Issuance of USD denominated Convertible Bonds	**643,687**	**335,779**
Interest charged	**25,734**	**–**
Loss arising on changes of fair value	**–**	**110,910**
Redemption on RMB denominated Convertible Bonds	**(110,357)**	**–**
Interest paid	**(8,587)**	**–**
Carrying amount at 31 December 2016	**656,130**	**461,231**

Binomial model is used for valuation of the derivative components of the Convertible Bonds. Details of the inputs and assumptions of the model are as follows:

	31 December 2016	**5 December 2016**	31 December 2015
Share price of the Company	**HK$5.28**	**HK$4.27**	HK$4.29
Exercise price	**HK$4.86**	**HK$5.35**	HK$6.40
Remaining life	**4.93 years**	**5.00 years**	0.87 years
Risk-free rate	**1.549%**	**0.953%**	2.504%
Expected volatility	**48.87%**	**49.57%**	64.19%
Expected dividend yield	**0%**	**0%**	0%

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company as at each year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. DEFERRED TAXATION

The followings are the deferred tax assets (liabilities) recognised and movements thereon for the current and prior years:

	Fair value change on investment properties HK$'000	Accelerated (tax) accounting depreciation HK$'000	Unrealised profit on inventories HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1 January 2015	(692,773)	19,279	22,650	(75,347)	(726,191)
Exchange adjustments	34,186	(717)	(1,086)	4,963	37,346
Credit (charge) to profit or loss for the year	44,842	(4,405)	1,942	(29,050)	13,329
Reallocated to current tax	–	–	–	144	144
At 31 December 2015	**(613,745)**	**14,157**	**23,506**	**(99,290)**	**(675,372)**
Exchange adjustments	**38,458**	**(576)**	**(862)**	**7,313**	**44,333**
Credit (charge) to profit or loss for the year	**45,196**	**(7,321)**	**(14,863)**	**(39,351)**	**(16,339)**
Reallocated to current tax	**–**	**–**	**–**	**20,262**	**20,262**
At 31 December 2016	**(530,091)**	**6,260**	**7,781**	**(111,066)**	**(627,116)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. DEFERRED TAXATION *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2016	2015
	HK$'000	HK$'000
Deferred tax assets	**14,041**	37,663
Deferred tax liabilities	**(641,157)**	(713,035)
	(627,116)	(675,372)

The Group's unrecognised deductible temporary differences are as follows:

	2016	2015
	HK$'000	HK$'000
Tax loss carry forwards	**876,383**	270,978
Other deductible temporary differences	**808,230**	740,345

During the year ended 31 December 2016, a tax loss of nil (2015: HK$56,142,000) expired or was disallowed by respective local tax authorities. Included in unrecognised tax losses are losses of HK$743,286,000 (2015: HK$167,011,000) that will expire within five years. Other losses may be carried forward indefinitely.

Other deductible temporary differences primarily comprise of various impairment losses on receivables and other tangible assets incurred by the Company.

No deferred tax asset has been recognised because the amount of future taxable profit that will be available to realise such assets is uncertain.

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30. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	1,626,875,000	16,269

31. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 25 May 2007 and will expire at the close of business on the day immediately preceding the tenth anniversary thereof. Under the scheme, the board of directors of the Company may, at their discretion, grant options to employees, including executive or non-executive directors of the Company or any of its subsidiaries business or joint venture partner, contractor, agent or representation, investor, vendor, supplier, etc. to subscribe for shares in the Company at a price not less than the highest of (i) HK$2.75; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes shall not exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

No option has been granted or agreed to be granted under the Scheme since the Scheme was set up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's basic salary with the maximum contribution of HK$1,500 per month. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of HK$801,000 (2015: HK$845,700) are charged to profit or loss.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of HK$107,797,000 (2015: HK$113,874,000) are charged to profit or loss.

33. GOVERNMENT GRANTS

Incentive subsidies of HK$27,828,000 (2015: HK$29,986,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$76,968,000 (2015: HK$90,336,000) which are provided by the PRC government authorities for the purpose of financing the relevant expenses for new products development. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to the profit or loss of HK$12,690,000 (2015: HK$1,367,000).

For the year ended 31 December 2016, HK$5,294,000 government subsidies were granted to the Group (2015: HK$241,000) to subsidise the acquisition of property, plant and machinery and prepaid lease payments. The amount has been treated as deferred income and is transferred to income over the useful lives of the relevant assets. As at 31 December 2016, an amount of HK$69,824,000 (2015: HK$98,096,000) were included in non-current liabilities. During the year ended 31 December 2016, HK$27,838,000 (2015: HK$364,000) was released to the profit or loss.

The aggregate subsidy income recognised to the profit or loss during the year ended 31 December 2016 amounted to HK$68,356,000 (2015: HK$31,717,000) (Note 7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. OPERATING LEASES

The Group as lessee

	2016	2015
	HK$'000	HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**2,548**	2,386
In the second to fifth year inclusive	**–**	2,076
	2,548	4,462

Operating lease payments represent rentals payable by the Group for certain items of its production plant, dormitory, offices and shuttle buses.

Lease are negotiated for terms of one to two years and rentals are fixed throughout the lease term.

35. CAPITAL COMMITMENTS

	2016	2015
	HK$'000	HK$'000
Capital expenditure in respect of:		
– the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**428,927**	613,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. PLEDGE OF ASSETS

Other than deposits made to financing leasing companies disclosed in Note 26 to the consolidated financial statements and the property, plant and equipment under finance lease disclosed in Note 16 to the consolidated financial statements, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	2016	2015
	HK$'000	HK$'000
Property, plant and equipment	**191,039**	104,069
Land use rights	**27,188**	30,614
Bills receivables	**744,372**	71,737
Pledged bank deposits	**1,077,596**	970,316

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of funding of cash flows from operating activities and the flexibility through the use of the finance from banks. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of net debt, which includes the obligations under finance leases (Note 26), borrowings (Note 27), convertible bonds (Note 28), net of bank balances, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's capital structure.

The management of the Group monitors the utilisation of borrowings and ensures full compliance with loan covenants during the year and at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables	**5,059,611**	4,060,434
Available-for-sale investment	**556**	595
Financial liabilities		
Amortised cost	**7,545,860**	7,836,910
Convertible bonds	**1,117,361**	116,824
Derivative financial instruments	**95,511**	203,665

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, pledged deposits against finance leases, bank balances and cash, available-for-sale investment, trade and bills payables, convertible bonds and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The risk arising from the Group's financial instruments are mainly market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The directors review policies for managing each of these risks, details of which are summarised below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Foreign currency risk

The Group has certain balances denominated in USD, Euro and HK$ other than the functional currency of respective group entities, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to eliminate the currency exposures.

The carrying amounts of the Group's net monetary assets (liabilities) denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities at the end of the reporting period are as follows:

	2016	2015
	HK$'000	HK$'000
USD	**(138,214)**	(609,350)
Euro	**(1,207,003)**	(192,091)
HK$	**(1,588,372)**	(1,809,605)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against USD, Euro and HK$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates a decrease (increase) in post-tax loss for the year (2015: an increase (decrease) in post-tax profit for the year) where RMB strengthens 5% against USD, Euro and HK$. For a 5% weakening of RMB against USD, Euro and HK$, there would be an equal but opposite impact on the profit for the year.

	2016	2015
	HK$'000	HK$'000
USD	**7,428**	26,676
Euro	**50,433**	8,187
HK$	**66,420**	76,970

The Group had entered into foreign currency forward contracts with banks to reduce its exposure to currency fluctuation risk of settlements from trade receivables which were denominated in USD. The derivatives were not accounted for under hedge accounting. The Group measures the foreign currency forward contracts at fair value at the end of the reporting period, which therefore exposed the Group to other price risk.

The sensitivity analyses below had been determined based on the exposure to the Group's forward buying rate risk at the end of the reporting period. If the forward exchange rate of RMB strengthen/weaken 5% (2015: 5%) against USD while all other input variables of the valuation models were held constant, the Group's profit for the year would increase/decrease by HK$32,497,000 (2015: HK$118,800,000).

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

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risks

The Group has significant borrowings which bear interest-rate risk. Floating rate borrowings and bank deposits expose the Group to cash flow interest-rate risk. Borrowings, obligations under finance lease and convertible bonds issued at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk. The directors of the Company consider the Group's exposure to fair value interest rate risk on bank deposits is not significant as most deposits bear variable interest rates.

Interest rate sensitivity analysis

No sensitivity analysis was prepared for pledged bank deposits and bank balances as the financial impact arising on changes in interest rates was minimal due to limited changes in interest rate. The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the end of the reporting period, if interest rates of People's Bank of China, Hong Kong and London Inter-bank Offered Rates had been increased/decreased by 50 (2015: 50) basis points, respectively and all other variable remained constant, the Group's loss for the year would increase/decrease by nil, HK$6,886,000 and HKD2,270,000 for the year ended 31 December 2016, whilst the profit for the year for the year ended 31 December 2015 would decrease/increase by HK$2,558,000, HK$8,730,000 and HK$4,944,000 respectively.

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Other price risk

The conversion option and early redemption option derivatives of the Company's convertible bonds stated at fair value exposed the Group to equity price risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Equity price risk sensitivity analysis

If the share price of the Company input to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% (2015: 10%) higher/lower while all other variables were held constant, the loss for the year ended 31 December 2016 would increase/decrease by approximately HK$72,408,000/HK$68,149,000, whilst the profit for the year ended 31 December 2015 would decrease/increase by approximately HK$3,305,000/HK$3,498,000.

If the expected volatility of share price of the Company input to the valuation model for assessing the fair value of such derivatives had been 10% (2015: 10%) higher/lower while all other variables were held constant, the loss for the year ended 31 December 2016 would increase/decrease by approximately HK$55,514,000/HK$56,177,000, whilst the profit for the year ended 31 December 2015 would decrease/increase by HK$2,879,000/HK$2,072,000.

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out research on the credit risk of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed when necessary.

In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and pledged bank deposits is limited because the directors of the Company consider that counterparties are financially sound.

Other than concentration of credit risk on bank deposits and pledged bank deposits in which the counterparties are financially sound, the Group has no significant concentration of credit risk on trade and bills receivables, with exposure spread over a number of counterparties. There is no customer who represents more than 5% of the total balance of trade receivables at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at the date of these consolidated financial statements, the Group has available unutilised banking facilities of HK$2,797,788,000, together with a fixed bond of approximately HK$1,241,350,000 issued on 1 March 2017. The total financial resources available for use as at the date of these consolidated financial statements is HK$4,039,138,000. The Directors are of the view that the banking facilities could be renewed based on historical experience that the Group has not encountered any difficulties to obtain banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates as at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand HK$'000	0 – 60 days HK$'000	61 – 90 days HK$'000	91 – 180 days HK$'000	181 – 365 days HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2016									
Non-interest bearing									
Trade, bills and other payables	–	–	2,120,491	706,437	–	–	–	2,826,928	2,826,928
Interest bearing									
Obligations under finance leases	4.72	–	48,992	114,510	108,485	186,812	302,223	761,022	701,045
Borrowings									
– fixed rate	1 – 6.81	–	670,109	366,818	533,998	934,827	458,257	2,964,009	2,887,748
– variable rate	0.7 – 4.02	194,438	7,446	4,984	156,227	857,834	709,249	1,930,178	1,831,184
Convertible bonds									
– fixed rate	14.6	–	–	–	22,622	22,622	1,186,390	1,231,634	1,117,361
		194,438	2,847,038	1,192,749	821,332	2,002,095	2,656,119	9,713,771	9,364,266
Derivative – net settlement		–	95,511	–	–	–	–	95,511	95,511

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For the year ended 31 December 2016

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate %	On demand HK$'000	0 – 60 days HK$'000	61 – 90 days HK$'000	91 – 180 days HK$'000	181 – 365 days HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2015									
Non-interest bearing									
Trade, bills and other payables	–	–	1,774,249	1,040,052	–	–	–	2,814,301	2,814,301
Interest bearing									
Obligations under finance leases	4.97	–	61,846	201,951	155,817	354,532	546,844	1,320,990	1,206,450
Borrowings									
– fixed rate	4.79 – 7.85	–	72,647	5,090	–	1,595,321	192,650	1,865,708	1,776,134
– variable rate	1.5 – 4.75	566,838	–	–	1,012,145	963,544	793,736	3,336,263	3,246,475
Convertible bonds									
– fixed rate	15.8	–	–	–	4,346	120,238	–	124,584	116,824
		566,838	1,908,742	1,247,093	1,172,308	3,033,635	1,533,230	9,461,846	9,160,184
Derivative – net settlement		–	203,665	–	–	–	–	203,665	203,665

The table below summarises the maturity analysis of term loans of HK$194,438,000 (2015: HK$566,838,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates or variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments						
	0 – 60 days HK$'000	61 – 90 days HK$'000	91 – 180 days HK$'000	181 – 365 days HK$'000	1 – 2 years HK$'000	2 – 5 years HK$'000	Total undiscounted cash flows HK$'000
As at 31 December 2016	**7,701**	**12,994**	**20,507**	**40,451**	**123,861**	**–**	**205,514**
As at 31 December 2015	94,566	11,911	233,066	38,525	80,085	133,091	591,244

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

Fair value

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

The fair value of derivative instruments are measured using quoted forward rates and discounted using applicable yield for the duration of the instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

39. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

Financial assets/ financial (liabilities)	Fair value as at 31 December 2016 HK$'000	Fair value as at 31 December 2015 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Foreign currency forward contracts classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**Liabilities – HK$95,511**	Liabilities – HK$203,665	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**HK$461,231**	HK$11,459	Level 3	Binomial Pricing Model Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives component is the difference between the value of the Convertible Bonds and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – volatility of 48.87% (2015: 64.19%) is applied in the Convertible Bonds by reference to the Company's historical volatility – company specific discounted rate (the "Rate")	– the higher the dividend yield, the lower the fair value – the higher the volatility in share price, the higher the change in fair value of embedded derivative components of the Convertible Bonds – the higher the Rate, the lower the fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

There is no transfer between the different levels of the fair value hierarchy for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(Continued)

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Company determines the fair value by reference to the valuation carried out as of the end of reporting period by banks and financial institutions for foreign currency forward contracts whereas for the embedded derivative component of the Convertible Bonds, a third party qualified valuer was engaged by the Group to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

40. RELATED PARTY DISCLOSURES

Compensation to key management personnel representing directors' remuneration has been disclosed in Note 12.

On 20 July 2015, the Group entered into an agreement with an executive director to dispose of a property with a carrying amount of HK$2,530,000 to the director for a cash consideration of HK$8,200,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	**Place of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Attributable equity interest held by the Company** *(note a)* **2016**	2015	**Principal activities and place of operation**
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holdings in Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holdings in Hong Kong
Bowden Trading Limited	Samoa	USD1,000	**100%**	100%	Trademark holdings In Hong Kong
The United Laboratories Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holdings and manufacturing and sale of pharmaceutical products in Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products in Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings in Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦製藥(成都)有限公司 *(note b)*	PRC	RMB400,000,000	**100%**	100%	Investment holdings in PRC
珠海聯邦康知樂實業有限公司 (formerly known as 珠海市康知樂醫藥有限公司) *(note c)*	PRC	RMB250,000,000	**100%**	100%	Investment holdings in PRC

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For the year ended 31 December 2016

41. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(note a)* 2016	2015	Principal activities and place of operation
珠海聯邦製藥股份有限公司 *(note d)*	PRC	2016: RMB1,678,396,000 2015: RMB1,328,396,000	**100%**	100%	Manufacturing and sale of pharmaceutical products in PRC
珠海樂邦製藥有限公司 *(note b)*	PRC	RMB12,825,182	**100%**	100%	Investment holdings in PRC
珠海市萬邦藥業有限公司 *(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in PRC
珠海聯邦製藥銷售有限公司*(note c)*	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in PRC
廣東開平金億膠囊有限公司 *(note b)*	PRC	RMB31,249,864	**100%**	100%	Manufacturing and sale of soft capsules casings in PRC
中山金億食品有限公司 *(note b)*	PRC	RMB8,014,500	**100%**	100%	Investment holdings in PRC
珠海市金德福企業策劃有限公司 *(note c)*	PRC	RMB15,000,000	**100%**	100%	Investment holdings in PRC
聯邦制藥(內蒙古)有限公司 *(note b)*	PRC	RMB2,470,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in PRC
內蒙古光大聯豐生物科技有限公司 *(note c)*	PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertilizer in PRC

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For the year ended 31 December 2016

41. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2016	2015	Principal activities and place of operation
內蒙古聯邦動保藥品有限公司 (formerly known as 金桂制藥有限公司) *(note c)*	PRC	RMB8,700,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in PRC
聯邦制藥(中國)有限公司 *(note b)*	PRC	RMB160,080,000	**100%**	100%	Investment holdings in PRC
珠海利邦醫藥研發有限公司 *(note e)*	PRC	2016: nil 2015: RMB100,000,000	**100%**	100%	Inactive
Zhuhai United Laboratories (India) Private Limited	India	RUPEE100,000	**100%**	100%	Inactive

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited and 聯邦制藥(中國)有限公司, all subsidiaries are indirectly held by the Company.

(b) A wholly foreign-owned enterprise established in the PRC.

(c) A company established in the PRC with limited liability.

(d) A joint stock limited liability company established in the PRC.

(e) The company has been derecognised during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Non-current assets		
Investments in a subsidiary	**1**	1
Loan to a subsidiary	**3,707,592**	1,304,604
Amounts due from subsidiaries	**680,515**	2,718,911
	4,388,108	4,023,516
Current assets		
Amount due from subsidiaries	**2,697,843**	1,364,231
Bank balances and cash	**13,126**	453,413
Loan to a subsidiary	**222,970**	275,703
	2,933,939	2,093,347
Current liabilities		
Other payables and accrued charges	**16,965**	10,310
Amount due to a subsidiary	**6,738**	38
Derivative financial instruments	**3,334**	27,986
Borrowings – due within one year	**1,373,098**	838,289
Convertible bonds	**–**	105,365
Embedded derivatives components of convertible bonds	**–**	11,450
	1,400,135	993,447
Net current assets	**1,533,804**	1,099,900
Total assets less current liabilities	**5,921,912**	5,123,416
Non-current liabilities		
Borrowings- due after one year	**894,002**	912,698
Convertible bonds	**656,130**	–
Embedded derivatives components of convertible bonds	**461,231**	–
	2,011,363	912,698
Net assets	**3,910,549**	4,210,718
Capital and reserves		
Share capital	**16,269**	16,269
Reserves	**3,894,280**	4,194,449
	3,910,549	4,210,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(b) Reserves

	Share premium HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January, 2015	2,656,294	(25,486)	1,552,228	4,183,036
Profit and total comprehensive income for the year	–	–	198,430	198,430
Exchange difference arising on translation to presentation currency	–	(187,017)	–	(187,017)
As at 31 December, 2015	**2,656,294**	**(212,503)**	**1,750,658**	**4,194,449**
Loss and total comprehensive expense for the year	**–**	**–**	**(20,049)**	**(20,049)**
Exchange difference arising on translation to presentation currency	**–**	**(280,120)**	**–**	**(280,120)**
As at 31 December, 2016	**2,656,294**	**(492,623)**	**1,730,609**	**3,894,280**

43. EVENT AFTER REPORTING PERIOD

On 1 March 2017, an indirectly wholly-owned subsidiary of the Company issued a fixed bond of RMB1,100,000,000, approximately equivalent to HK$1,241,350,000 which carries a fixed coupon rate of 5.50% per annum with a maturity of three years. Details are set out in the Company's anouncement dated 6 March 2017.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2012	2013	2014	2015	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	7,021,624	7,648,443	8,029,835	7,694,563	**7,062,157**
(Loss) profit before taxation	248,313	901,348	663,546	235,422	**(154,551)**
Tax (expense) credit	(86,336)	(853,311)	17,530	(125,064)	**(156,743)**
(Loss) profit for the year attributable to owners of the Company	161,977	48,037	681,076	110,358	**(311,294)**

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2013	2014	2015	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	16,141,703	19,600,216	18,918,186	17,407,924	**16,669,279**
Total liabilities	(10,047,014)	(13,118,387)	(11,949,069)	(10,689,291)	**(10,695,852)**
Equity attributable to owners of the Company	6,094,689	6,481,829	6,969,117	6,718,633	**5,973,427**

SUMMARY OF INVESTMENT PROPERTIES

Address	Tenure	Existing use
South Portion of No.8 Mu Dan Main Road, Pengzhou City, Chengdu City, Sichuan Province, The PRC	The land use rights of the property have been granted for respective terms of 70 years for residential use and 40 years for commercial use.	To be re-developed.